

Registration number: 04162523

Shell Energy Europe Limited

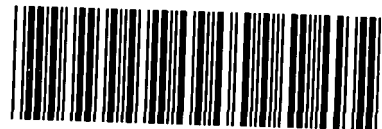
Annual Report

and

Financial Statements

For the year ended 31 December 2018

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Shell Energy Europe Limited

Contents

Strategic report	1 to 2
Directors' report	3 to 5
Independent Auditor's report	6 to 8
Profit and loss account	9
Balance sheet	10
Statement of changes in equity	11
Notes to the financial statements	12 to 30

Shell Energy Europe Limited

Strategic report for the year ended 31 December 2018

The Directors present their strategic report on Shell Energy Europe Limited (also referred to as the "Company") for the year ended 31 December 2018.

The Company is one of the entities within the "Shell Group". In this context the term "Shell Group" and "Companies of the Shell Group" or "Group companies" means companies where Royal Dutch Shell plc, either directly or indirectly, is exposed to, or has rights to, variable returns from its involvement with the Company and has the ability to affect those returns through its power over the Company. Companies in which Group companies have significant influence but not control are classified as "Associated companies". Royal Dutch Shell plc, a company incorporated in England and Wales, is known as the "Parent Company" of the Shell Group. In this report "Shell", "Shell Group" and "Royal Dutch Shell" are sometimes used for convenience where references are made to Royal Dutch Shell and its subsidiaries in general. These expressions are also used where no useful purpose is served by identifying the particular company or companies.

Business review

The principal activities of Shell Energy Europe Limited are trading and marketing gas and electricity across Europe. The subsidiary of the Company, Shell Energy Supply UK Limited is associated as a nominated electricity supplier.

The functional and presentational currency of the financial statements is Euros because the majority of the Company's income and expense is denominated in Euros.

During the year the Company purchased a portfolio of contracts which included gas supply contracts as well as storage and upstream transport contracts, from Shell Erdgas Marketing GmbH & Co. KG for a consideration of €19 million. The Company's profit for the financial year ended 31 December 2018 was €72 million (2017: €129 million). This decline in the profit from the prior year was principally due to a decline in the mark to market losses for the year by €51 million, this is offset by an increase in the emissions trading margin of €12 million, power transmission income by €8 million and a gain in the foreign exchange transactions by €9 million. This decline was further enhanced by an increase in the administrative expenses, net of recoveries by €20 million, a provision towards doubtful debts created amounting to €30 million, and a resulting decrease in the tax charge by €14 million. Net Assets at 31 December 2018 were €706 million (2017: €1,142 million.).

The Directors consider that the year end financial position of the Company was satisfactory.

Shell Energy Europe Limited

Strategic report for the year ended 31 December 2018 (continued)

Principal risks and uncertainties

The Shell Group has a single risk based control framework - The Shell Control Framework - to identify and manage risks. The Shell Control Framework applies to all wholly owned Shell companies and to those ventures and other companies in which Royal Dutch Shell has directly or indirectly a controlling interest. From the perspective of the Company, the principal risks and uncertainties affecting the Company are considered to be those that affect the Shell Group. Accordingly, the principal risks and uncertainties of the Shell Group, which are discussed on pages 15 to 20 of Royal Dutch Shell's Annual Report and Form 20-F for the year ended 31 December 2018 (the "Group Report"), include those of the Company. (The Group Report does not form part of this report).

Key Performance Indicators

Companies of the Shell Group comprise the Upstream businesses of Exploration and Production, Integrated Gas and Oil Sands and the Downstream businesses of Oil Products and Chemicals. The Company's key performance indicators, that give an understanding of the development, performance and position of the business, are aligned with those of the Shell Group. The development, performance and position of the various businesses is discussed on pages 29 to 61 of the Group Report and the key performance indicators through which the Group's performance is measured are as set out on pages 27 to 28 of the Group Report.

Human Rights

Respect for human rights is embedded in the Shell Group's Business Principles and Code of Conduct. This approach is informed by the Universal Declaration of Human Rights, the core conventions of the International Labour Organization and the United Nations' Guiding Principles on Business and Human Rights.

The Shell Group works closely with other companies and non-governmental organisations to continuously improve the way it applies these principles, with a focus on four key areas: communities, security, labour rights, and supply chain. The Shell Group has systems and processes in place for managing projects, contracting and procurement, recruitment and employment, security and social performance and requires all Group companies and contractors to respect the human rights of their workforce and neighbouring communities.

The Shell Group's Modern Slavery Statement provides more details about the process applied. It can be found at www.shell.com/uk-modern-slavery-act.html.

Approved by the Board on 31 July 2019 and signed on its behalf by:

D. Wells
Director



Shell Energy Europe Limited

Directors' report for the year ended 31 December 2018

The Directors present their report and the financial statements for the year ended 31 December 2018.

The Directors' report and audited financial statements of the Company have been prepared in accordance with the Companies Act 2006.

Dividends

The Company paid a dividend of €209 million in the year (2017: Nil).

Future Outlook

Areas of focus for 2019 are the opportunities presented by further gas and power liberalisation across Europe and operational optimisation of existing businesses. The Directors believe that the balances held will be realised at their reported carrying value in the normal course of business and so the accounts continue to be prepared on a going concern basis.

Directors of the Company

The Directors, who held office during the year, and to the date of this report (except as noted) were as follows:

D. Wells

H. J. Stinis

S. Liow (resigned 15 April 2019)

M. Plaum (appointed 7 June 2019)

Shell Energy Europe Limited

Directors' report for the year ended 31 December 2018 (continued)

Financial risk management

The Company's Directors are required to follow the requirements of Shell Group risk management policies, which include specific guidelines on the management of market, credit and liquidity risk, and advice on the use of financial instruments to manage them. Shell Group risk management policies can be found in the Group Report (see pages 103 to 104 and note 19).

Financial risks that are specific to the Company are discussed in note 3 of the Notes to Financial statements.

The Company's risk management policies require the management of exposures in respect of price, timing and currency risks that arise from its energy trading business activities. The Company uses a range of conventional derivative financial instruments available in related commodity markets to manage these risks. These instruments include forward contracts, swaps, options and futures.

The main financial risks faced by the Company through its normal business activities are market price risk, credit risk and cash flow / liquidity risk. These risks and the Company's approach to dealing with them are discussed below.

Market risk is the possibility that changes in natural gas and power prices or currency exchange rates will adversely affect the value of the Company's financial assets, liabilities or expected future cash flows. The Company has established policies, mandates and exposure limits in order to limit these risks. The Company enters into various transactions using derivative financial instruments to manage these risks, there are established processes to ensure close financial and management control around the use of these instruments. The control framework includes; regular review of mandated trading limits by senior management, daily monitoring of risk exposure using value-at-risk principles and marking to market of all trading exposures with independent finance review of the market values applied to trading exposures.

Credit risk is the potential exposure of the Company to loss in the event of non-performance by a counterparty. The Company controls credit risk through credit approvals, limits, use of netting arrangements, prepayments, collateral and monitoring procedures. Counterparty credit checks, independent of the traders, are undertaken before contractual commitment.

Cash flow / liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. The Company actively maintains a funding arrangement with Shell Treasury Centre Limited, this allows for both short-term borrowings and short term deposits.

Shell Energy Europe Limited

Directors' report for the year ended 31 December 2018 (continued)

Statement of Directors' responsibilities

The Directors acknowledge their responsibilities for preparing the Strategic report, Directors' report and the Company's financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on 31 July 2019 and signed on its behalf by:



.....
D. Wells
Director

Independent Auditor's report to the Member of Shell Energy Europe Limited

Opinion

We have audited the financial statements of Shell Energy Europe Limited (the "Company") for the year ended 31 December 2018, which comprise the Profit and loss account, Balance sheet, Statement of changes in equity, and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's report to the Member of Shell Energy Europe Limited (continued)

Other information

The other information comprises the information included in the annual report [set out on pages 1 to 5], other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's report to the Member of Shell Energy Europe Limited (continued)

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

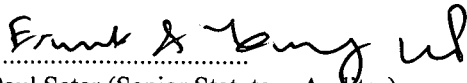
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our Report

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.


.....
Paul Sater (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: 2 August 2019

Shell Energy Europe Limited

Profit and loss account for the year ended 31 December 2018

Continuing operations

	Note	2018 € 000	2017 € 000
NET TRADING PROFIT		234,986	267,210
Administrative expenses		(138,184)	(89,441)
Other expenses		<u>(8,037)</u>	<u>(17,287)</u>
OPERATING PROFIT	6	<u>88,765</u>	<u>160,482</u>
PROFIT BEFORE INTEREST AND TAXATION		88,765	160,482
Interest receivable and similar income	4	691	706
Interest payable and similar charges	5	<u>(579)</u>	<u>(240)</u>
PROFIT BEFORE TAXATION		88,877	160,948
Tax on profit	8	<u>(16,547)</u>	<u>(31,662)</u>
PROFIT FOR THE YEAR		<u><u>72,330</u></u>	<u><u>129,286</u></u>


The profit for the current year and for the prior year are equal to the total comprehensive income and accordingly a statement of comprehensive income has not been presented.

Shell Energy Europe Limited

(Registration number: 04162523)
Balance sheet as at 31 December 2018

	Note	2018 € 000	2017 € 000
Fixed assets			
Tangible assets	9	-	-
Investments	10	-	-
		<u>-</u>	<u>-</u>
Current assets			
Stock	11	527,910	283,584
Debtors	12	2,278,760	2,152,265
Cash at bank and in hand		53,442	830
Derivatives	3	<u>1,291,781</u>	<u>1,013,856</u>
		4,151,893	3,450,535
Creditors: Amounts falling due within one year	13	<u>(3,434,364)</u>	<u>(2,307,371)</u>
Net current assets		<u>717,529</u>	<u>1,143,164</u>
Total assets less current liabilities		<u>717,529</u>	<u>1,143,164</u>
Creditors: Amounts falling due after more than one year	14	(1,179)	(321)
Provisions	15	<u>(10,177)</u>	-
Net assets		<u>706,173</u>	<u>1,142,843</u>
Equity			
Called up share capital	16	633,000	933,000
Profit and loss account		<u>73,173</u>	<u>209,843</u>
Total equity		<u>706,173</u>	<u>1,142,843</u>

The financial statements on pages 9 to 30 were authorised for issue by the Board of Directors on 31 July 2019 and signed on its behalf by:


.....
D. Wells
Director

Shell Energy Europe Limited

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital € 000	Profit and loss account € 000	Total € 000
Balance as at 01 January 2017	933,000	80,557	1,013,557
Profit for the year	-	129,286	129,286
Total comprehensive income for the year	-	129,286	129,286
Balance as at 31 December 2017	933,000	209,843	1,142,843
Balance as at 01 January 2018	933,000	209,843	1,142,843
Profit for the year	-	72,330	72,330
Total comprehensive income for the year	-	72,330	72,330
Capital reduction	(300,000)	-	(300,000)
Dividends paid (refer note 17)	-	(209,000)	(209,000)
Balance as at 31 December 2018	633,000	73,173	706,173

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018

General information

The Company is a private company limited by share capital incorporated in England and Wales.

The address of its registered office is: Shell Centre, London, SE1 7NA, United Kingdom.

1 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework, which involves the application of International Financial Reporting Standards ("IFRS") with a reduced level of disclosure. The financial statements have been prepared under the historical cost convention, except for certain items measured at fair value, and in accordance with the Companies Act 2006.

As applied to the Company, there are no material differences between EU endorsed IFRS and IFRS as issued by the International Accounting Standards Board.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except for the adoption of IFRS 9 and IFRS 15.

New standards applied

The adoption of IFRS 9 and IFRS 15 has had no material impact on the Company's retained earnings or balance sheet as at 1 January 2018.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The following exemptions from the disclosure requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

- (i) paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements';
- (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment';
- (iii) paragraph 118(e) of IAS 38 'Intangible assets' (reconciliation between the carrying amount at the beginning and end of the period);
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - (i) 10(d), (statement of cash flows);
 - (ii) 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
 - (iii) 16 (statement of compliance with all IFRS);
 - (iv) 38A (requirement to present a minimum of two statements for each of the primary financial statements, including cash flow statements and related notes);
 - (v) 38B-D (additional comparative information);
 - (vi) 40A-D (requirements for a third balance sheet);
 - (vii) 111 (cash flow statement information); and
 - (viii) 134-136 (capital management disclosures)
- The following paragraphs of IFRS 15, 'Revenue from Contracts with Customers':
 - (i) the requirements of the second sentence of paragraph 110 (qualitative and quantitative information about contracts with customers, significant judgements, changes in judgements in applying this standard to those contracts, and assets recognised from the costs to obtain or fulfil a contract);
 - (ii) paragraph 113(a) (revenue recognised from contracts with customers);
 - (iii) paragraphs 114 and 115 (disaggregation of revenue);
 - (iv) paragraph 118 (changes in contract asset and liability);
 - (v) paragraphs 119(a) to (c) and 120 to 127 (performance obligations); and
 - (vi) paragraph 129 (practical expedients);
- IAS 7, 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Consolidation

The financial statements contain information about Shell Energy Europe Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Royal Dutch Shell plc, a company incorporated in England and Wales.

The immediate parent company is Shell Trading International Limited.

The ultimate parent company and controlling party is Royal Dutch Shell plc, which is the parent undertaking of the smallest and largest group to consolidate these accounts.

The consolidated accounts of Royal Dutch Shell plc are available from:

Royal Dutch Shell plc
Tel: +31 888 800 844
email: order@shell.com
Registered office: Shell Centre, London, SE1 7NA

Taxation

Tax is recognised in profit or loss, except that tax attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income or directly in equity.

Current tax

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date for tax payable to HM Revenue and Customs, or for group relief to surrender to or to be received from other Group undertakings, and for which payment may be requested.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised when, on the basis of the most recent available evidence, it is regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Amounts relating to deferred tax are undiscounted.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in '€' (EURO), which is also the Company's functional currency.

(ii) Transaction and balances

Income and expense items denominated in foreign currencies are translated into € at the rate ruling on their transaction date.

Monetary assets and liabilities recorded in foreign currencies have been expressed in € at the rates of exchange ruling at the year end. Differences on translation are included in the profit and loss account. Non-monetary assets and liabilities denominated in a foreign currency are translated using exchange rates at the date of the transaction. No subsequent translations are made once this has occurred.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. A review for the potential impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of a fixed asset may not be recoverable. If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell and value in use. Value in use is determined as the amount of estimated risk-adjusted discounted future cash flows. For this purpose, assets are grouped into cash-generating units based on separately identifiable and largely independent cash inflows. Any impairments are recorded in the profit and loss account.

If, after an impairment loss has been recognised, the recoverable amount of a fixed asset increases because of a change in economic conditions or in the expected use of the asset, the resulting reversal of the impairment loss is recognised in the current year to the extent that it increases the carrying amount of the fixed asset up to the amount it would have been had the original impairment not occurred.

Depreciation and impairment are not normally charged on assets under construction or on freehold land. In the case of these assets, an impairment review would only be undertaken if, and only if, there was a change in circumstances indicating that the carrying amount of the asset may not be recoverable.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Financial instruments

Financial assets

Financial assets are classified at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets is determined by the contractual cash flows and where applicable the business model for managing the financial assets.

A financial asset is measured at amortised cost if the objective of the business model is to hold the financial asset in order to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. Financial assets at amortised cost are initially recognised at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently the financial asset is measured using the effective interest method less any impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. All equity instruments and other debt instruments are recognised at fair value. For equity instruments, on initial recognition, an irrevocable election (on an instrument-by-instrument basis) can be made to designate these as at FVOCI (without recycling to profit and loss) instead of FVTPL. Dividends received on equity instruments are recognised as other income in profit or loss when the right of payment has been established, except when the company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income.

Financial liabilities

Financial liabilities are measured at amortised cost, unless they are required to be measured at FVTPL, such as instruments held for trading, or the Company has opted to measure them at FVTPL. Debt and trade creditors are recognised initially at fair value based on amounts exchanged, net of transaction costs, and subsequently at amortised cost. Interest expense on debt is accounted for using the effective interest method and is recognised in income.

Derivative contracts

Derivative contracts are held at fair value. Gains or losses arising from changes in fair value are recognised in the profit and loss account within net trading profit in the period in which they arise.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Investment in subsidiaries and participating undertakings

These comprise investments in shares and loans that the Company intends to hold on a continuing basis. The investments in subsidiaries and participating undertakings are stated at cost, less provisions for impairment. The Company carries out a review for the potential impairment of an investment if events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. Such impairment reviews are performed in accordance with IAS 36. Any impairments are recorded in the profit and loss account.

If, after an impairment loss has been recognised, the recoverable amount of a fixed asset increases because of a change in economic conditions or in the expected use of the asset, the resulting reversal of the impairment loss is recognised in the current year to the extent that it increases the carrying amount of the fixed asset up to the amount it would have been had the original impairment not occurred.

Stock

For the measurement of gas stocks held for trading purposes, the Company applies the exception for commodity broker-traders under IAS 2. Accordingly, gas stock held for trading purposes are included in the balance sheet at fair value, with fair value movements being recognised in net trading profit. Fair value is based generally on market prices or broker quotations. To the extent that prices are not readily available fair value is based either on internal valuation models or management's estimate of amounts that could be realised under current market conditions. (see note 2).

Net trading profit

The company earns revenue from the sale of All commodity contracts and derivative financial instruments entered into by the Company as part of its energy trading activities are recognised in the financial statements on the date of trade. Net trading profit includes realised gains on all settled gas, electricity and transport contracts. All open contracts are included at fair value and unrealised gains and losses are recognised in net trading profit.

The Directors consider that turnover is not a meaningful measure of the results of the Company and that this is best represented by net trading profit. Net trading profit represents net profits from the trading of gas and electricity. The Company has only one class of business, that of trading gas and electricity in Europe. This revenue is recognised in the accounting period when control of the product has been transferred, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value at a rate intended to reflect the time value of money where the effect of time value of money is material.

Netting off policy

Balances with other companies are stated gross, unless both of the following conditions are met:

- (i) Currently there is a legally enforceable right to set off the recognised amounts; and
- (ii) There is intent either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic life of tangible fixed assets

Depreciation of tangible fixed assets is calculated using management's assessment of the useful economic lives of the underlying assets. Upon purchase or construction of an asset, useful economic life is assessed by reference to a number of underlying assumptions, including the economic lives of other similar assets. As the economic benefit of the assets is consumed over the course of its life, revisions to the useful life of the asset may be made upon assessment of changes in the operating environment or the condition of the asset itself.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

Stock provision

In the course of management's assessment of the recoverability of stock balances, assumptions are made over the expected economic benefit to be derived from stock assets. These include, but are not limited to, future gas and electricity prices; exchange rates and other economic indices. Provisions are made where management do not believe that the book value of the stock will be recovered through sale or use, the value of which will change in line with the underlying economic indicators that influence the market for such goods.

Provision for expected credit losses of trade debtors

The Company computes probability of default rates for third party trade debtors based on historical loss experience adjusted for current and forward looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. For intra-group trade debtors, the Company uses an internal credit rating to determine the probability of default. Internal credit ratings are based on methodologies adopted by independent credit rating agencies.

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

3 Financial instruments

The Company has the following financial asset and liabilities measured at fair value through profit or loss:

	2018 € 000	2017 € 000
Derivative financial liabilities	(1,209,361)	(930,856)
Derivative financial assets	1,291,781	1,013,856

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Financial instruments (continued)

The Company, in the normal course of the business, uses financial instruments of various kinds for the purposes of managing exposure to currency, commodity price and interest rate movements.

The Company has a treasury policy consistent with the Shell Group Treasury Guidelines. These policies cover financial structure, foreign exchange and interest rate risk management as well as the treasury control framework. The use of financial instruments for managing exposures has been successful during the year and the Company will use financial instruments, where required, to manage exposures in future periods. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The Company enters into commodity swap contracts to mitigate the commodity price risk. At 31 December 2018, the outstanding contracts all mature within 37 months (2017: 27 months) of the year end.

Contracts are typically valued using price curves for each of the different products that are built up from active market pricing data. Where limited data exists for certain products, prices are interpolated using historic and long-term pricing relationships. Certain contracts are valued in part using active quotes and in part using observable, market-corroborated data. A limited number of contracts are valued in part using internal models due to the absence of quoted prices, including over-the-counter options.

Derivative instruments as at 31 December 2018

	Fair value- current assets and liabilities € 000	Fair value- non-current assets and liabilities € 000
Derivative financial assets		
Commodity swaps	69,584	-
Commodity options	24,852	-
Foreign exchange contracts	8,906	1,576
Commodity physical contracts	1,186,863	-
Total	1,290,205	1,576

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Financial instruments (continued)

	Fair value- current assets and liabilities € 000	Fair value- non-current assets and liabilities € 000
Derivative financial liabilities		
Commodity swaps	(75,450)	-
Commodity options	(6,194)	-
Foreign exchange contracts	(6,523)	(1,179)
Commodity physical contracts	(1,120,015)	-
Total	<u>(1,208,182)</u>	<u>(1,179)</u>

Derivative instruments as at 31 December 2017

	Fair value- current assets and liabilities € 000	Fair value- non-current assets and liabilities € 000
Derivative financial assets		
Commodity swaps	147,232	-
Commodity Options	17,939	-
Foreign exchange contracts	8,167	265
Commodity physical contracts	840,253	-
Total	<u>1,013,591</u>	<u>265</u>

Derivative financial liabilities		
Commodity swaps	(28,479)	-
Commodity Options	(7,346)	-
Foreign exchange contracts	(19,793)	(321)
Commodity physical contracts	(874,917)	-
Total	<u>(930,535)</u>	<u>(321)</u>

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

4 Interest receivable and similar income

	2018 € 000	2017 € 000
Interest from Group undertakings:		
Fellow subsidiary undertakings	34	15
Interest from banks and similar income	657	691
	<u>691</u>	<u>706</u>

5 Interest payable and similar charges

	2018 € 000	2017 € 000
Interest on loans from Group undertakings:		
Fellow subsidiary undertakings	516	118
Other interest payable	63	122
	<u>579</u>	<u>240</u>

6 Operating profit

Arrived at after charging/(crediting):

	2018 € 000	2017 € 000
Wages and salaries including social security costs	75,435	73,772
Provision for doubtful debts	30,429	-
Depreciation:		
On owned assets	-	1,131
Recharge of costs incurred to group undertakings	(7,089)	(12,194)

The employees' contracts of service are with Shell International Trading and Shipping Company Limited and costs have been charged to the Company. The monthly average number of persons working on behalf of the Company in 2018 was 182 (2017: 147). All persons were employed in the United Kingdom and were principally involved in the energy trading business.

None of the Directors received any emoluments (2017: none) in respect of their services to the Company.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

7 Auditor's remuneration

The Auditor's remuneration of €45,521 (2017: €44,590) in respect of the statutory audit was borne by the immediate parent company for both the current and preceding years.

Fees paid to the Company's auditors and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of the Company because the Royal Dutch Shell plc consolidated accounts are required to disclose such fees on a consolidated basis.

8 Tax on profit

Tax charge in the profit and loss account

The tax charge for the year of €16,547,104 (2017: €31,661,834) is made up as follows:

	2018 € 000	2017 € 000
Current taxation		
UK corporation tax	16,235	31,040
UK corporation tax adjustment to prior periods	1,306	1,040
Foreign tax	-	42
Total current tax charge	<u>17,541</u>	<u>32,122</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(120)	(314)
Arising from adjustment in respect of prior periods	(886)	(183)
Arising from changes in tax rates and laws	12	37
Total deferred tax credit	<u>(994)</u>	<u>(460)</u>
Tax charge in the profit and loss account	<u><u>16,547</u></u>	<u><u>31,662</u></u>

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

8 Tax on profit (continued)

Reconciliation of total tax charge

The tax on profit before tax for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 19.25%).

The differences are reconciled below:

	2018 € 000	2017 € 000
Profit before tax	(88,877)	(160,948)
Tax on profit calculated at standard rate (2018- 19.00%) (2017- 19.25%)	16,887	30,983
Effects of:		
Expenses not deductible	-	8
Adjustments in respect of prior periods	420	857
Effect of changes in corporate tax rates	12	37
Difference in exchange on tax	(772)	-
Income not assessable	-	(223)
Total tax charge	<u>16,547</u>	<u>31,662</u>

UK Finance Act (No 2) Act 2015 which introduced reductions in the UK corporation tax rate to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020 was enacted on 15 November 2015.

UK Finance Act 2016 which introduced further reductions in the UK corporation tax rate to 17% effective 1 April 2020 was enacted on 15 September 2016.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

8 Tax on profit (continued)

Deferred tax as at:

Deferred tax movement during the year:

	At 1 January 2018 € 000	Recognised in income € 000	At 31 December 2018 € 000
Accelerated tax depreciation	4,100	1,048	5,148
Other items	84	(54)	30
Net tax assets/(liabilities)	<u>4,184</u>	<u>994</u>	<u>5,178</u>

Deferred tax movement during the prior year:

	At 1 January 2017 € 000	Recognised in income € 000	At 31 December 2017 € 000
Accelerated tax depreciation	3,724	376	4,100
Other items	-	84	84
Net tax assets/(liabilities)	<u>3,724</u>	<u>460</u>	<u>4,184</u>

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

9 Tangible assets

	Other property, plant and equipment € 000	Total € 000
Cost or valuation		
At 1 January 2018	51,114	51,114
At 31 December 2018	51,114	51,114
Depreciation		
At 1 January 2018	51,114	51,114
At 31 December 2018	51,114	51,114
Carrying amount		
At 31 December 2018	-	-
At 31 December 2017	-	-

10 Investments

During the year ended 31 December 2017, the Company acquired 100 ordinary shares of Shell Energy Supply UK Limited at £1 per share for €115. Shell Energy Supply UK Limited is engaged in the marketing and sale of electricity to industrial and commercial customers in the United Kingdom.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Registered office and Country of incorporation	Class of shares	% of ownership
Shell Energy Supply UK Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

11 Stock

	2018 € 000	2017 € 000
Trading stock	<u>527,910</u>	<u>283,584</u>

12 Trade and other debtors

Debtors: amounts due within one year

	2018 € 000	2017 € 000
Trade debtors	881,736	841,990
Amounts owed by Group undertakings:		
Fellow subsidiary undertakings	1,140,304	1,090,569
Prepayments and accrued income	251,542	207,126
Other debtors	5,178	4,184
Tax receivable	-	8,396
	<u>2,278,760</u>	<u>2,152,265</u>

Trade debtors of €219,711 (2017: €Nil) fall due after more than one year. Debtors are stated after provisions for impairment of €30,428,937 (2017: €Nil). This includes impairments of €30,428,937 (2017: €Nil) that arose from contracts with customers.

The amounts owed by Group undertakings include at 31 December 2018 is €10,104,252 (2017: €614,529,552) of interest bearing deposits repayable on demand. All other amounts owed by Group undertakings and other third parties arose in the normal course of business and are due for settlement according to contractual credit terms.

The impairment provision required under IFRS 9 was calculated using lifetime ECLs. The Company has recorded all financial assets at amortised cost.

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

13 Creditors: amounts falling due within one year

	2018 € 000	2017 € 000
Trade creditors	1,026,309	756,892
Amounts owed to Group undertakings		
Fellow subsidiary undertakings	1,087,275	482,842
Amounts due to participating undertakings	1,695	-
Derivative liabilities	1,208,182	930,535
Tax liability	67,305	61,623
Social security	4,808	-
Accrued expenses	38,790	75,479
	<u>3,434,364</u>	<u>2,307,371</u>

The amounts owed to Group undertakings include at 31 December 2018 is €99,223 (2017: €634,919) with Shell Finance Netherlands B.V. towards guarantee fees payable for the year and an amount as at 31 December 2018 €154,927,346 (2017: € Nil) which is interest bearing and repayable on demand.

The Company has recorded all financial liabilities at amortised cost.

14 Creditors: amounts falling due after more than one year

	2018 € 000	2017 € 000
Derivative liabilities	1,179	321
	<u>1,179</u>	<u>321</u>

15 Provisions

	Other provisions € 000	Total € 000
Additional provisions	13,409	13,409
Increase (decrease) due to passage of time or unwinding of discount	(3,232)	(3,232)
Balance as at 31 December 2018	<u>10,177</u>	<u>10,177</u>

Shell Energy Europe Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

15 Provisions (continued)

During the year, the Company made provisions on Italian regulatory claims and on the storage & upstream transport contract that was transferred from Shell Erdgas Marketing GmbH & Co. KG as part of the portfolio transfer. The effective date of the transfer was 1 August 2018 and the unwinding pertains to the period up to the year end 31 December 2018.

16 Called up share capital

Allotted, called up and fully paid shares

	No.	2018 € 000	No.	2017 € 000
Issued share capital of £1 each	<u>633,000,000</u>	<u>633,000</u>	<u>933,000,000</u>	<u>933,000</u>

17 Dividends

The Company paid a dividend of €209,000,000 in the year (2017: Nil).