



**SHELL
FOUNDATION**

Shell Foundation

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

Trustees' report and consolidated financial statements for the year ended 31 December 2005

Company Registered Number: 4007273
Charity Registered Number: 1080999

Shell Foundation

Trustees' report and consolidated financial statements for the year ended 31 December 2005

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

www.shellfoundation.org

Shell Foundation

Trustees, directors, officers and advisors

Trustees (who are also directors)

Mr Jeroen van der Veer	Chairman
Mr Malcolm Brinded, C.B.E.	
Sir John Houghton	
Dr William Kalema	Appointed 10 th November 2005
Miss Jyoti Munsiff	
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 2005

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 2005.

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

Status and Administration

Shell Foundation ("the Foundation") is a charitable company limited by guarantee, incorporated on 31 May 2000 (company registration number 4007273) and registered with the Charity Commissioners as a charity on 2 June 2000 (charity registration number 1080999). The consolidated financial statements include the activities of Shell Foundation's 100% subsidiary, the South African Energy Facility (SAEF), registration number 2004/000308/08. This subsidiary was incorporated in South Africa as a Section 21 "not for profit" company on 12 January 2004, with charitable objects similar to those of Shell Foundation.

Objectives

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 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 was not the focus of a specific programme in 2005.
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 objectives anywhere in the world, and its policy is to act as a truly international grant-making Foundation. Its grant-making policies specifically exclude:

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

Governance and Internal Controls

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

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

Report of the Trustees (continued) for the year ended 31 December 2005

Statement of Trustees' Responsibilities

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

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

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

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

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

Risk Management

The Trustees have identified the major risks to which the Foundation might be exposed. Exposure is analysed by plotting on a matrix the likelihood of occurrence (vulnerability) of major risks against the potential consequences of occurrence (impact). The Trustees regularly review this matrix, most recently in their December 2005 Board meeting, and ensure that appropriate controls are in place to mitigate those risks.

Relationship with The Shell Group

To ensure clarity in the relationship of the Shell Foundation to The Shell Group of companies ("Shell Group"), the Board of Trustees includes independent members who have no direct relationship with The Shell Group, known as the "Nominated Trustees". They are selected for their experience of and eminence in the Foundation's field of activities and its objectives. During 2005 Dr William Kalema, a Ugandan national, was nominated as a Trustee.

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

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

Report of the Trustees (continued) for the year ended 31 December 2005

Review of Activities and Achievements

During 2005, donations of \$14.6 million were received from Shell Trading International Ltd (2004: \$13.9 million from Shell Chemicals UK Ltd), a member of the The Shell Group, to cover the 2005 operating and grant-making costs of the Foundation.

As listed in the table below during the year net grants totalling \$4.8 million (2004: \$12.2 million) were awarded by the Foundation to beneficiaries in support of projects fulfilling the objectives of the Foundation's programmes. The trend set in previous years of giving fewer but larger grants continued in 2005 as part of Shell Foundation's strategy of piloting projects and then scaling them up should the pilot prove successful. Larger individual grants require greater preparatory work and this explains the year on year reduction in grants committed between 2004 and 2005. Most of these grants were awarded subsequently in 2006 (as reflected by increased contingent liabilities at 31 December 2005 of \$4.7 million shown in note 21).

In 2005 Shell Foundation channelled support through two major grant-making programmes:

- **The Sustainable Energy Programme:** This programme aims both to increase access by poor people to modern energy services in ways that are financially viable and therefore capable of being scaled up, as well as to reduce the environmental impacts of energy use.

In 2005, efforts were focused on piloting new business-based approaches to tackling Indoor Air Pollution. This was achieved by enhancing market access for the poor to improved cook stoves by providing skills and appropriate finance to support micro-entrepreneurs and small and medium sized enterprises (SME) in the pro-poor energy sector, as well as by working in partnership with a transport specialist (EMBARQ) to introduce sustainable transport solutions in mega cities in Latin America (Mexico City) and Asia (Shanghai) that will significantly reduce congestion and improve air quality.

- **The Sustainable Communities Programme:** This programme aims to develop new market access/supply chain opportunities that enhance sustainable livelihoods among vulnerable communities in developing countries.

The Shell Foundation has been working with selected partners, including the establishment of a new partnership in 2005 with the leading UK retailer Marks and Spencer, to devise new ways of helping producers from poorer countries to gain market access.

Grant Making Highlights

Programme and Grant Making Highlights

As shown on pages 8 and 9, Shell Foundation (including SAEF) awarded new grant commitments of \$4.8 million in 2005. Grant payments of \$10.4 million were made during the year ended 31 December 2005 of which \$1.4 million was in respect of projects approved in 2002, \$2 million for projects approved in 2003, \$4.5 million for projects approved in 2004 and \$2.5 million for new projects approved in 2005.

Highlights of Shell Foundation's grant-making and management in 2005 included:

The Sustainable Energy Programme:

- The Empowerment through Energy Fund in South Africa, which won the Africa Investment Award for Best Initiative in support of the Millennium Development Goals in 2004, has continued its strong performance. The fund now stands at 50 million Rand (\$8 million), of which Shell Foundation has contributed \$1 million, and \$1 million towards capacity building for ETEF. ETEF is a partnership* with Absa Bank, the Industrial Development Corporation (through an EU Risk Capital Facility) and GroFin SA (Pty) Ltd. By early 2006 ETEF had so far provided business development assistance to almost 150 black empowered SMEs in the

Report of the Trustees (continued) for the year ended 31 December 2005

energy sector, and finance to 20 of these enterprises (of which almost 30% were start-ups). It is estimated that this support has created over 350 jobs and improved the livelihoods of some 3,800 people.

- Building on the success of the Uganda Energy Fund, the Shell Foundation and our strategic partner* GroFin Capital successfully established the \$24 million East Africa SME Finance Facility that became operational in September 2005. Through a grant contribution from Shell Foundation in December 2004 of \$1.5 million local management teams were created in both Kenya and Uganda to provide business skills and finance to local SMEs (with a focus on those in the energy sector), with other funding leveraged from international development finance institutions (including CDC, FMO, BIO and Triodos Renewable Energy Development Fund) as well as through co-investment agreements with local banks. This represents the first successful scale-up of a pilot SME fund, and demonstrates the value of combining Business Development assistance with Appropriate Finance.
- The Household Energy and Health projects aim to minimise the negative health effects suffered by poor women and children as a result of the inhalation of smoke from open indoor cooking fires - a problem that currently causes many premature deaths every year in developing countries. By the end of 2005, Shell Foundation pilot projects with partners* in eight countries (in Africa, Asia and Latin America) had resulted in the distribution of 200,000 improved cook stoves to poor households. Of particular note was the distribution of 100,000 improved cookstoves in Ghana by Enterprise Works. In addition, through the input of business development assistance from the Shell Foundation, ARTI (Appropriate Rural Technology Institute) in India was supported in the development of a viable business plan that will lead to the sale of 1.2 million improved cookstoves in India. Through a detailed review of the pilot projects and a comprehensive market analysis, Shell Foundation has prepared a market-based strategy that will target the sale of 20 million cleaner cookstoves to poor households worldwide by 2010.
- In May 2002, EMBARQ signed a Memorandum of Understanding with the city government of Mexico City to tackle local traffic congestion and pollution through the implementation of sustainable transport solutions. Through brokering new partnerships involving civil society and the private sector, a modern 20 kilometre Bus Rapid Transit system was inaugurated on 19 June 2005, carrying over 250,000 people daily in 80 new buses. Following trials using ultra low sulphur diesel (ULSD) and catalytic converters on buses, the Mexican Ministry of Environment and Natural Resources (SEMARNAT) announced in June 2005 a fuel strategy that will raise fuel quality standards to international levels by 2008 coupled with an accelerated programme by PEMEX to produce ULSD. Through parallel efforts in China in 2005, EMBARQ was also successful at securing approval for the construction of a new modern Bus Rapid Transit system in Shanghai.

The Sustainable Communities Programme:

- Following the establishment in 2005 of the new strategic partnership* with Marks and Spencer, the first project was approved that supports poorer farmers in South Africa to develop the skills, capacity and management systems to supply cut flowers that will be retailed in the UK by Marks and Spencer. It is intended that this project will create hundreds of new jobs and enable thousands of disadvantaged workers to gain shares in a newly created company.
- In 2005 the confluence of advocacy, political serendipity and natural disaster rapidly pushed the plight of the world's poor to the forefront of the media. This was witnessed through the "Make Poverty History" campaign, the work of the UK Commission for Africa and the UN Millennium Commission. As a contribution towards this debate, the Shell Foundation published a document in March 2005 entitled "Enterprise Solutions to Poverty". This attracted favourable interest from the media (e.g. BBC World, CNN) and helped stimulate a dialogue about the most effective ways of reducing poverty – permanently.

* *In this report, the term "Partner" or "Partnership" is used in a collaborative sense rather than a legal sense.*

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2005

Consolidated details of all grants committed or awarded by Shell Foundation and its subsidiary SAEF in the year ended 31 December 2005 are listed in the table below. The balance on the grants committed but not paid as at 31 December 2005 will be payable in subsequent financial years (see notes 5, 13 and 14).

<u>PROGRAMME & THEME</u>	<u>GRANTEE</u>	Total Funding \$000 2005
Sustainable Energy Programme	Biodiversity	
	Royal Geographical Society <i>Biodiversity Workshop</i>	48
Climate Challenges	Forum for the Future <i>Biodiversity partnership with Industry workshop</i>	3
	The John Ray Initiative <i>General support on work for environment and development of the "Managing the Future conference"</i>	19
	Third Generation Environmentalism <i>Technology transfer and low carbon futures</i>	176
	Energy Conservation Centre Japan <i>"Small is Profitable" book – production of Japanese version</i>	5
Enhanced Economic Opportunities	Earthscan / James & James <i>Climate Policy Journal</i>	88
	AccountAbility <i>Agenda 21 event</i>	36
Household Energy and Health	The Cambridge Foundation <i>Transforming Business</i>	5
	School of Public Health – University of California at Berkeley <i>Monitoring packages for Household Energy and Health</i>	6
	Winrock International <i>Clean indoor air meeting</i>	23
	IT Power Ltd <i>Grant for launch event for Breathing Space Fund – Kenya</i>	16
	Department of Public Health – University of Liverpool <i>Monitoring packages for Household Energy and Health</i>	30
	Enterprise Works Worldwide Inc <i>Indoor air pollution monitoring in Ghana</i>	36
	Appropriate Rural Technology Institute <i>Commercialisation of improved biomass fuels/ cooking devices</i>	12
	Winrock International Kenya <i>Documenting the viability of Women's group SMEs</i>	12
	Aprovecho Research Centre <i>Fuel efficiency and emissions testing training for pilot projects</i>	200
	National Industrial Credit Bank *† <i>Termination of Kenya Capital Base Fund</i>	(500)
	China Association of Rural Energy Industry <i>Promotion of technology innovation for improved stoves</i>	209
	United Nations Development Programme National Environmental Action Plan <i>Reduction of IAP. Promotion of alternative energy</i>	250
	The Regent of University of California <i>Promotion and dissemination of efficient stoves in China</i>	98
KUSCCO Ltd <i>Breathing Space marketing strategy and sales forecasts</i>	78	
Kenya Women Finance Trust <i>Breathing space sustainable finance for women entrepreneurs</i>	85	

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2005

Investment Partnership	Empowerment through Energy Fund* <i>Reduction of grant made on 25/03/2004</i>	(6)
	GroFin Capital <i>Establishment of SME fund – Nigeria</i>	2,000
Modern Energy Services	Zhejiang University * <i>Reduction of grant made on 18/12/2002</i>	(150)
	The Small Scale Infrastructure Development Fund Inc <i>Development of partnership with finance institution</i>	550
	EnergyNet Ltd <i>Africa Energy Forum</i>	18
	East Africa Briquetting Company Ltd <i>Bio-Briks for Tanzania</i>	120
Sustainable Transport	World Resources Institute (WRI) <i>EMBARQ Challenge grant 2005</i>	750
	<i>Best practice roadmap for BRT business models</i>	54
	Sub-total	4,271
Sustainable Communities Programme		
Biodiversity	Whole Systems <i>Sustainable development in Gabon</i>	65
Counter balance	The Synergos Institute <i>Sustainable Food Laboratory</i>	150
	Harvest Help Ltd <i>Conference – supporting rural communities in South Africa</i>	2
	Flower Valley Conservation Trust <i>Improving livelihoods of communities in Cape Floristic region</i>	300
	Sub-total	517
	Total Grants awarded per Statement of Financial Activities	4,788

* Negative amounts (x) represent a reduction, usually due to the project being completed for less than the grant total originally awarded.

† This grant with the National Industrial Credit Bank (NIC) was terminated by mutual agreement due to a change in the management and policy at NIC that meant they were no longer able to participate in the fund. Shell Foundation continues to search for a different partner for this fund.

Report of the Trustees (continued) for the year ended 31 December 2005

Financial Activities

The Statement of Financial Activities is set out on page 13 of the financial statements.

Reserves

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

Investment Policy and Performance

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

In the second quarter of 2005 the Trustees of the Foundation terminated services from Shell Pension Management Services and consolidated the asset management activities with State Street Global Advisors. This was considered the most prudent response to the proposal by Shell to cease asset management activities in the UK. There was no change in benchmark and the transfer was completed at minimal cost.

Investments are included at closing mid-market value at the balance sheet date. Overall investment performance of the endowment during 2005 showed a positive return of +9.8%, which was in line with the portfolio benchmark return. The good performance was attributable to the continuing rally in world equity markets. The cumulative return since inception to year end 2005 was 27%. The Foundation closed the year within the estimated return range consistent with achieving the long-term financial objectives by December 2010.

Shell Foundation

Report of the Trustees (continued) for the year ended 31 December 2005

Auditors

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

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

PricewaterhouseCoopers have audited Shell Foundation's 'not for profit' subsidiary, South African Energy Facility, which is included within the consolidated financial statements for 2004 and 2005.

By order of the Board

Jyoti E Munsiff
Trustee

August 2006

Independent auditors' report to the member of Shell Foundation

We have audited the financial statements of Shell Foundation for the year ended 31 December 2005 which comprise the statement of financial activities, the income and expenditure account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies therein.

Respective responsibilities of directors and auditors

The directors also act as trustees for the charitable activities of Shell Foundation. As described in the Statement of Trustees' Responsibilities the trustees are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the 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.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 directors 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the charitable company and the group at 31 December 2005 and of the incoming resources and application of resources, including the income and expenditure, and cash flows of the group 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
August 2006

Shell Foundation

Consolidated statement of financial activities for the year ended 31 December 2005

	Note	Unrestricted Funds 2005 \$000	Endowment Funds 2005 \$000	Total Funds 2005 \$000	Total Funds 2004 \$000
Incoming Resources					
Donations	2	14,600		14,600	13,850
Donated Services	2	68		68	
Investment Income	3	438	10,030	10,468	9,760
Voluntary Grant Repayment	4	160		160	
Total Incoming Resources		15,266	10,030	25,296	23,610
Resources Expended					
<i>Cost of generating funds:</i>					
Investment management costs	6		(341)	(341)	(363)
Total cost of generating funds			(341)	(341)	(363)
<i>Charitable Expenditure</i>					
<i>Cost of activities in the furtherance of the charity's objects:</i>					
Grants Payable:					
-Sustainable Energy Programme		(4,271)		(4,271)	(10,385)
-Sustainable Communities Programme		(517)		(517)	(1,197)
-Youth Enterprise Programme					(631)
Total Grants Payable	5	(4,788)		(4,788)	(12,213)
Programme Support Costs					
-Sustainable Energy Programme		(1,786)		(1,786)	(1,343)
-Sustainable Communities Programme		(167)		(167)	(151)
-Awareness Raising Programme		(133)		(133)	
Total Programme Support Costs	6	(2,086)		(2,086)	(1,494)
Management & administration	6	(1,312)		(1,312)	(1,202)
Exchange gains / (losses)	6	(85)	41	(44)	174
Total charitable expenditure		(8,271)	41	(8,230)	(14,735)
Total resources expended		(8,271)	(300)	(8,571)	(15,098)
Net incoming resources before revaluations and investment asset disposals					
Gains on the revaluation and disposal of Investment assets	10		20,051	20,051	18,809
Net Movement in Funds		6,995	29,781	36,776	27,321
Fund balances brought forward at 1 January 2005	15	5,139	302,551	307,690	280,369
Fund balances carried forward at 31 December 2005	15	12,134	332,332	344,466	307,690

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

The accompanying notes form part of these financial statements.

Shell Foundation

Consolidated income and expenditure account for the year ended 31 December 2005

	2005 \$000	2004 \$000
Gross Charitable Income	14,668	13,850
Total Expenditure	(8,571)	(15,098)
Net surplus / (deficit) before investment asset disposals	6,097	(1,248)
Investment Income	10,468	9,760
Other Income	160	
Realised gain / (loss) on investment asset disposals	24,962	(4,594)
Net surplus of income over expenditure for the year	41,687	3,918

Balance sheets as at 31 December 2005

	Note	Shell Foundation 2005 \$000	Shell Foundation 2004 \$000	Shell Foundation Group 2005 \$000	Shell Foundation Group 2004 \$000
Fixed Assets					
Investments (at market value)	10	342,458	308,694	342,458	308,694
Current Assets					
Debtors: amounts falling due within one year	11	2,105	6,256	2,105	6,256
Cash at bank & in hand	12	10,036	8,355	10,218	8,399
		12,141	14,611	12,323	14,655
Creditors: amounts falling due within one year	13	(7,771)	(11,077)	(7,780)	(11,089)
Net Current Assets		4,370	3,534	4,543	3,566
Total Assets less Current Liabilities		346,828	312,228	347,001	312,260
Creditors: amounts falling due after more than one year	14	(2,535)	(4,570)	(2,535)	(4,570)
Net Assets		344,293	307,658	344,466	307,690
Represented by:					
Endowment Funds – including a revaluation reserve in \$000 of 40,165 (2004: 45,319)	16	332,332	302,551	332,332	302,551
Unrestricted Funds	16	11,961	5,107	12,134	5,139
Total Funds		344,293	307,658	344,466	307,690

The accompanying notes form part of these financial statements.

The financial statements on pages 13 to 25 were approved by the trustees and signed on their behalf by:

Jyoti E Munsiff
Trustee

August 2006

Shell Foundation

Consolidated cash flow statement for the year ended 31 December 2005

	Note	2005		2004	
		\$000	\$000	\$000	\$000
Donations received		14,600		13,850	
Grants expensed in year		(4,788)		(12,213)	
Other Expenses		(3,288)		(2,720)	
Creditor Movements (Unrestricted)		(5,314)		3,108	
Revaluation of Bank Accounts		(124)		95	
Net cash inflow from operating activities	17		1,086		2,120
Returns on investments and servicing of finance					
Interest Income Bank accounts		109		45	
Investment Income Fidelity		331		142	
Investment income received endowment funds (excluding dividends reinvested)		6,299		7,837	
Investment income attributable to endowment funds (excluding dividends reinvested)		(6,299)		(7,837)	
Investment income attributable to Voluntary Grant repayments		160		-	
Total returns on investments and servicing of finance			600		187
Capital expenditure and financial investment					
<u>Investing Activities</u>					
Purchase of investments		(85,538)		(60,923)	
Less: Dividends reinvested included in purchases above		3,585		1,765	
Sale of investments		68,825		60,302	
Movement on investments debtor / creditor		4,420		(1,870)	
Bank Charges JP Morgan		(1)		-	
Sale of Investments Fidelity		188		-	
Dividends reinvested Fidelity		(331)		(142)	
<u>Hedging Activities</u>					
Payments on forward foreign exchange contracts	10	(1,392,419)		(1,235,900)	
Proceeds on forward foreign exchange contracts	10	1,395,556		1,227,720	
Realised Loss on foreign exchange		(40)		73	
Cash flow attributable to endowment investments		5,611		6,833	
Total capital expenditure and financial investment			(144)		(2,142)
Net cash inflow before financing			1,542		165
Financing					
Investment income retained within endowment funds		6,299		7,837	
Net cash outflow attributable to endowment investments		(5,611)		(6,833)	
Cash expended on endowment fund fees		(368)		(356)	
Total Financing			320		648
Revaluation of investment cash account			(43)		32
Increase in cash in the year as per Balance Sheet			1,819		845

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2005

1 Accounting Policies

Basis of Preparation

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

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

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

Consolidation

The financial statements consolidate, on a line by line basis, those of Shell Foundation and its wholly-owned South African not for profit subsidiary, the South African Energy Facility. As permitted by paragraph 304 of the Charities SORP, no separate Statement of Financial Activities has been presented for the Foundation alone. The net incoming resources and net movement in funds of the Foundation were (in \$000s) 16,584 (2004: 9,317) and 36,636 (2004: 27,289) respectively. The disclosures listed in paragraph 315 of the Charities SORP have not been given, as the subsidiary is not material to the group.

Fund Accounting

Funds held by the charity are either:

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

Incoming Resources

Donations and investment income are included in the Statement of Financial Activities when the charity is legally entitled to the income. Donated services, if applicable, are included in income at a valuation, which is an estimation of the financial cost borne by the donor. During the year services valued at \$68,000 were donated by J Walter Thompson.

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

Resources Expended

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

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

Investment Management Costs

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

Notes to the financial statements (continued) for the year ended 31 December 2005

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 payments were outstanding at the year-end are shown as liabilities in the Balance Sheet. The commitments are not discounted. In the event that Shell Foundation creates a valid expectation that it will enter into a new grant commitment (which would require the signing of a new LOU) upon the achievement of specified conditions which may or may not be met at some future time, then that potential commitment is treated as a contingent liability.

Programme Support Costs

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

Management and Administration

Management and administration comprises direct and indirect costs for the running of the charity itself as an organisation as distinct from directly pursuing its charitable activities. Direct costs include such items as external audit, legal advice for trustees and costs associated with constitutional and statutory requirements. Indirect costs include a proportion of management (and other staff) time and overhead costs connected with it, for example office and communication costs (see note 6).

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 Shell Foundation on its expenditure is not recoverable, as the charity does not make any taxable supplies. Irrecoverable VAT is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Gains and Losses on Foreign Exchange

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

Investments

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

Notes to the financial statements (continued) for the year ended 31 December 2005

Currency Hedging Policy

The Shell 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. 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

	2005 \$000	2004 \$000
Cash		
Corporate Donations:		
Shell Trading International Ltd	14,600	
Shell Chemicals UK Ltd		13,850
In Kind		
J Walter Thompson	68	
	14,668	13,850

3 Investment income

	Shell Foundation 2005 \$000	Shell Foundation 2004 \$000	Shell Foundation Group 2005 \$000	Shell Foundation Group 2004 \$000
Interest on Cash Deposits	438	187	438	187
Fixed Interest Securities	5,517	6,197	5,517	6,197
Dividends	4,513	3,376	4,513	3,376
	10,468	9,760	10,468	9,760

4 Voluntary repayments

	Shell Foundation 2005 \$000	Shell Foundation 2004 \$000	Shell Foundation Group 2005 \$000	Shell Foundation Group 2004 \$000
Voluntary part repayment of grant from Empowerment through Energy Fund			160	
			160	

Shell Foundation provided a grant of one million US dollars to The South African Energy Facility (SAEF) on 28 November 2003. SAEF in turn awarded this amount as a grant to Empowerment through Energy Fund (ETEF) as a risk capital contribution. ETEF is a pro-poor trust with a limited life of seven years. In view of the good performance of ETEF, the Trustees of ETEF agreed that a payment be made to its donors and investors in proportion to their original contributions. This is in line with the original intention of SAEF's grant to ETEF that any monies received back from ETEF would be re-distributed into further pro-poor charitable activities in South Africa.

Notes to the financial statements (continued) for the year ended 31 December 2005

5 Grants Payable

	Shell Foundation 2005 \$000	Shell Foundation 2004 \$000	Shell Foundation Group 2005 \$000	Shell Foundation Group 2004 \$000
Grants payable brought forward	(14,623)	(10,886)	(14,623)	(10,886)
Payments	10,376	8,526	10,376	8,476
Grants payable within 1 year	6,500	10,053	6,500	10,053
Grants payable after 1 year	2,535	4,570	2,535	4,570
	4,788	12,263	4,788	12,213

A full list of grants awarded in the year ended 31 December 2005 is included in the Trustees' Report (pages 8 and 9).

6 Resources expended

	Manpower Related Costs \$000	Other Costs \$000	2005 \$000	2004 \$000
Investment management costs		341	341	363
Grants Payable		4,788	4,788	12,213
Programme support costs	703	1,383	2,086	1,494
Management & administration	729	583	1,312	1,202
Exchange loss / (gain)		44	44	(174)
	1,432	7,139	8,571	15,098

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

	2005 \$000
Grant Related Consultancy and professional fees	910
Communications related consultancy and professional fees	369
Travel and accommodation expenses	338
Publishing and advertising expenditure	141
Consultancy and professional fees	138
SAEF operating costs / professional fees	20
Other	50
	1,966

Notes to the financial statements (continued) for the year ended 31 December 2005

7 Net incoming resources

	2005 \$000	2004 \$000
<hr/>		
Net incoming resources is stated after charging:		
Auditors remuneration for audit services	32	29
Auditors remuneration for other professional advice		20
	32	49

8 Employee and Trustee information

The Foundation has no direct employees.

No trustee received any remuneration from the charity during the year. The Foundation directly incurred or reimbursed travel expenses in relation to three trustees totalling \$8,809 (2004: \$2,000 in respect of two 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 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 2005

10 Investments – charity and group

	Market Value 01-Jan-05 \$000	Purchases at cost/ Deposits \$000	Sale Proceeds/ Withdrawals \$000	Gains/ (Losses) \$000	Market Value 31-Dec-05 \$000
Equities					
UK	10,309	10,347	(20,435)	(221)	-
Europe	18,324	18,546	(36,160)	(710)	-
North America	50,430	52,867	(102,453)	(844)	-
Japan	9,064	8,695	(17,191)	(568)	-
Far East	961	1,390	(2,344)	(7)	-
Australasia	2,264	2,299	(4,543)	(20)	-
Other	232	250	(500)	18	-
	91,584	94,394	(183,626)	(2,352)	-
Fixed Interest Securities					
UK public sector quoted	7,241	13,221	(10,127)	(753)	9,582
Overseas public sector quoted	113,632	120,502	(109,262)	(10,230)	114,642
Overseas quoted	-	206	-	(8)	198
	120,873	133,929	(119,389)	(10,991)	124,422
Pooled Investment Vehicles					
UK	-	-	-	-	-
Overseas	96,474	98,645	(7,240)	15,927	203,806
	96,474	98,645	(7,240)	15,927	203,806
Forward Foreign Exchange Contracts	(10,859)	1,392,419	(1,395,556)	17,467	3,471
In Specie Transfers		(241,430)	241,430	-	-
Sub-Total	298,072	1,477,957	(1,464,381)	20,051	331,699
Cash invested in Institutional					
Cash Funds	10,622	331	(188)	(6)	10,759
Totals	308,694	1,478,288	(1,464,569)	20,045	342,458

In Specie transfers represent the transfer of investment funds between fund managers in 2005, from Shell Pension Management Ltd to State Street Global Advisors at the 31st May 2005 (see page 10).

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2005

11 Debtors – charity and group

	Shell Foundation	Shell Foundation	Shell Foundation Group	Shell Foundation Group
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Amounts falling due within one year:				
Other Debtors	2,105	6,256	2,105	6,256

Other debtors primarily relate to investment activities.

12 Cash at bank and in hand – charity and group

	Shell Foundation	Shell Foundation	Shell Foundation Group	Shell Foundation Group
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Cash at Bank	10,036	8,355	10,218	8,399

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

13 Creditors: amounts falling due within one year

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

	Shell Foundation	Shell Foundation	Shell Foundation Group	Shell Foundation Group
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Grants Payable	6,500	10,053	6,500	10,053
Trade Creditors – Shell International Ltd	346	248	346	248
Accruals – Shell International Ltd	925	776	925	776
Accruals – Other			9	12
	7,771	11,077	7,780	11,089

Shell Foundation

Notes to the financial statements (continued) for the year ended 31 December 2005

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

	Shell Foundation 2005 \$000	Shell Foundation 2004 \$000	Shell Foundation Group 2005 \$000	Shell Foundation Group 2004 \$000
Total Grants payable	9,035	14,623	9,035	14,623
Less amounts falling due within one year (note 13)	(6,500)	(10,053)	(6,500)	(10,053)
	2,535	4,570	2,535	4,570
Represented by:				
Grants payable in greater than one year but less than two years	1,725	2,640	1,725	2,640
Grants payable in greater than two years	810	1,930	810	1,930
	2,535	4,570	2,535	4,570

15 Group Funds

	Balance Bfwd \$000	Incoming Resources \$000	Resources Expended \$000	Investment Gain/(losses) \$000	Balance Cfwd \$000
Endowment Funds	302,551	10,030	(300)	20,051	332,332
Unrestricted Funds	5,139	15,266	(8,271)		12,134
	307,690	25,296	(8,571)	20,051	344,466

16 Analysis of net assets between funds

	Note	Unrestricted Funds 2005 \$000	Endowment Funds 2005 \$000	Shell Foundation Group 2005 \$000	Shell Foundation Group 2004 \$000
Fixed Assets					
Investments (at market value)	10	14,338	328,120	342,458	308,694
Current Assets					
Debtors: amounts falling due within one year	11		2,105	2,105	6,256
Cash at bank & in hand	12	8,111	2,107	10,218	8,399
Creditors: amounts falling due within one year	13	(7,780)		(7,780)	(11,089)
Net Current Assets		331	4,212	4,543	3,566
Total Assets less Current Liabilities		14,669	332,332	347,001	312,260
Creditors: amounts falling due after more than one year	14	(2,535)		(2,535)	(4,570)
Net Assets		12,134	332,332	344,466	307,690

Notes to the financial statements (continued) for the year ended 31 December 2005

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

	Shell Foundation Group 2005 \$000	Shell Foundation Group 2004 \$000
Continuing activities		
Net incoming / (outgoing) resources - unrestricted funds	6,995	(789)
Investment income - unrestricted funds	(331)	(142)
Net unrealised exchange (gain) / loss on unrestricted investment funds	6	(15)
Increase in net creditors – unrestricted funds	(5,314)	3,111
Voluntary Grant repayment	(160)	
Interest Income on bank accounts	(109)	(45)
Difference in exchange on brought forward balances	(1)	
	1,086	2,120

18 Capital commitments

The Foundation had no Capital Commitments as at 31 December 2005 (2004: \$ nil).

19 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.

20 Related party transactions

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

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

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

On 10 November 2005 Dr William Kalema was appointed to the Board of Trustees. Since 1998, Dr Kalema has been Board Chairman of the Development Finance Company of Uganda (DFCU) and of its related financial institutions. In January 2003, prior to Dr Kalema taking up his position as a Trustee, the Shell Foundation had approved a grant agreement with DFCU that leveraged a matched funding contribution to the establishment of the Uganda Energy Fund. Building on the success of the Uganda Energy Fund, the Managing Director of DFCU confirmed on 29 March 2005 that they were keen to contribute co-investment towards the East Africa SME Fund established by Shell Foundation and GroFin. Subsequently, DFCU signed a co-investment agreement in March 2006 to participate in this Fund. Following on from his role as a member of the UK Africa Commission in 2005, Dr Kalema became a Trustee of the Investment Climate Facility, to which the Trustees of Shell Foundation approved in December 2005 a commitment to support this multi-donor initiative (note 21).

Notes to the financial statements (continued) for the year ended 31 December 2005

21 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 31st December 2005 there were contingent liabilities in the form of formal offers (“Letters of Understanding”) issued but pending acceptance that have not been included in the Balance Sheet. All accepted offers of grants have been included in charitable expenditure for the year.

As at 31 December 2005 the Foundation had contingent liabilities of \$4,650,000 in respect of the following:

<u>Organisation</u>	<u>\$000</u>
A. Crestar Capital Private Ltd. This grant reduction had been sent out to the Grantee by the 31 st December 2005 but had not yet been received back signed. It was therefore not included in the 2005 accounts but has subsequently been received back and will appear in the 2006 accounts.	(77)
B. Imperial College. This grant had been sent out to the Grantee by the 31 st December 2005 but had not yet been received back signed. It was therefore not included in the 2005 accounts but has subsequently been received back and will appear in the 2006 accounts.	1,727
C. EMBARQ project. This is in addition to the grants of \$3.75 million awarded in 2002, \$0.75 million in 2003, \$0.472 million in 2004 and of \$0.75 million in 2005 (which were included in charitable expenditure for the respective years). The award of further grants of up to \$1.5 million in total, in two equal instalments of \$0.75 million each, is conditional upon the future performance of the grantee, World Resources Institute (WRI), meeting certain targets.	1,500
D. Investment Climate Facility Africa (ICF) – On 15 th November 2005 the Trustees of Shell Foundation entered into a contingent liability with the Investment Climate Facility Africa, a UK government backed development initiative. The total commitment of \$1.5 million is to be awarded across 5 years. The first three years’ commitments are for \$0.3 million per annum subject to satisfactory annual performance of the ICF. It is also our understanding that subject to satisfactory performance of the ICF that there will be an additional financial commitment of \$0.3 million per annum for years 4 and 5.	1,500
	<u>4,650</u>

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