



Shell Foundation

(a Company Limited by Guarantee not having a Share Capital)

Trustees' Report and Financial Statements for the year ended 31 December 2002

Company Registered Number: 4007273

Charity Registered Number: 1080999

Trustees' Report and Financial Statements for the year ended 31 December 2002

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Trustees, directors, officers and advisors

Trustees (who are also directors)

Sir Philip Watts (Chairman)	
Dr Enos Banda	appointed 17 August 2002
Professor José Goldemberg	resigned 25 January 2002
Sir John Houghton	
Miss Jyoti E Munsiff	
Mr Harry J M Roels	resigned 31 March 2002
Mr Jeroen van der Veer	appointed 5 June 2002
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 2002

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 2002.

The information with respect to trustees, directors, officers and advisors set out on page 1 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, as stated in its governing document, 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 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 – aided by the Foundation and appropriate risk mitigation measures.

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

Report of the Trustees for the year ended 31 December 2002

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. The current Nominated Trustees are Dr Pieter Winsemius, Sir John Houghton, and Dr Enos Banda.

In addition, the Trustees explicitly recognised their charitable responsibilities in this regard by formally stating 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. These include poor financial performance of its

investments and the inappropriate or wasteful use of its grants by grantees (grant recipients). As part of the activities of establishing the financial and governance processes of the Foundation, an investment sub-committee has been appointed to keep investment performance under review. Appropriate grantee reporting, monitoring and audit systems have been put in place.

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 2002, donations of \$12.3 million were received from The Shell Petroleum Company Limited to cover the 2002 operating and grant-making costs of the Foundation (2001: \$13m received – \$12.4m from Shell Chemicals U.K. Limited and \$0.6m from The Shell Petroleum Company Limited).

The three main grant-making programmes of the Foundation are:

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

Details of all grants committed or awarded by the Foundation in the year ended 31 December 2002 are listed in the following table. The balance on the grants committed but not paid up to 31 December 2002, will be payable in subsequent financial years (see notes 4, 12 and 13).

PROGRAMME & THEME	GRANTEE	Total Funding (\$'000) 2002
SUSTAINABLE ENERGY PROGRAMME		
Biodiversity	Smithsonian Institution	55
	Conservation International	50
Climate Control	Imperial College of Science, Technology & Medicine	160
	London School of Hygiene & Tropical Medicine	5
	United Nations Foundation	5
	The John Ray Initiative	3
	Minerals & Energy Policy Centre	(17)
Fast Track – Energy Services	United Nations Development Programme (UNDP)	300
	Small-Scale Sustainable Infrastructure Development Fund, Inc	289
Household Energy & Health	Integrated Energy Solutions	* 149
	HELPS International	300
	Appropriate Rural Technology Institute	** 289
	Grupo Interdisciplinario de Tecnologia Rural Apropriada (GIRA A.C) & Institute de Ecologia UNAM	275
	Development Alternatives	272
	Institute for Global Health	199
	Small Business Project	31
Modern Energy Services	United Nations Environment Programme	300
	Zhejiang University – China	300
	Prokaushali Sangsad Limited	252
	Chardust Ltd.	190
	Decentralised Energy Systems India Pvt. Limited	130
	Energy Alternatives Africa Ltd	78
	South-North Institute for Sustainable Development	10
	Small World Action Projects Ltd	8
	Energy for Sustainable Development	(29)
	Intermediate Technology	(109)
	Intermediate Technology Development Group	(212)
Sustainable Transport	World Resources Institute (WRI)	3,750
	Stockholm Partnership for Sustainable Cities	15
	Foreign exchange loss on grant commitments and payments	33
	Adjustment to opening creditors	129
	Sub-total	7,210

* (represents a grant of \$300k and adjustment to terminate grant \$151k)

** (represents two grants \$287k and \$2.4k and an adjustment of \$0.7k to close grant due to cost savings)

Report of the Trustees for the year ended 31 December 2002

PROGRAMME & THEME	GRANTEE	Total Funding (\$'000) 2002
SUSTAINABLE COMMUNITIES PROGRAMME		
Enhanced Economic Opportunities	African Medical and Research Foundation (AMREF) UK	297
	Rotary Club of Melbourne Inc.	270
	Centre for Population and Environmental Development (CPED)	234
	Entrepreneurial Development Initiative (ENDIP)	204
Integrated Community Development	Development Upper Egypt Trust (DUET)	60
	Vine Trust Bo'ness	49
Improved Resources Management	Seva Mandir	342
	Resource Efficient Agricultural Production (REAP) – Canada	303
	Asociacion de Tecnicos de Programas y Proyectos Sociales	235
	Foreign exchange loss on grant commitments and payments	1
	Adjustment to opening creditors	(8)
	Sub-total	1,987
YOUTH ENTERPRISE PROGRAMME		
Livewire	Dialog Educacao Tecnologa e Desenvolvimento	322
	Asociacion Cristiana de Dirigentes de Empresa (ACDE)	60
	Foreign exchange loss on grant commitments and payments	11
	Sub-total	393
Grants Payable per Statement of Financial Activities		9,590

Grant Making Highlights

The Foundation made a total of \$5.3 million in grant payments during the year ended 31 December 2002 of which \$2.2 million was for projects approved between June 2000 and 31 December 2001 and \$3.1 million for new projects approved in 2002.

Highlights of the Foundation's grant making in 2002 include:

- support for four projects (two in India, one in Mexico and Guatemala) whose objective is to minimise the negative health effects on poor women and children of the inhalation of smoke from open indoor cooking fires (a problem that currently causes 2 million premature deaths every year in developing countries);
- the launch of 9 new community development projects in 8 countries via the Sustainable Communities Programme including a community seed bank in Argentina, a soil erosion and drought remediation project in Western China and micro-enterprise business development in the Kibera slum, Nairobi, Kenya; and
- under the auspices of the Youth Enterprise Programme, new national projects designed to impart business planning skills to young people were launched in Argentina and Brazil.

Report of the Trustees for the year ended 31 December 2002

Financial Position

The Statement of Financial Activities is set out on page 8 of the financial statements.

During the year net grants totalling \$9.6 million (31 December 2001: \$6.7 million) were awarded by the Foundation to beneficiaries in support of projects fulfilling the objectives of the Foundation's programmes. Donations to unrestricted funds were sufficient to fund both the actual and the committed expenditure of the Foundation for the period.

Reserves

The medium-term objective of the Trustees is to build reserves to a level that provides a mature asset base capable of funding 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 2010. In the meantime it is anticipated that the grant programmes will be financed by annual donations from companies of the Shell Group as in 2001 and 2002.

Investment Policy and Performance

The Board wish to make prudent investments consistent with meeting the Foundation's primary objective of reaching financial independence by 2010. The flexibility offered by the funding arrangements outlined above permits an investment policy that is targeted towards a higher rate of return and will accept volatile short-term results in the expectation that the volatility will be more than compensated by superior long-term performance. To achieve this objective the selected strategy is to invest in a globally diversified portfolio of equity and bond markets (weighted 60% in equities and 40% in bonds).

The preferred investment strategy was not implemented until June 2001 prior to which the funds were invested in dollar denominated money market pooled funds. Overall investment performance during 2002 showed a small negative investment return of -0.9% (2001:-0.2%) which was in line with the portfolio benchmark. The poor overall performance was attributable to weak equity market returns.

The Foundation closed the year at the lower end of the estimated return range but the strategy is still consistent with achieving the long-term desired level of returns by 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.

By order of the board

Jyoti E Munsiff
Trustee
15 October 2003

Independent auditors' report to the members of the Shell Foundation

We have audited the financial statements which comprise the statement of financial activities, the 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 trustees 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 Trustees' Report.

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 opinion has been prepared for and only for the company's members 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 responsibility for any other purpose or to any other person to whom this report is shown or in to 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 trustees' report 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 Trustees' Report.

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 2002 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
Dated: October 2003

Statement of financial activities for the year ended 31 December 2002

	Notes	Unrestricted Funds 2002 \$'000	Endowment Funds 2002 \$'000	Total Funds 2002 \$'000	Total Funds 2001 \$'000
Incoming resources					
Donations	2	12,300	-	12,300	12,978
Investment income	3	141	8,199	8,340	10,643
Total incoming resources		12,441	8,199	20,640	23,621
Resources expended					
Costs of generating funds:					
Investment management costs	5	-	(428)	(428)	(61)
Total costs of generating funds		-	(428)	(428)	(61)
Charitable expenditure:					
<i>Costs of activities in furtherance of the charity's objects:</i>					
Grants payable					
- Sustainable Energy Programme		(7,210)	-	(7,210)	(4,556)
- Sustainable Community Programme		(1,987)	-	(1,987)	(1,443)
- Youth Enterprise Programme		(393)	-	(393)	(691)
Total grants payable	4	(9,590)	-	(9,590)	(6,690)
Programme support costs					
- Sustainable Energy Programme		(1,137)	-	(1,137)	(1,300)
- Sustainable Community Programme		(232)	-	(232)	(146)
- Youth Enterprise Programme		(563)	-	(563)	(565)
Total programme support costs	5	(1,932)	-	(1,932)	(2,011)
Management and administration	5	(1,231)	-	(1,231)	(468)
Exchange gains/(losses)	5	160	(98)	62	(756)
Total charitable expenditure		(12,593)	(98)	(12,691)	(9,925)
Total resources expended		(12,593)	(526)	(13,119)	(9,986)
Net incoming/(outgoing) resources before revaluations and investment asset disposals					
		(152)	7,673	7,521	13,635
Gains and losses on the revaluation and disposal of investment assets	9	-	(31,257)	(31,257)	(10,312)
Net movement in funds	14	(152)	(23,584)	(23,736)	3,323
Fund balances brought forward at 1 January 2002	14	4,164	255,706	259,870	256,547
Fund balances carried forward at 31 December 2002	14	4,012	232,122	236,134	259,870

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 2002

	2002 \$'000	2001 \$'000
Gross charitable income	12,300	12,978
Charitable expenditure	(12,593)	(9,286)
Net surplus/(deficit) before investment asset disposals	(293)	3,692
Investment income	8,340	10,643
Realised loss on investment asset disposals	(16,213)	(4,462)
Net surplus/(deficit) of income over expenditure for the year	(8,166)	9,873

Balance Sheet as at 31 December 2002

	Notes	2002 \$'000	2001 \$'000
Fixed Assets			
Investments (at market value)	9	240,420	263,945
		240,420	263,945
Current Assets			
Debtors: amounts falling due within one year	10	3,559	1,057
Cash at bank and in hand	11	3,404	813
		6,963	1,870
Creditors: amounts falling due within one year	12	(6,524)	(3,108)
Net Current Assets/(Liabilities)		439	(1,238)
Total Assets less Current Liabilities		240,859	262,707
Creditors: amounts falling due after one year	13	(4,725)	(2,837)
Net assets		236,134	259,870
Capital and Reserves:			
Endowment Funds	15	232,122	255,706
Unrestricted Funds	15	4,012	4,164
Total Funds		236,134	259,870

The accompanying notes form part of these financial statements.

The financial statements on pages 7 to 18 were approved by the trustees and signed on their behalf by:
Jyoti E Munsiff
 Trustee
 15 October 2003

Cash flow statement for the year ended 31 December 2002

		2002		2001	
	Notes	\$'000	\$'000	\$'000	\$'000
Net cash inflow from operating activities	16		4,458		5,783
Returns on investments and servicing of finance					
Investment income received		7,105		10,643	
Investment income attributable to endowment funds		(7,096)		(10,576)	
Total returns on investments and servicing of finance			9		67
Capital expenditure and financial investment					
Purchase of investments		(217,011)		(41,198)	
Sale of investments		216,930		28,387	
Payments on forward foreign exchange contracts	9	(852,801)		(95,906)	
Proceeds on forward foreign exchange contracts	9	843,984		90,602	
Cash flow attributable to endowment investments		7,062		8,496	
Total capital expenditure and financial investment			(1,836)		(9,619)
Net cash inflow/ (outflow) before financing			2,631		(3,769)
Financing					
Investment income retained within endowment funds		7,096		10,576	
Net cash outflow attributable to endowment investments		(7,062)		(8,496)	
Cash expended on endowment funds		(74)		(700)	
Total Financing			(40)		1,380
Increase/(decrease) in cash in the year			2,591		(2,389)

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2002

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, 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 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.

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.

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

Notes to the financial statements for the year ended 31 December 2002

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 together with direct expenditure on the administration of the Foundation.

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 end-rate. 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

	2002 \$'000	2001 \$'000
Corporate donations		
- Shell Petroleum Company Ltd	12,300	625
- Shell Chemicals U.K. Ltd	-	12,353
	12,300	12,978

Notes to the financial statements for the year ended 31 December 2002

3. Investment income

	2002 \$'000	2001 \$'000
Interest on cash deposits	141	6,634
Fixed interest securities	5,808	2,925
Dividends	2,391	2,084
	8,340	10,643

4. Grants Payable

Grants payable by the Foundation, were as follows:	2002 \$'000	2001 \$'000
Accruals brought forward	(5,587)	(2,778)
Payments	5,260	3,881
Grants payable within one year (see note 12)	5,192	2,750
Grants payable after more than one year (see note 13)	4,725	2,837
Total Grants as per Statement of Financial Activities	9,590	6,690

A full list of grants awarded in the year ended 31 December 2002 is included in the Trustees' Report (page 2).

5. Resources expended

	Staff costs \$'000	Other costs \$'000	2002 \$'000	2001 \$'000
Investment management costs	-	428	428	61
Grants payable	-	9,590	9,590	6,690
Programme support costs	601	1,331	1,932	2,011
Management and administration	501	730	1,231	468
Exchange (gains)/losses	-	(62)	(62)	756
	1,102	12,017	13,119	9,986

Staff costs shown above 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.

Other costs within programme support and management and administration include contracted services of \$1,194k (2001: \$1,320k) and travel costs of \$528k (2001: \$308k).

Management and administration costs include finance and accounting support expenditure of \$194k and publishing, reporting and communication expenditure of \$482k.

Exchange losses are mostly offset by investment gains as the investment portfolio is hedged in U.S. dollars.

Notes to the financial statements for the year ended 31 December 2002

6. Net incoming resources

	2002 \$'000	2001 \$'000
Net incoming resources is stated after charging:		
Auditors' remuneration for:		
Audit services	15	15

No indemnity insurance for trustees' liability has been purchased by the charity.

7. Employee information

The Foundation has no direct employees.

No trustee received any remuneration from the charity during the year (2001: nil). The Foundation directly incurred or reimbursed travel expenses in relation to two trustees totalling \$6,914 (2001: \$13,573 in respect of two trustees). These expenses related to attendance at trustee meetings and visits to project sites.

8. Taxation

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

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.

Notes to the financial statements for the year ended 31 December 2002

9. Investments

	Market Value 1 Jan 2002 \$'000	Purchases at cost/ Deposits \$'000	Sales Proceeds/ Withdrawals \$'000	Gains/ (Losses) \$'000	Market Value 31 Dec 2002 \$'000
Equities					
UK	8,951	1,261	(444)	(1,426)	8,342
Europe	14,057	2,120	(528)	(2,820)	12,829
North America	45,331	9,164	(2,398)	(11,133)	40,964
Japan	6,141	1,220	(344)	(767)	6,250
Far East	645	280	-	(167)	758
Australasia	1,177	350	(138)	(58)	1,331
Other	37	24	-	(11)	50
	76,339	14,419	(3,852)	(16,382)	70,524
Fixed Interest Securities					
UK public sector quoted	10,143	2,515	(5,078)	1,310	8,890
Overseas public sector quoted	88,713	25,745	(46,349)	15,622	83,731
Overseas quoted	121	-	-	(13)	108
	98,977	28,260	(51,427)	16,919	92,729
Pooled Investment Vehicles					
UK	8,526	165	(8,177)	(514)	-
Overseas	68,838	155,789	(138,461)	(15,707)	70,459
	77,364	155,954	(146,638)	(16,221)	70,459
Time Deposits	-	7,213	(7,225)	12	-
	-	7,213	(7,225)	12	-
Forward Foreign Exchange Contracts	1,640	852,801	(843,984)	(15,585)	(5,128)
	1,640	852,801	(843,984)	(15,585)	(5,128)
Sub-Total	254,320	1,058,647	(1,053,126)	(31,257)	228,584
Cash held for Investment	9,625	11,170	(9,200)	241	11,836
Totals	263,945	1,069,817	(1,062,326)	(31,016)	240,420

10. Debtors

	2002 \$'000	2001 \$'000
Amounts falling due within one year		
Other debtors	3,559	1,057

Notes to the financial statements for the year ended 31 December 2002

11. Cash at bank and in hand

	2002 \$'000	2001 \$'000
Cash at bank	3,404	813

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

	2002 \$'000	2001 \$'000
Grants Payable	5,192	2,750
Trade Creditors – Shell International Ltd	169	342
VAT Accrual	364	-
Accruals – Shell International Ltd	799	16
	6,524	3,108

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

	2002 \$'000	2001 \$'000
Total Grants Payable	9,917	5,587
Less amounts falling due within one year (note 12)	(5,192)	(2,750)
Amounts falling due after more than one year	4,725	2,837
Represented by:		
Grants payable in greater than 1 year but less than 2 years	2,831	2,837
Grants payable in greater than 2 years	1,894	-
	4,725	2,837

14. Funds

	Balance 1 January 2002 \$'000	Incoming Resources \$'000	Resources Expended \$'000	Investment gains/(losses) \$'000	Balance 31 December 2002 \$'000
Endowment Funds	255,706	8,199	(526)	(31,257)	232,122
Unrestricted Funds	4,164	12,441	(12,593)	-	4,012
Total Funds	259,870	20,640	(13,119)	(31,257)	236,134

Notes to the financial statements for the year ended 31 December 2002

15. Analysis of net assets between funds

	Unrestricted Funds 2002 \$'000	Endowment Funds 2002 \$'000	Total Funds 2002 \$'000	Total Funds 2001 \$'000
Fixed Assets				
Investments (at market value)	11,836	228,584	240,420	263,945
	11,836	228,584	240,420	263,945
Current Assets				
Debtors: amounts falling due within one year	-	3,559	3,559	1,057
Cash at bank and in hand	2,926	478	3,404	813
	2,926	4,037	6,963	1,870
Creditors: amounts falling due within one year	(6,025)	(499)	(6,524)	(3,108)
Net Current Assets/(Liabilities)	(3,099)	3,538	439	(1,238)
Total Assets less Current Liabilities	8,737	232,122	240,859	262,707
Creditors: amounts falling due after one year	(4,725)	-	(4,725)	(2,837)
Net Assets	4,012	232,122	236,134	259,870

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

	2002 \$'000	2001 \$'000
Continuing activities		
Net (outgoing)/incoming resources – unrestricted funds	(152)	3,759
Investment income – unrestricted funds	(141)	(67)
Net unrealised exchange (gain)/loss on unrestricted fund investments	(241)	-
Increase in net creditors - unrestricted funds	4,996	2,091
Effects of foreign exchange on unrestricted cash funds	(4)	-
Net cash inflow from operating activities	4,458	5,783

Notes to the financial statements for the year ended 31 December 2002

17. Capital commitments

The Foundation had no Capital Commitments as at 31 December 2002 (2001: \$ 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

Of the Shell Foundation's current or former trustees listed on page 1, the following four are or were directors or officers of the Royal Dutch/Shell Group: Sir Philip Watts, Mr Harry J M Roels, Mr Jeroen van der Veer, and Miss Jyoti E Munsiff.

20. Contingent liabilities

As at 31 December 2002 the Foundation had a contingent liability of \$3.75 million in respect of its support to EMBARQ (in addition to the grant of \$3.75 million which was awarded during 2002 and included in charitable expenditure for the year). The award of further grants of up to \$3.75 million total, in five 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. The Board of Trustees approved the award of the first additional grant of \$0.75 million in June 2003 as the WRI had met their first target. This new grant of \$0.75 million will be included in charitable expenditure for 2003.