



**SHELL
FOUNDATION**

Shell Foundation

(a company limited by guarantee)

Trustees' report and financial statements for the year ended 31 December 2011

Company Registered Number: 4007273
Charity Registered Number: 1080999

Shell Foundation

Trustees' report and financial statements for the year ended 31 December 2011

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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 Malcolm Brinded, CBE | Chairman | Nominated trustee from 1 May 2012 |
| Mr Peter Voser | | |
| Mr Ben van Beurden | | |
| Lord Mark Malloch-Brown | Nominated trustee | |
| Dr William Kalema | Nominated trustee | |
| Prof Louise Fresco | Nominated trustee | Appointment date: 1 June 2011 |

Principal Officers

| | |
|-------------------------------|-----------------|
| Dr Chris West | Director |
| Shell Corporate Secretary Ltd | Secretary |
| Mrs Amanda Burston | Finance Manager |

Registered Office

Shell Centre
London
SE1 7NA

Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Solicitors

Allen & Overy
One Bishops Square
London E1 6AD

Bankers

Lloyds TSB Bank plc
25 Gresham Street
London EC2V 7HN

Investment Custodian

JP Morgan Chase Bank
60 Victoria Embankment
London EC4Y 0JP

Shell Foundation

Report of the Trustees for the year ended 31 December 2011

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 2011.

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 March 2005 and the Charities Act 1993, as amended by the Charities Act 2006.

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 Commission as a charity on 2 June 2000 (charity registration number 1080999). Since 14 February 2008, the Foundation has had charity registration with the tax authorities in The Netherlands (as an *algemeen nut beogende instelling*). The Foundation is also registered in the United States of America under section 501(c)(3) of the Internal Revenue Code, identification number 98 0368454.

Structure, Governance and Management

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.

New trustees are provided with information on trustee guidelines as prepared by the Charity Commission, and information on the Foundation as appropriate. Briefing discussions are held with the Director of the Foundation and other key staff. Trustees are requested annually to confirm any related party transactions.

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 Foundation's activities and appropriate mitigation measures in respect of those risks.
- Certain actions that are above the authority level of the Director or Management Team.

The trustees have delegated operational management of the Foundation to the Director, who reports on the performance against the strategic plan and budget as approved by the trustees.

Report of the Trustees (continued) for the year ended 31 December 2011

Statement of Trustees' Responsibilities

The trustees (who are also directors of Shell Foundation for the purposes of company law) are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charitable company and of the incoming resources and application of resources, including the income and expenditure, of the charitable company for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the charitable company will continue in business.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charitable 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 charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the trustees are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware; and
- the trustees have taken all steps that they ought to have taken to make themselves aware of any relevant information and to establish that the auditor is aware of that information.

The trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Risk Management

The trustees have identified the major risks to which the Foundation is exposed. The level of exposure for each risk is assessed by considering the likelihood of occurrence, the potential consequences of occurrence and the effectiveness of existing controls in place to mitigate the risk. The trustees review these assessments at least twice a year, at their board meetings in June and November.

Of the 10 key risks identified, none are currently regarded as posing an unacceptable residual exposure. One key area of risk for the Foundation is the reliance on strategic partners to take programmes forward and build both developmentally sound and financially viable businesses. This risk continues to be managed through the careful selection process for new strategic partners, and ongoing management of existing partners. Another key risk is the performance of the endowment fund, particularly after the losses incurred during 2008 and as the Foundation must rely on its endowment for unrestricted income. In response to this risk, the trustees implemented new investment objectives in 2011. They also secured agreement from the member to provide additional 'top-up' unrestricted donations until 2013 in the event that the endowment does not generate sufficient returns to achieve the Foundation's objectives and maintain impact.

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2011

Relationship with the Shell Group

To ensure clarity in the relationship of the Foundation to Royal Dutch Shell plc and its subsidiaries ('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.

In addition, the trustees explicitly recognised their charitable responsibilities in this regard by stating formally in the Shell Foundation Business Principles that the charity's activities will always be consistent with achieving its mission and cannot promote the commercial interests of the Shell Group, and that any benefit that may accrue to the Shell Group from the Foundation's activities will be incidental and outweighed by the contribution to the Foundation's charitable objectives. The Foundation operates an assurance system to identify, assess and validate this.

The 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 US\$259 million were received from Shell Group companies, of which US\$256 million was in the form of an expendable endowment and the balance as unrestricted funds. The Foundation has received annual donations from Shell Group until 2011, and will receive an annual donation in 2012.

Grant Commitments

The Foundation identifies strategic partners it wants to support in order to further its charitable purposes for the public benefit, and does not encourage the submission of unsolicited grant applications.

As part of its risk control framework, the Foundation conducts due diligence assessments of these prospective grantees (grant recipients) prior to awarding grants to confirm that, at the time of grant approval, there is an expectation that the project is likely to be successful and, therefore, that the grant commitment will be paid in full. Grants are assessed and approved by the Board of Trustees or Management.

Certain milestones must be met by the grantee to receive scheduled grant payments to ensure they remain aligned to the Foundation's charitable objectives. The expectation upon signing the Letter of Understanding (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.

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2011

Objectives, Activities and Achievements for the Public Benefit

Objectives for the Public Benefit

The primary objectives 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 via grants made through its Breathing Space, EMBARQ, and Exceleerate programmes.*
2. The advancement of education of young persons and adults. *The Foundation has pursued this objective via grants made through its LEAD Africa Fellowship Programme.*
3. The establishment in life of young persons aged not more than 30 years. *This objective was not the focus of a specific programme in 2011.*
4. The relief of poverty, suffering, hardship and distress. *This objective has been furthered via grants made through all the Foundation's programmes.*

The trustees confirm they have referred to the guidance contained in the Charity Commission's general guidance on public benefit in section 4 of the Charities Act 2006 when reviewing the Foundation's aims and objectives and when considering grants to be awarded. The Foundation's Articles permit it to make grants to further these objectives anywhere in the world, and its policy is to act as a truly international grant-making Foundation. It is not the Foundation's practice to support:

- 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.

Activities and Achievements for the Public Benefit

The objectives, activities and achievements for the Foundation's programmes to further its charitable purposes for the public benefit are summarised on the following pages.

Report of the Trustees (continued) for the year ended 31 December 2011



Small and Medium-sized Enterprises (SMEs) in developing countries struggle to obtain finance from banks because of a lack of skills, track record and collateral and a risk averse culture. Yet the SME sector is absolutely vital to the economic development of poor countries.

Aspire helps under-served SMEs in developing countries to fulfil their potential and in turn create much needed jobs and economic growth. Shell Foundation has a long-term strategic partnership with GroFin – an African specialist SME finance and development company. GroFin assists start-up and early stage growth SMEs through the integrated provision of business development assistance and appropriate finance. Together Shell Foundation and GroFin are promoting a new asset class called ‘Growth Finance’ – our aim is to create a self-financing driver of pro-poor economic growth.

| <i>Objectives</i> | <i>Activities undertaken</i> | <i>Achievements</i> | <i>Future plans</i> |
|--|---|--|--|
| Monitor performance of all four existing regional SME funds in Africa. | Engaged actively in the governance and performance evaluation of all funds managed by GroFin (now totalling over US\$250 million). | The Funds generated sustainable financial returns in difficult market conditions. GroFin now operates in seven countries in Africa. It has created over 6,500 jobs and improved over 100,000 livelihoods so far. | Continue to monitor performance of regional SME funds in Africa to ensure strong financial returns and verifiable development impact. Help GroFin to expand its existing operational base to include a further three African countries. |
| Support GroFin to expand beyond Africa. | Assessed SME sector in Middle East to determine the viability of the GroFin model in the region. | Partnered with Citi Foundation to prove the high demand for SME service provision in the Middle East. | Assist GroFin to establish operations in the Middle East. Support the recruitment of key staff and marketing efforts to potential investors. |
| Provide targeted support for the development of the new Growth Finance sector. | Continued to support Optima – an African organisation that the Foundation helped to establish to build the professional capacity of the sector. Active engagement with donors and impact investors to highlight the scale of impact that Growth Finance can achieve. | Optima further developed its training products and won several contracts in Africa and India in 2011. The Foundation now sits on a range of advisory committees, councils and investment networks convened to support organisations who focus on SME development. | Promote Growth Finance as a new asset class. Continue efforts to demonstrate the scope of Growth Finance to deliver both financial and developmental returns. |

Resources expended:

| | 2011 \$000 | 2010 \$000 |
|---------------|---------------|---------------|
| Grants | 5,735 | 1,259 |
| Direct costs | 223 | 113 |
| Support costs | 518 | 166 |
| Total | 6,476 | 1,538 |

Report of the Trustees (continued) for the year ended 31 December 2011



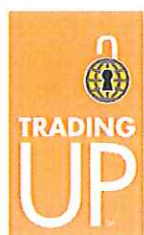
Over 50% of the world's population now live in cities, with a fast growing number of megacities each having more than 10 million residents. The urban poor in the developing world suffer particularly from the economic and health impacts of traffic congestion which causes pollution and lengthy commutes to work.

EMBARQ, the World Resources Institute's Centre (WRI) for Sustainable Transport, was co-founded by Shell Foundation in 2002. The network works in partnership with cities to catalyse new environmentally and financially sustainable solutions to urban mobility problems, and has grown to include regional centres in Mexico, Brazil, Peru, India and Turkey.

| <i>Objectives</i> | <i>Activities undertaken</i> | <i>Achievements</i> | <i>Future plans</i> |
|---|---|---|--|
| Support EMBARQ to be seen as the 'partner of choice' for cities that require urban mobility expertise, to scale the network's influence in existing countries, and to assess the viability of expansion into China. | Worked with EMBARQ's senior management to develop new models for scale-up, better performance indicators and to improve knowledge sharing throughout the organisation. | EMBARQ now runs over 20 projects around the world. Over 2.3 million passengers benefit from their activities each day, with savings of 600,000 travel hours and 1.1 million tonnes of CO ₂ to date. The network established a new centre for sustainable transport in China in 2011. | Continue to support the scale-up of EMBARQ in terms of number of people served, social and environmental impact of projects delivered and geographic footprint. |
| Support EMBARQ to become increasingly involved with national transport and urban development policies within the countries in which it operates. | Assisted EMBARQ's Director to develop a new 10 year strategy focused on a small number of 'game changer' projects, greater support for replication of best practice and international advocacy for sustainable transport. This included a realignment of local and regional centres under one global brand to better support advocacy at an international level. | EMBARQ's work with the national governments of Mexico, Brazil and India in 2011 has led to changes to national transport policy such as the installation of further BRT systems (Mexico and India) and vehicle inspection legislation (Brazil). | Assist EMBARQ to implement its 10 year strategy to demonstrate innovative high-impact solutions and then encourage replication of these sustainable mobility solutions through effective advocacy at a national and international level. |

| Resources expended: | 2011 \$000 | 2010 \$000 |
|---------------------|---------------|---------------|
| Grants | 1,283 | 1,610 |
| Direct costs | 430 | 274 |
| Support costs | 149 | 229 |
| Total | 1,862 | 2,113 |

Report of the Trustees (continued) for the year ended 31 December 2011



UNLOCKING MARKETS.
ENHANCING LIVELIHOODS.



Many poor farmers in developing countries depend upon exporting foods and other products that cannot be grown or produced in developed countries. While there is growing consumer demand for such products, these farmers face many barriers to accessing trade opportunities.

The **Trading UP** programme aims to unlock markets for poorer producers in developing countries by providing business development assistance, funding and market linkages through specialist intermediaries. Shell Foundation helped create The Better Trading Company (TBTC) in 2008 as an 'ethical agent' to act as a commercial link between small-scale agricultural producers and global retailers. In 2009, Shell Foundation co-founded CottonConnect (CC) to help retailers enhance the sustainability of their cotton supply in ways that reduce poverty and protect the environment.

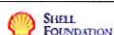
| <i>Objectives</i> | <i>Activities undertaken</i> | <i>Achievements</i> | <i>Future plans</i> |
|--|--|---|---|
| Support CC to manage existing clients, convert strong interest from well-known brands into new accounts, develop new value-add products and to assess the viability of expanding into China. | Provided management support to CC to expand its global base in Europe and develop implementation capacity in India and China. This included leveraging pro bono advice from Shell on the retail market in China. | CC has now trained over 25,000 producers in India in sustainable farming techniques. In 2011 they established CC China in Hong Kong, and secured contracts with a further nine brands and retailers (including IKEA, Marks & Spencer and the John Lewis Partnership). | To help CC to establish a business capable of influencing more global brands to convert to sustainable cotton (reducing water and pesticide use and improving farmer livelihoods), whilst working with farmers to increase market supply in line with demand. |
| Support TBTC to scale-up their activities and impacts sustainably, and to develop a diverse range of niche horticultural products to bring to market. | Helped TBTC to develop a new, more viable, business plan based on partnering with existing agents rather than selling products direct to multinational retailers. | TBTC has now enhanced the livelihoods of 26,000 people in Africa. The business linked smallholder producers of beans, mange tout and sugar snap peas from Zimbabwe to SafariFresh (a specialist Dutch importer) in 2011 and secured trials with a major UK supermarket. | Support TBTC to secure further supply agreements, achieve financial sustainability and leverage external investment to expand their operations. |
| Promote the potential impact of TBTC and CC to encourage wider replication of the 'ethical agent' model in the retail sector. | Worked with Forum for the Future (FfF), a UK-based NGO, to analyse the business models of the Foundation's partners and examine suitability of such models within other retail value chains. | The Foundation and FfF consolidated this evidence and created a joint plan to engage a selection of retailers interested in expanding their sustainable development programmes. | Actively engage with a range of stakeholders around the role that 'ethical intermediaries' can play in creating more sustainable value chains. |

| Resources expended: | 2011 | 2010 |
|----------------------------|--------------|--------------|
| | \$000 | \$000 |
| Grants | 1,565 | 1,630 |
| Direct costs | 435 | 802 |
| Support costs | 174 | 295 |
| Total | 2,174 | 2,727 |

Report of the Trustees (continued) for the year ended 31 December 2011



SMOKE-FREE HOMES.
HEALTHY FAMILIES.



Indoor Air Pollution (IAP) is the toxic smoke caused by three billion people cooking on open fires or traditional stoves in poorly ventilated homes. According to the World Health Organisation, IAP kills nearly two million people each year.

Breathing Space aims to achieve a verifiable and significant long-term reduction in the incidence of IAP among poorer households through commercial mechanisms. Since 2007 Shell Foundation has worked with Envirofit International to create a new business-based organisation to design, produce and market affordable, high quality clean cookstoves on a global scale. In 2010, Shell Foundation and the UN Foundation co-founded the Global Alliance for Clean Cookstoves, a public-private partnership that aims to deploy market-based approaches to enable 100 million homes to adopt clean and efficient stoves by 2020.

| <i>Objectives</i> | <i>Activities undertaken</i> | <i>Achievements</i> | <i>Future plans</i> |
|---|---|--|--|
| Maintain support to Envirofit in 2011 in order to enhance product development, expand into new territories and secure additional funding. | The Foundation helped Envirofit to develop its national presence in India and to shift to a higher impact business-to-business model in partnership with a range of innovative distributors. | Envirofit have now sold over 300,000 clean cookstoves. A new charcoal stove was launched in four African countries during 2011 (Kenya, Uganda, Tanzania and Zambia). | Support Envirofit to become a self-financing organisation capable of bringing new 'fit-for-purpose' stoves to market and scaling its impact to a global level. |
| Innovate new solutions to the market barriers preventing the distribution of clean cookstoves in rural areas. | Formed a strategic partnership with Dharma – a new company that works with village entrepreneurs to sell affordable energy products – and with several microfinance partners to make improved stoves more accessible. | Dharma has already sold 10,000 products across three states in India. The Foundation's partner Grameen Koota has scaled up its cookstove distribution system and this model is now being replicated by other Indian microfinance institutions. | Help Envirofit India create sustainable marketing and distribution strategies to grow their business in India and to expand further into Africa. |
| Pilot a Carbon Financing mechanism to reduce costs and create a viable clean cookstoves market in Africa. | Established a US\$800,000 carbon pre-finance facility to develop partnerships between manufacturers and carbon financiers in Africa, to generate revenue through the monetisation of carbon savings. | EF registered carbon programmes in core countries in Africa, and is in discussions with several leading carbon developers. | Monitor the effectiveness of the carbon pre-finance facility in 2012 and investigate the potential to scale this further in Africa and beyond. |
| Continue to support the Global Alliance for Clean Cookstoves to achieve its objectives. | The Foundation seconded a staff member to the UN Foundation to help deploy business thinking into the organisation's structure and activities. | The Alliance appointed an Executive Director in September 2011 who outlined a business-based approach to catalyse the improved cookstove market. | Develop, promote and support a global clean cookstove industry by raising awareness of IAP on a global and cross-sector level and removing barriers to market entry. |

Resources expended:

| | 2011 \$000 | 2010 \$000 |
|---------------|---------------|---------------|
| Grants | 4,290 | 3,552 |
| Direct costs | 866 | 1,086 |
| Support costs | 449 | 563 |
| Total | 5,605 | 5,201 |

Report of the Trustees (continued) for the year ended 31 December 2011



DEVELOPING SKILLS
BOOSTING PROSPERITY



Over 1.6 billion people across the developing world lack access to affordable and reliable energy services. 30% of these people live in India. There are significant gaps between demand for modern energy services and the supply of appropriate technology and enterprise to deliver these – especially in rural areas not connected to the energy grid. This negatively impacts upon all aspects of their lives and is one of the most important constraints on their ability to escape poverty and contribute to the economic development of their countries.

Excelerate aims to support small and growing enterprises that provide modern energy services to the poor in ways that are financially viable and scaleable, with an initial focus on India. In addition to enhancing access to energy the programme aims to create significant reductions in carbon emissions.

| <i>Objectives</i> | <i>Activities undertaken</i> | <i>Achievements</i> | <i>Future plans</i> |
|---|--|--|---|
| Work directly with a small number of selected social entrepreneurs to provide the skills and finance required for their start-up and viable growth. | The Foundation provided strategic support to three enterprises involved in off-grid community electrification and making affordable energy products more accessible to rural communities. | The Foundation's partner, Husk Power Systems, has now installed 77 rice husk gasification power plants in Bihar State, India, providing electricity to 200,000 villagers. Another partner, MKopa has developed a way to help low-income customers purchase solar lighting on a pay-per-use basis via mobile phone. SF helped MKopa secure US\$3.5m to expand the business in East Africa. | Continue close support to Excelerate partners to help them scale their rural energy businesses across regions and countries in 2012. Engage with microfinance and village entrepreneur networks in India to develop new distribution channels for product sales. |
| Catalyse the growth of the SME energy sector by creating intermediaries to provide business skills and finance to entrepreneurs on a larger scale. | Formed two strategic partnerships in India with: a) Intellecash (a provider of debt finance and business support to early-stage microfinance institutions) to create a pilot credit facility – Intellecap – that provides unsecured short-term debt finance to small businesses in India. b) First Light Ventures to provide financial and non-financial support to early stage energy providers focusing on a low-income customer base. | Intellecap has made ten loans (averaging US\$95,000) since launching in 2010, with 20 potential deals in the pipeline. The Foundation and First Light Ventures launched a US\$1.6m Accelerator Fund in July 2011. Over 20 potential investee companies have already been identified. | Support Intellecap to scale its activities to support a further 15 SMEs, and to raise another US\$3m in external funding. Support the Accelerator Fund to make its first four investments in seed stage enterprises in 2012. Demonstrate the strength of these business models and the competence of the management teams to potential scale-up partners. |

Resources expended:

| | 2011 \$000 | 2010 \$000 |
|---------------|---------------|---------------|
| Grants | 2,708 | 1,777 |
| Direct costs | 340 | 315 |
| Support costs | 265 | 254 |
| Total | 3,313 | 2,346 |

Report of the Trustees (continued) for the year ended 31 December 2011

LEAD Africa Fellowship Programme

Strong and effective leadership is critical if Africa is to convert its emerging economic power into sustainable development. Political leadership is a necessity, but good governance in all sectors and at all levels of society is also crucial to Africa's future.

The **LEAD Africa Fellowship Programme (LAFP)** seeks to equip a new generation of African leaders – in business, the community, media, government, civil society, and in academia – with the skills and networks necessary for effective change. The programme, launched in 2009, is implemented in strategic partnership with LEAD – an international non-profit organisation that has delivered a core leadership programme in Africa for nearly 20 years as part of its wider mission to inspire leadership for a sustainable world.

| <i>Objectives</i> | <i>Activities undertaken</i> | <i>Achievements</i> | <i>Future plans</i> |
|---|--|---|---|
| Help LEAD to build capacity for the LAFP programme, to deliver strategic advice on the course syllabus, and to help develop a fit-for-purpose course for roll-out in Chad and Malawi in 2011. | The Foundation provided ongoing strategic and governance support to LEAD, and supported course development and marketing. | In 2011 the LAFP was scaled up to Malawi and Chad (in addition to Nigeria and Senegal). Annual participants rose to 112 with all courses oversubscribed. Participants noted the strong endorsement of becoming a LAFP Fellow. Many individuals were able to apply their LAFP experience directly to their current roles. | The Foundation will assess whether the pilot work to date on the LAFP is suitable for further scale up work. The Foundation and LEAD will look at securing the long-term future of the programme in 2012 by creating a more robust delivery structure that can support the LAFP scale up objectives and improve the cost efficiency of delivery. |
| Appoint an Africa Director and establish a more effective organisational structure to enable Pan African scale-up. | The Foundation helped LEAD International to identify and appoint an African Director in May 2011 to create a single point of accountability within the organisation. | The new Director has consolidated the existing African programme delivery and improved accountability through clear reporting lines. | The Foundation will work with LEAD to assess different models to scale up the LAFP in ways that deepen impact and are sustainable in the long-term, and the organisational capabilities required to deliver this. |

| Resources expended: | 2011 | 2010 |
|---------------------|--------------|------------|
| | \$000 | \$000 |
| Grants | 812 | 745 |
| Direct costs | 179 | 31 |
| Support costs | 86 | 94 |
| Total | 1,077 | 870 |

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2011

Incubator The Incubator programme aims to test a diverse range of innovative projects managed by different partners to see which, if any, offer the potential to be both sustainable and scaleable solutions to key development challenges. We highlight below information on key activities supported to date under this programme.

| <i>Objectives</i> | <i>Activities undertaken</i> | <i>Achievements</i> | <i>Future plans</i> |
|--|--|--|--|
| Maintain a limited portfolio of Incubator projects that add value to existing programmes or represent solution-orientated approaches to issues consistent with Shell Foundation's mission. | In 2011 the Foundation assessed potential initiatives to: <ul style="list-style-type: none"> - develop markets for ecosystem services - catalyse new revenue streams for 'green' businesses through carbon finance - provide business skills to managers of protected World Heritage Sites. | <p>The Foundation and the UK Environment Agency are supporting The Environment Bank to pilot the use of 'eco-credits' in the UK to build environmental costs into land development proposals.</p> <p>The Foundation and Deutsche Bank Foundation are working together to pilot a facility that provides bridging loans to allow social enterprises to develop viable carbon-asset revenue streams.</p> | <p>Continue active involvement with a limited portfolio of Incubator projects.</p> <p>Support The Environment Bank to further pilot the application of Conservation Credits in the UK.</p> <p>Continue to support the pilot Carbon Facility as it builds a diverse pipeline of investees. Evaluate potential for additional investors if successful.</p> |

| Resources expended: | 2011 | 2010 |
|----------------------------|--------------|--------------|
| | \$000 | \$000 |
| Grants | 1,352 | 945 |
| Direct costs | 110 | 325 |
| Support costs | 128 | 154 |
| Total | 1,590 | 1,424 |

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2011

Details of all grants awarded in the year ended 31 December 2011 are listed in the table below. The balance on the grants committed but not paid as at 31 December 2011 will be payable in subsequent financial years (see notes 4, 14 and 15).

| <u>Programme</u> | <u>Grantee</u> | <u>Total Funding \$000</u> |
|--|---|----------------------------|
| Aspire | GroFin Managers | |
| | <i>Expansion into Southern Africa</i> | 650 |
| | Optima Training (Pty) Ltd | |
| | <i>Capacity Building by Optima of SF Partners in India</i> | 50 |
| | Optima Training (Pty) Ltd | |
| | <i>IntelleCash Capacity Workshop</i> | 3 |
| | University of Oxford | |
| | <i>Growth Finance: Strategies to Create a Formal Asset Class</i> | 32 |
| GroFin MENA | | |
| <i>Phase 1: Capacity Building in 2012</i> | 5,000 | |
| | | 5,735 |
| EMBARQ | Sustainable Mobility Finance | |
| | <i>Grant Termination of Sustainable Mobility Infrastructure Project</i> | (212) |
| | World Bank | |
| | <i>Return of unspent grant monies from Clean Air Initiative Project</i> | (5) |
| | World Resources Institute (WRI) | |
| <i>EMBARQ – 2011 Funding</i> | 1,500 | |
| | | 1,283 |
| Breathing Space | Berkeley Air Monitoring Group | |
| | <i>Monitoring and Evaluation Activity for 2011</i> | 236 |
| | Drishtee Development and Communication Ltd | |
| | <i>Assam Stove Market Development and Social Marketing</i> | 90 |
| | Envirofit International Ltd | |
| | <i>Scale-up of Commercial Delivery of Improved Cookstoves</i> | 2,072 |
| | Gajam Group Limited | |
| | <i>Dharma: India 'Last Mile' Challenge</i> | 275 |
| | Self Employed Women's Association (SEWA) | |
| | <i>Provision of Green Energy and Green Livelihoods</i> | 250 |
| | The Paradigm Project | |
| | <i>Route to Market Development</i> | 195 |
| | Envirofit International Ltd | |
| | <i>Envirofit Carbon Development</i> | 275 |
| | Envirofit International Ltd | |
| | <i>Honduras Carbon Registration (Impact Carbon)</i> | 250 |
| | The United Nations Foundation | |
| <i>Scale-up of Global Alliance for Clean Cookstoves</i> | 600 | |
| Navya Disha | | |
| <i>Grant Termination of IAP Awareness Raising Project</i> | (125) | |
| T Muniswamappa Trust | | |
| <i>IAP Awareness Raising and Consumer Financing in India</i> | 48 | |
| T Muniswamappa Trust | | |
| <i>Establishment of IAP Awareness Raising Campaign</i> | 125 | |
| Difference in exchange on prior year grants | (1) | |
| | | 4,290 |

Shell Foundation

| | | |
|--|---|---------------|
| Trading UP | Anzet Flora | |
| | <i>Cape Flora: Transition to a New Ethical Agent</i> | 32 |
| | Cotton Connect Hong Kong Ltd | |
| | <i>Establishing a Sustainable Cotton Business in China</i> | 1,100 |
| | The Better Trading Company Limited | |
| | <i>Scale Up Grant for Ethical Agent</i> | 273 |
| | The Better Trading Company Limited | |
| <i>Final Scale Up Grant</i> | 151 | |
| Differences in exchange on prior year grants | 9 | |
| | | 1,565 |
| Accelerate | D.light Design (Kenya) | |
| | <i>Catalysing African Distribution Channels in Partnership with OFID</i> | 525 |
| | First Light Ventures | |
| | <i>Establishment of the First Light India Accelerator</i> | 1,200 |
| | Husk Power Systems Inc | |
| | <i>Development of Husk Power University</i> | 232 |
| | IntelleCash Microfinance Network | |
| | <i>Capacity building support</i> | 41 |
| | IntelleCash Microfinance Network | |
| | <i>Scaling Up an SME Credit Facility</i> | 250 |
| | IntelleCash Microfinance Network | |
| | <i>Growing a Scaleable Credit Facility in India (2nd phase)</i> | 285 |
| Signal Point Partners Ltd | | |
| <i>Acceleration of Mobile Meter in Kenya (2nd phase)</i> | 172 | |
| Difference in exchange on prior year grant | 3 | |
| | | 2,708 |
| LEAD Africa Fellowship Programme | LEAD International | |
| | <i>LEAD Africa – Phase 2</i> | 811 |
| | Difference in exchange on prior year grants | 1 |
| | | 812 |
| Incubator | Earthwatch Institute | |
| | <i>Business Skills Transfer for Protected Areas(Scale Up)</i> | 296 |
| | MKopa Services LLC | |
| | <i>Embedded Mobile Technology</i> | 642 |
| | Skoll Centre for Social Entrepreneurship | |
| | <i>The Shell Foundation Fellowship for Innovation and Social Enterprise</i> | 96 |
| | The Environment Bank Limited | |
| | <i>Developing Environmental Markets in Ecosystems Services</i> | 277 |
| Volans Ventures Limited | | |
| <i>Research on Intergenerational Equity</i> | 41 | |
| | | 1,352 |
| | Total grants awarded in 2011 | 17,745 |

Note: Negative amounts represent a reduction, usually due to the project being completed for less than the grant total originally awarded, or due to the termination of a grant by mutual agreement.

Report of the Trustees (continued) for the year ended 31 December 2011

Financial Review

Financial activities

The Statement of Financial Activities is set out on page 21 of the financial statements.

Principle Funding Sources

The Foundation's annual grant programmes are funded by distributions from its endowment fund. Shell Group donated US\$6 million in 2011, approved some funding for 2012, and agreed 'in principle' to some funding in 2013 in the event that the endowment does not generate sufficient income for the charity to achieve its objectives and maintain impact.

Reserves

The Foundation holds an endowment reserve to sustain the funding of its annual programmes. The Trustees adopted a new investment policy in 2011, which aims to maintain the real value of both distributions and the endowment asset value.

The Foundation's policy for unrestricted reserves is to maintain reserves at a level such that the cash on hand is sufficient to meet payments due in the next six months and any contingent liabilities. This level will be maintained by liquidating endowment assets as and when required and building flexibility into our expenditure plans for future years to avoid compromising our long term financial objectives. At 31 December 2011 the cash on hand exceeded the payments due in the next six months by US\$4.0 million.

The reserve policy is reviewed at least annually.

Endowment Investment Policy and Performance

Following a review of the investment objectives and strategy (conducted as the Foundation becomes reliant on its endowment to fund its annual programme), the Trustees adopted a new investment policy, which aims to maintain the real value of both distributions and the endowment asset value. To achieve this aim, the Foundation's whole endowment was transferred to a new portfolio, with a new risk profile, and is now invested in a diversified asset allocation of global equities, hedge funds (which are included in the strategic asset allocation in order to lower the total portfolio risk by providing positive returns with a low correlation to equity) and fixed income funds. The transition to this new policy (and to a new investment manager) occurred during April 2011.

In order to mitigate the risk associated with investing globally in multiple currencies, the investment portfolio is hedged back to US Dollars (by the investment manager) through the use of forward foreign exchange contracts. The Foundation has US Dollars as its functional currency.

The investment performance in 2011 has been rather mixed, since economies and financial markets around the world experienced significant volatility and ongoing levels of uncertainty, which caused a wide disparity of returns across (and within) asset classes. Across these wide disparities, the Foundation's investment portfolio overall posted a negative return of -2.8%, which exceeded the portfolio benchmark return of -3.2%.

The total return on the equity portfolio was -7.1%. Since the transition in April, the portfolio was reshaped in the regions Europe, North America and Pacific. Most equity losses for all regions took place in the third quarter as the debt crisis in Europe intensified and spread. Europe was the worst performing region, with a loss of 22.0% since the transition in April, followed by the Pacific region which dropped almost 13.5% in that same period, mainly due to Japan, which was hurt by the devastating earthquake/tsunami/nuclear incident, but also by its strong currency hampering exports. The full year result was positively impacted by the performance in the first four months of the year. In December 2011, the Foundation invested a portion of the equity portfolio in Emerging Markets.

The fixed income portfolio returned 8.7% in 2011. The return of the fixed income portfolio up until the transition in April was 3.5%. After this, the global pool gained 10.2%, as high-rated government bonds benefited from safe haven effects in the volatile fixed income markets, whilst the active corporate credit pool struggled with these volatile markets and returned -0.1%. This was most noticeable in the financials credit portfolio, where the overweight position in subordinated debt versus senior debt was hit particularly in the second half of 2011.

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2011

The hedge fund portfolio returned -0.8%, compared to a benchmark of -4.7%. The portfolio significantly outperformed the benchmark primarily as a result of manager selection and the choice of the strategy mix.

The Foundation also holds a social investment, which is held for charitable rather than financial returns.

Auditors

The sole member approved the adoption of Elective Resolutions on 28 March 2011, 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 Shell Foundation pursuant to section 386(2) of the Companies Act 1985. In accordance with section 253(2) of the Companies Act 1985 as updated by the Companies Act 2006, 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.

By order of the Board



Ben van Beurden
Trustee

14 June 2012

Independent Auditor's Report to the Member of the Shell Foundation

We have audited the financial statements of Shell Foundation for the year ended 31 December 2011 which comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of trustees and auditors

As explained more fully in the Trustees' Responsibilities Statement set out on page 5, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the charity's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charitable company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 December 2011 and of its incoming resources and application of resources, including its income and expenditure and cash flows, 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Shell Foundation

Matters on which we are required to report by exception

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 trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- the trustees were not entitled to prepare the financial statements in accordance with the small companies regime.



Toby Skailes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 June 2012

Shell Foundation

Statement of financial activities for the year ended 31 December 2011

Company Registered Number: 4007273

| | Note | Unrestricted Funds 2011 \$000 | Restricted Funds 2011 \$000 | Endowment Funds 2011 \$000 | Total Funds 2011 \$000 | Total Funds 2010 \$000 |
|---|------|--|--------------------------------------|-------------------------------------|---------------------------------|---------------------------------|
| Incoming Resources | | | | | | |
| <i>Incoming resources from generated funds</i> | | | | | | |
| Voluntary | | | | | | |
| - Donations | 2 | 6,000 | 1,689 | - | 7,689 | 20,423 |
| Investment Income | 3 | (93) | - | 5,325 | 5,232 | 5,588 |
| Total Incoming Resources | | 5,907 | 1,689 | 5,325 | 12,921 | 26,011 |
| Resources Expended | | | | | | |
| <i>Cost of generating funds:</i> | | | | | | |
| Investment management costs | | - | - | (161) | (161) | (278) |
| Total cost of generating funds | | | | (161) | (161) | (278) |
| <i>Charitable Activities</i> | | | | | | |
| - Aspire | | (1,476) | (5,000) | - | (6,476) | (1,538) |
| - EMBARQ | | (1,862) | - | - | (1,862) | (2,113) |
| - Trading UP | | (2,174) | - | - | (2,174) | (2,727) |
| - Breathing Space | | (3,953) | (1,652) | - | (5,605) | (5,201) |
| - Excelerate | | (3,016) | (297) | - | (3,313) | (2,346) |
| - LEAD Africa Fellowship | | (257) | (820) | - | (1,077) | (870) |
| - Incubator | | (1,240) | (350) | - | (1,590) | (1,424) |
| Total Charitable Activities | 5 | (13,978) | (8,119) | - | (22,097) | (16,219) |
| Governance costs | 7 | (477) | - | - | (477) | (218) |
| Total charitable expenditure | | (14,455) | (8,119) | - | (22,574) | (16,437) |
| Total resources expended | | (14,455) | (8,119) | (161) | (22,735) | (16,715) |
| Net (outgoing)/incoming resources before transfers | | (8,548) | (6,430) | 5,164 | (9,814) | 9,296 |
| Transfer between funds | | 4,700 | - | (4,700) | - | |
| Net (outgoing)/incoming resources before revaluations and investment asset disposals | | (3,848) | (6,430) | 464 | (9,814) | 9,296 |
| Realised gains/(losses) on the revaluation and disposal of investment assets | | - | - | 9,618 | 9,618 | 8,398 |
| Unrealised gains/(losses) on the revaluation and disposal of Investment assets | | - | - | (25,173) | (25,173) | 17,420 |
| Net Movement in Funds | | (3,848) | (6,430) | (15,091) | (25,369) | 35,114 |
| Fund balances brought forward at 1 January | | 26,805 | 5,295 | 398,533 | 430,633 | 395,519 |
| Fund balances carried forward at 31 December | | 22,957 | (1,135) | 383,442 | 405,264 | 430,633 |

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

Income and expenditure account for the year ended 31 December 2011

| | 2011 \$000 | 2010 \$000 |
|--|-----------------|-----------------|
| Income | | |
| Voluntary Income | 7,689 | 20,423 |
| Investment Income (unrestricted) | (93) | 158 |
| Total realised income | 7,596 | 20,581 |
| Expenditure | | |
| Charitable activities | (22,097) | (16,219) |
| Governance costs | (477) | (218) |
| Total expenditure | (22,574) | (16,437) |
| Net (deficit)/surplus of income over expenditure for the year | (14,978) | 4,144 |

Balance sheet as at 31 December 2011

| | Note | 2011 \$000 | 2010 \$000 |
|---|-----------|----------------|----------------|
| Fixed Assets | | | |
| Investments | 11 | 388,863 | 401,176 |
| Social investments | 12 | 5,660 | 3,594 |
| | | 394,523 | 404,770 |
| Current Assets | | | |
| Cash at bank & in hand | 13 | 27,535 | 11,817 |
| Short-term deposits | 13 | | 23,500 |
| | | 27,535 | 35,317 |
| Creditors: amounts falling due within one year | 14 | (15,134) | (8,245) |
| Net Current Assets/(Liabilities) | 17 | 12,401 | 27,072 |
| Total Assets less Current Liabilities | | 406,924 | 431,842 |
| Creditors: amounts falling due after more than one year | 15 | (1,660) | (1,209) |
| Net Assets | | 405,264 | 430,633 |
| Represented by: | | | |
| Endowment Funds | 16 | 383,442 | 398,533 |
| Restricted Funds | 16 | (1,135) | 5,295 |
| Unrestricted Funds | 16 | 22,957 | 26,805 |
| Total Funds | | 405,264 | 430,633 |

The accompanying notes form part of these financial statements.

The financial statements on pages 21 to 32 were approved by the trustees and signed on their behalf by:


Ben van Beurden
Trustee

14 June 2012

Shell Foundation

Cash flow statement for the year ended 31 December 2011

| | Note | 2011 | | 2010 | |
|--|------|-----------|----------------|-------------|---------------|
| | | \$000 | \$000 | \$000 | \$000 |
| Net cash inflow from operating activities | 18 | | (2,946) | | 7,907 |
| Returns on investments and servicing of finance | | | | | |
| Interest Income (unrestricted & restricted) | | 31 | | 34 | |
| Investment Income (unrestricted & restricted) | | (124) | | 124 | |
| Investment income received endowment funds | | 5,042 | | 5,430 | |
| Investment income attributable to endowment funds | | (5,042) | | (5,430) | |
| Total returns on investments and servicing of finance | | | (93) | | 158 |
| Capital expenditure and financial investment | | | | | |
| <u>Investing Activities</u> | 11 | | | | |
| Purchase of investments | | (311,600) | | (31,363) | |
| Purchase of social investments | | (2,640) | | (1,365) | |
| Sale of investments | | 309,125 | | 24,406 | |
| Sale of social investments | | 574 | | - | |
| (Increase) in investment cash | | (1,171) | | - | |
| <u>Hedging Activities</u> | 11 | | | | |
| Payments on forward foreign exchange contracts | | (1,544) | | (5,335,305) | |
| Proceeds on forward foreign exchange contracts | | 2,941 | | 5,341,999 | |
| Gain/(loss) on foreign exchange | | (711) | | 6 | |
| Cash flow attributable to endowment investments | | 1,789 | | 257 | |
| Total capital expenditure and financial investment | | | (3,237) | | (1,365) |
| Financing | | | | | |
| Investment income retained within endowment funds | | 5,042 | | 5,430 | |
| Cash flow attributable to endowment investments | | (1,789) | | (257) | |
| Distribution from endowment to unrestricted cash | | (4,700) | | - | |
| Cash expended on endowment fund fees | | (59) | | (399) | |
| Total Financing | | | (1,506) | | 4,773 |
| (Decrease)/Increase in cash in the year | | | (7,782) | | 11,473 |
| Analysis of change in cash | | | | | |
| Cash balance at 1 January | | | 35,317 | | 23,844 |
| Cash balance at 31 December | | | 27,535 | | 35,317 |
| (Decrease)/Increase in cash in the year | | | (7,782) | | 11,473 |

The accompanying notes form part of these financial statements.

Shell Foundation

Notes to the financial statements for the year ended 31 December 2011

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 March 2005, and in accordance with applicable United Kingdom accounting standards and the Companies Act 2006.

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

The financial statements of the Foundation are prepared in US Dollars. This is because the local currency of the 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. The average exchange rate used during the year to translate Sterling (GBP) to US Dollars (US\$) was GBP/US\$ 0.6253.

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
- restricted income funds, that are expendable at the discretion of the trustees in furtherance of the specific purpose stated by the donor; 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 value to the charity. During 2011, donated services were received as shown in note 2.

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 investment strategy.

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 programmes on a basis consistent with the use of resources. Support costs are allocated across the programmes based on the value of grants given out by that programme and direct costs attributable to that programme.

Notes to the financial statements (continued) for the year ended 31 December 2011

Costs of Generating Funds

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

Charitable Activity Costs

Charitable activity costs are comprised of grants, costs for processing grants and applications, direct costs invoiced to the charity, and for the administration and monitoring of projects. These costs include staff costs and associated overheads incurred for staff undertaking these activities. Staff costs are comprised of charges in respect of the services of employees of Shell Group companies in relation to Foundation activities. The Foundation has no direct employees.

Grant commitments charged as charitable activity costs in the Statement of Financial Activities represent the new commitments awarded by the Foundation in the year, as evidenced by the Letters of Understanding (LOUs) signed in that year. Grant commitments for which payments were outstanding at the year-end are shown as liabilities in the Balance Sheet. The commitments are not discounted.

Governance Costs

Governance costs comprise direct and indirect costs for the strategic 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 spent on strategic activities, together with associated overhead costs (see note 7).

Value Added Tax ('VAT')

The charity is registered for Value Added Tax ('VAT') as part of the Shell International Petroleum Company VAT Group. VAT incurred by the 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 US Dollars are converted to US Dollars at the rate ruling at the balance sheet date. Items of income and expenditure in non-US Dollar currencies are converted at transaction date exchange rate where known, or otherwise at the average rate for the period. Non-US Dollar items primarily relate to UK and Netherlands operating costs, which are incurred in pounds sterling ('GBP') and Euros, 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 shown separately in the Statement of Financial Activities.

Social investments are carried at cost less any provision for diminution in value. Such investments are subject to review, and any diminution is charged to the Statement of Financial Activities.

Financial Instruments

The Foundation has the US Dollar as its functional 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. The mandate is to hedge 100% of non US Dollar denominated fixed income investments and 100% of non US dollar hedge fund investments. 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.

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2011

2 Donations Received

| | 2011 \$000 | 2010 \$000 |
|---|---------------|---------------|
| Cash | | |
| <u>Unrestricted</u> | | |
| Shell Trading International Ltd | 6,000 | 20,000 |
| <u>Restricted</u> | | |
| Shell International B.V | | |
| The Shell Centenary Scholarship Fund | 1,269 | 377 |
| OPEC Fund for International Development | 100 | - |
| Onderling Medisch Steunfonds | 273 | - |
| Donated services | | |
| Mayer Brown LLP | 47 | 46 |
| | 7,689 | 20,423 |

Donated services in 2011 was made up of pro bono consultancy services provided in relation to the Excelerate programme.

3 Investment income

| | 2011 \$000 | 2010 \$000 |
|-------------------------------|---------------|---------------|
| Interest on Cash Deposits | 31 | 34 |
| Fixed Interest Securities | - | 45 |
| Dividends | 5,325 | 5,385 |
| Income from Social Investment | (124) | 124 |
| | 5,232 | 5,588 |

In the prior year the distributions received from the Social Investment were treated as investment income, rather than capital repayments (share redemptions). This has been rectified in the current year.

4 Grants expenditure

| | 2011 \$000 | 2010 \$000 |
|-----------------------------------|---------------|---------------|
| Grants payable brought forward | (6,506) | (3,352) |
| Payments | 12,097 | 8,364 |
| Grants payable within 1 year | 10,494 | 5,297 |
| Grants payable after 1 year | 1,660 | 1,209 |
| Grants awarded in the year | 17,745 | 11,518 |

A full list of grants awarded in the year ended 31 December 2011 is included in the Trustees' Report (pages 15 to 16).

Notes to the financial statements (continued) for the year ended 31 December 2011

5 Charitable Activities Expenditure by Programme

| | Grants \$000 | Direct costs \$000 | Support costs \$000 | 2011 \$000 | 2010 \$000 |
|------------------------|-----------------|-----------------------|------------------------|-----------------|---------------|
| Aspire | (5,735) | (223) | (518) | (6,476) | (1,538) |
| EMBARQ | (1,283) | (430) | (149) | (1,862) | (2,113) |
| Trading UP | (1,565) | (435) | (174) | (2,174) | (2,727) |
| Breathing Space | (4,290) | (866) | (449) | (5,605) | (5,201) |
| Excelerate | (2,708) | (340) | (265) | (3,313) | (2,346) |
| LEAD Africa Fellowship | (812) | (179) | (86) | (1,077) | (870) |
| Incubator | (1,352) | (110) | (128) | (1,590) | (1,424) |
| Total for 2011 | (17,745) | (2,583) | (1,769) | (22,097) | |
| Total for 2010 | (11,518) | (2,946) | (1,755) | | (16,219) |

Grants are listed in the Trustees' Report accompanying these Financial Statements.

Direct costs include goods and services invoiced to the charity together with directly attributable manpower, and are allocated to the activity they relate to. Other support costs, that cannot be directly linked to an activity, are apportioned across the programme themes on the basis of the value of grant and direct cost expenditure. The activities making up these costs are shown in note 6 below.

6 Direct and Support Costs

| | Direct costs \$000 | Support costs \$000 | 2011 \$000 | 2010 \$000 |
|-----------------------------|-----------------------|------------------------|----------------|----------------|
| Manpower costs (see note 9) | (1,684) | (1,206) | (2,890) | (2,437) |
| External services | (349) | (21) | (370) | (351) |
| Communications | (213) | (198) | (411) | (921) |
| Travel | (360) | (120) | (480) | (427) |
| Training | (3) | (79) | (82) | (7) |
| Sundry | (8) | (87) | (95) | (503) |
| Exchange gain/loss | 34 | (58) | (24) | (55) |
| Total | (2,583) | (1,769) | (4,352) | (4,701) |

External service costs are those paid directly to a third party supplier for services (including professional fees and consultancy) rather than being paid via a grantee intermediary. Direct costs for external services shows costs at the project level, support costs are charity wide. Within external services for 2011, US\$13,689 was payable to Shell Group companies on normal business terms.

7 Governance Costs

| | 2011 \$000 | 2010 \$000 |
|-----------------------------|---------------|---------------|
| Manpower costs (see note 9) | (388) | (182) |
| Audit fees | (69) | (33) |
| Legal fees | (8) | - |
| Trustee expenses | (12) | (3) |
| Total | (477) | (218) |

Net incoming resources are stated after charging auditors' remuneration for audit services ('Audit Fees') as shown above. These are the fees for the audit of the Foundation's Financial Statements.

Notes to the financial statements (continued) for the year ended 31 December 2011

8 Trustee information

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 US\$11,883 (2010: US\$2,595 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 Shell Group Directors and Officers liability insurance policy. Insurance cover is permitted under clause 21 of the Foundation's Memorandum of Association.

9 Employee information

The Foundation has no direct employees. Some employees of Shell Group companies work on the Foundation's activities. The average staff employed by Shell Group companies to work for the Foundation during the year was 12.2 (2010: 12.1).

Manpower expenditure included in Direct and Support costs (note 6) and Governance costs (note 7) comprises charges at cost in respect of the services of these Shell Group employees, including salaries, taxes and office overhead costs. The salary and taxes paid by Shell Group companies in relation to these employees are as follows:

| | 2011 \$000 | 2010 \$000 |
|-----------------|----------------|----------------|
| Salaries | (1,907) | (1,603) |
| Social security | (227) | (160) |
| Pension costs | (360) | (452) |
| | (2,494) | (2,215) |

The number of Shell Group employees working on Foundation activities whose emoluments were above GBP 60,000 is as follows:

| GBP | 2011 | 2010 |
|--------------------|----------|----------|
| 60,000 to 70,000 | 1 | - |
| 70,000 to 80,000 | 1 | 1 |
| 80,000 to 90,000 | 1 | 2 |
| 90,000 to 100,000 | - | 1 |
| 100,000 to 110,000 | 3 | 1 |
| 110,000 to 120,000 | - | 1 |
| 120,000 to 130,000 | 1 | - |
| 130,000 to 140,000 | 1 | 1 |
| 150,000 to 160,000 | - | 1 |
| 190,000 to 200,000 | 1 | - |
| | 9 | 8 |

Shell Group companies made contributions during the year to a defined benefit pension scheme of GBP 171,436 in relation to these nine employees (2010: GBP 276,148 in relation to eight employees).

10 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 2011

11 Investments

| | 2011 | 2010 |
|------------------------------------|----------------|----------------|
| | \$000 | \$000 |
| Market value at 1 January | 401,176 | 375,111 |
| Purchases | 311,883 | 5,373,362 |
| Sales | (306,293) | (5,359,711) |
| Realised gains/losses | 9,618 | (4,496) |
| Unrealised gains/losses | (25,173) | 17,420 |
| Movement of investment cash | (2,348) | (12,894) |
| Market value at 31 December | 388,863 | 401,176 |

The year end value is analysed as:

| | 2011 |
|---|----------------|
| | \$000 |
| Fixed income investments – UK | 16,845 |
| Fixed income investments - overseas | 113,051 |
| Equity investments – UK | 22,541 |
| Equity investments – overseas | 191,903 |
| Hedge funds – overseas | 39,646 |
| Forward foreign currency contracts | 3,384 |
| Other assets | 325 |
| Other liabilities | (30) |
| Investment cash | 1,171 |
| Cash invested in institutional cash funds | 27 |
| Market value at 31 December | 388,863 |

Cash invested in institutional cash funds represents cash invested in Fidelity Institutional Cash Fund plc. The trustees believe that the carrying value of the investments is supported by their underlying net assets.

Following a strategic review of investments, the trustees adopted a new investment policy, which aims to maintain the real value of both distributions and the endowment asset value. To achieve this, the endowment is invested in a diversified asset allocation of global equities, hedge funds and fixed income funds. The transition to this new policy, under a new investment manager, happened during April 2011.

The investment portfolio is hedged by the fund managers through the use of forward foreign exchange contracts. The mandate is to hedge 100% of non US Dollar denominated bonds and 100% of non US Dollar hedge fund investments. At the year end 61% of bonds and 0% of hedge fund investments were non US Dollar.

12 Social investments

| | 2011 | 2010 |
|--|--------------|--------------|
| | \$000 | \$000 |
| GroFin Africa Fund | | |
| Cost brought forward at 1 January | 3,594 | 2,229 |
| Purchases | 2,640 | 1,365 |
| Sales | (450) | - |
| Reclass of prior year sales (note 3) | (124) | - |
| Cost carried forward at 31 December | 5,660 | 3,594 |

The value of social investments at the year end is shown at cost. The investment in the GroFin Africa Fund (GAF) represents 5,660 Class A (US\$1,000) shares in the fund, which meets the objectives of the Aspire programme. The trustees believe that the carrying value of the investments is supported by their underlying net assets.

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2011

13 Cash at bank and in hand

| | 2011 | 2010 |
|---------------------------------------|---------------|---------------|
| | \$000 | \$000 |
| Cash at Bank | 27,535 | 11,817 |
| Cash held in short-term deposit | - | 23,500 |
| Total cash at bank and in hand | 27,535 | 35,317 |

For the purposes of the cash flow statement, cash includes cash at bank and in hand, other than cash invested in institutional cash funds, which is classified as an investment.

14 Creditors: amounts falling due within one year

| | 2011 | 2010 |
|---|---------------|--------------|
| | \$000 | \$000 |
| Grants Payable | 10,494 | 5,297 |
| Trade Creditors – Shell International Limited | 570 | 124 |
| Accruals – Shell International Limited | 4,070 | 2,344 |
| Loan guarantee – Charity Bank | - | 480 |
| | 15,134 | 8,245 |

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

15 Creditors: amounts falling due after more than one year

| | 2011 | 2010 |
|---|--------------|--------------|
| | \$000 | \$000 |
| Total Grants payable | 12,154 | 6,506 |
| Less amounts falling due within one year (note 14) | (10,494) | (5,297) |
| | 1,660 | 1,209 |
| Represented by: | | |
| Grants payable in greater than one year but less than two years | 1,340 | 779 |
| Grants payable in greater than two years but less than five years | 320 | 430 |
| | 1,660 | 1,209 |

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2011

16 Funds

| | Balance Bfwd | Incoming Resources | Resources Expended | Transfer between funds | Investment Gain/(losses) | Balance Cfwd |
|--------------------|-----------------|-----------------------|-----------------------|------------------------------|-----------------------------|-----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Endowment Funds | 398,533 | 5,325 | (161) | (4,700) | (15,555) | 383,442 |
| Unrestricted Funds | 26,805 | 5,907 | (14,455) | 4,700 | - | 22,957 |
| Restricted Funds | 5,295 | 1,689 | (8,119) | - | - | (1,135) |
| | 430,633 | 12,921 | (22,735) | - | (15,555) | 405,264 |

At the year end the restricted funds were in deficit due to timing differences between recognition of income and expenditure commitments.

17 Analysis of net assets between funds

| | Note | Unrestricted Funds 2011 \$000 | Restricted Funds 2011 \$000 | Endowment Funds 2011 \$000 | Shell Foundation 2011 \$000 | Shell Foundation 2010 \$000 |
|---|------|--|--------------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| Fixed Assets | | | | | | |
| Investments (at market value) | 11 | 5,421 | - | 383,442 | 388,863 | 401,176 |
| Social investments (at cost) | 12 | 5,660 | - | | 5,660 | 3,594 |
| | | 11,081 | | 383,442 | 394,523 | 404,770 |
| Current Assets | | | | | | |
| Cash at bank & in hand | 13 | 22,225 | 5,310 | - | 27,535 | 35,317 |
| Creditors: amounts falling due within one year | 14 | (9,032) | (6,102) | - | (15,134) | (8,245) |
| | | 13,193 | (792) | | 12,401 | 27,072 |
| Net Current Assets/(Liabilities) | | 13,193 | (792) | | 12,401 | 27,072 |
| Total Assets less Current Liabilities | | 24,274 | (792) | 383,442 | 406,924 | 431,842 |
| Creditors: amounts falling due after more than one year | 15 | (1,317) | (343) | - | (1,660) | (1,209) |
| Net Assets | | 22,957 | (1,135) | 383,442 | 405,264 | 430,633 |

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

| | 2011 \$000 | 2010 \$000 |
|---|----------------|---------------|
| Continuing activities | | |
| Net incoming / (outgoing) resources – unrestricted & restricted funds | (10,278) | 4,144 |
| Investment income – unrestricted & restricted funds | 124 | (124) |
| Increase in net creditors – unrestricted & restricted funds | 7,239 | 3,921 |
| Interest income on bank accounts | (31) | (34) |
| | (2,946) | 7,907 |

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2011

19 Capital commitments

The Foundation had no capital commitments as at 31 December 2011 (2010: US\$ nil).

20 Capital

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

21 Related party transactions

The sole member of the Foundation is The Shell Petroleum Company Limited (SPCo). The ultimate parent company of SPCo is Royal Dutch Shell plc. The Foundation's investment manager is Shell Asset Management Company (SAMCo), which is also a subsidiary of Royal Dutch Shell plc. During the year the Foundation incurred investment management costs of US\$109,338 on normal business terms with SAMCo.

Of the Foundation's current or former trustees listed on page 3, the following are or were directors or officers of certain Shell Group companies: Mr Peter Voser, Mr Malcolm Brinded and Mr Ben van Beurden. The Shell Group has other charitable affiliates that are not formally related to the Foundation, such as The Shell Centenary Scholarship Fund in the UK and the Shell Oil Foundation in the USA. The Shell Centenary Scholarship Fund made donations to the Foundation during 2009, 2010 and 2011. Donations received totalled US\$1,268,591 in 2011 (2010: US\$377,415) – a grant of US\$578,079 was awarded in 2011 but received and recognised in 2012.

Sir John Houghton, a former trustee (to 17 June 2010), is President of The John Ray Initiative, UK registered charity 1067614, which received a grant of US\$15,475 from the Foundation during the prior year.

22 Guarantees and contingent liabilities

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 31 December 2011 there were no contingent liabilities in the form of formal offers ('Letters of Understanding') issued but pending acceptance, or guarantees that the Foundation had provided.