

Registration number: 00326974

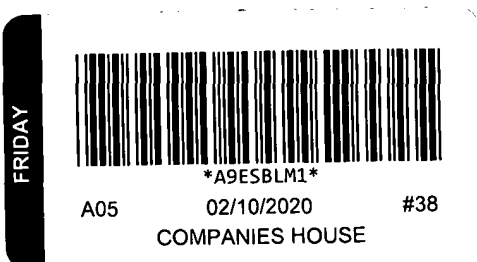
Shell Property Company Limited

Annual Report

and

Financial Statements

For the year ended 31 December 2019



Shell Property Company Limited

Contents

Directors' report	1 to 2
Independent Auditor's report	3 to 5
Profit and loss account	6
Balance sheet	7
Statement of changes in equity	8
Notes to the financial statements	9 to 31

Shell Property Company Limited

Directors' report for the year ended 31 December 2019

The Directors present their report and the financial statements for the year ended 31 December 2019. The Company has taken advantage of the small companies' exemption available under section 415A and 414B of the Companies Act 2006 and has not prepared a strategic report nor given certain disclosures in the Directors' report from which it is exempt.

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.

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

Dividends

No dividends were paid during the year (2018: £nil).

Future Outlook

No significant change in the business of the Company or of its subsidiary undertakings has taken place during the year or is expected in the immediately foreseeable future.

Directors of the Company

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

P.R. Knowland

J.T. Peckmore

Events after the end of the reporting period

After the balance sheet date, we have seen macro-economic uncertainty with regards to prices and demand for oil, gas and products as a result of the COVID-19 (coronavirus) outbreak. Furthermore, recent global developments and uncertainty in oil supply in 2020 have caused further abnormally large volatility in financial markets. The scale and duration of these developments remain uncertain but could impact our earnings, cash flow and financial condition. These developments are not expected to materially impact the recoverability of receivables from other group companies.

Shell Property Company Limited

Directors' report for the year ended 31 December 2019 (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 25/09/2020 and signed on its behalf by:

DocuSigned by:
Helen Day.....
Helen Day 1CA4E1...

Authorised signatory for
Shell Corporate Secretary Limited
Company secretary

Independent Auditor's Report to the Member of Shell Property Company Limited

Opinion

We have audited the financial statements of Shell Property Company Limited (the "Company") for the year ended 31 December 2019, which comprise the Profit and loss account, Balance sheet, Statement of changes in equity, and the related notes 1 to 15, 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 2019 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.

Emphasis of matter

We draw attention to Note 15 of the financial statements, which describes the economic and social disruption the company is facing as a result of COVID-19 which is impacting financial markets. Our opinion is not modified in respect of this matter.

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 Property Company Limited (continued)

Other information

The other information comprises the information included in the annual report set out on pages 1 to 2, 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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has 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 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 Property Company Limited (continued)

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 2, 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.

Ernst & Young LLP

Khilan Shah (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: *30 September 2020*

Shell Property Company Limited

Profit and loss account for the year ended 31 December 2019

Continuing operations

	Note	2019 £ 000	2018 £ 000
Turnover	3	1,130	1,964
Cost of sales		<u>(171)</u>	<u>(224)</u>
GROSS PROFIT		959	1,740
Administrative expenses		<u>(115)</u>	<u>(117)</u>
OPERATING PROFIT	6	844	1,623
Profit from sales of investment properties		<u>-</u>	<u>42</u>
PROFIT BEFORE INTEREST AND TAXATION		844	1,665
Interest receivable and similar income	4	9	-
Interest payable and similar charges	5	<u>(19)</u>	<u>(23)</u>
PROFIT BEFORE TAXATION		834	1,642
Tax on profit	8	<u>(251)</u>	<u>(394)</u>
PROFIT FOR THE YEAR		<u>583</u>	<u>1,248</u>

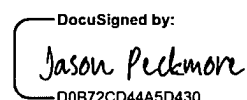
The profit for the current year and the the prior year are equal to the total comprehensive income and accordingly a statement of comprehensive income has not been presented.

Shell Property Company Limited

(Registration number: 00326974)
Balance sheet as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Fixed assets			
Investment properties	9	22,488	22,179
Investments	10	700	700
Deferred tax	8	6	6
		<u>23,194</u>	<u>22,885</u>
Current assets			
Debtors	11	55,270	55,793
		55,270	55,793
Creditors: Amounts falling due within one year	12	(2,082)	(3,205)
Net current assets		<u>53,188</u>	<u>52,588</u>
Total assets less current liabilities		<u>76,382</u>	<u>75,473</u>
Creditors: Amounts falling due after more than one year	13	(326)	-
Net assets		<u>76,056</u>	<u>75,473</u>
Equity			
Called up share capital	14	58,000	58,000
Profit and loss account		18,056	17,473
Total equity		<u>76,056</u>	<u>75,473</u>

The financial statements on pages 6 to 31 were authorised for issue by the Board of Directors on 25/09/2020 and signed on its behalf by:

DocuSigned by:

 D0872CD44A5D430.....
 J.T. Peckmore
 Director

Shell Property Company Limited

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
Balance as at 1 January 2018	50,000	16,225	66,225
Profit for the year	-	1,248	1,248
Proceeds from shares issued	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Balance as at 31 December 2018	<u>58,000</u>	<u>17,473</u>	<u>75,473</u>
Balance as at 1 January 2019	58,000	17,473	75,473
Profit for the year	<u>-</u>	<u>583</u>	<u>583</u>
Total comprehensive income for the year	<u>-</u>	<u>583</u>	<u>583</u>
Balance as at 31 December 2019	<u>58,000</u>	<u>18,056</u>	<u>76,056</u>

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019

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.

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 16 and IFRIC 23.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and the financial statements have therefore been prepared under the going concern basis.

The Group sweeps cash from subsidiary companies to a central treasury company account on a daily basis. The Company shows the balance swept at the end of the year as an amount owed by a fellow subsidiary undertaking. The directors consider that the Company will have access to the funds swept to these accounts when required by the Company.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

New standards applied

- The Company has adopted IFRS 16 Leases with effect from 1 January 2019. Under the new standard, all lease contracts, with limited exceptions outlined below, are recognised in the financial statements by way of right-of-use assets and corresponding lease liabilities. On adoption of IFRS 16, the Company has recognised lease liabilities in relation to leases which had previously been classified as 'non-cancellable operating leases' under the principles of IAS 17 Leases. At 1 January 2019, additional lease liabilities were recognised for leases previously classified as operating leases applying IAS 17. These lease liabilities were measured at the present value of the remaining lease payments and discounted using entity-specific incremental borrowing rates at 1 January 2019. In general, a corresponding right-of-use asset was recognised for an amount equal to each lease liability, adjusted by the amount of any prepayment relating to the specific lease contract, as recognised on the balance sheet at 31 December 2018. The Company has applied the modified retrospective transition method, and consequently comparative information is not restated. The reclassifications and the adjustments arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019.
- The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.5%.

In applying IFRS 16 for the first time, the Company has applied the following practical expedients permitted by the standard:

- 1) no reassessment was performed of contracts that were previously identified as leases and contracts that were not previously identified as containing a lease applying IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.
- 2) leases for which the lease term ends within 12 months of the date of initial application of IFRS 16 have been treated as short-term leases.
- 3) the Company has used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases the Company recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Lessor accounting

Lessor accounting has not been changed significantly in IFRS 16 except for accounting as an intermediate lessor. The Company leases out land and building that are owned assets and right of use assets. Under IAS 17, the Company classified these leases as operating leases. Upon transition to IFRS 16, the Company is not required to make any adjustments for leases of owned assets in which it acts as a lessor. The Company has assessed the classification of its sublease contracts with reference to the right of use assets rather than the underlying asset, and concluded that all of them are Operating leases under IFRS 16. Therefore no accounting adjustment is required on transition to IFRS 16

Impact on transition

On transition to IFRS 16, the Company recognised additional right of use assets and lease liabilities. The impact on the retained earnings was immaterial.

The detailed impact on the balance sheet at 1 January 2019, is as follows:

	31 December 2018 £ 000	IFRS 16 Impact £ 000	1 January 2019 £ 000
ASSETS			
Non-current assets			
Investment property	-	481	481
Prepaid leases	32	(32)	-
Current assets			
Total assets	32	449	481
LIABILITIES			
Non current liabilities			
Current liabilities			
Lease liabilities	-	449	449
Total equity and liabilities	-	(449)	(449)

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

The reconciliation of differences between the operating lease commitments disclosed under the prior standard and the additional lease liabilities recognised on the balance sheet at 1 January 2019 is as follows:

LEASE LIABILITIES RECONCILIATION

	£ 000
Undiscounted future minimum lease payments under operating leases at 31 December 2018	(5,096)
Impact of discounting	121
Impact of change in lease term	4,526
Total lease liability at 1 January 2019	(449)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its statutory financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Interpretation did not have an impact on the statutory financial statements of the Company.

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.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

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

- 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 paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements';
 - (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)
- 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.
- The following paragraphs of IFRS 16, 'Leases':
 - (i) paragraph 58 (separate maturity analysis for lease liabilities);
 - (ii) paragraphs 90 and 91 (table of lease income from operating leases, including separate disclosure of income from variable lease payments not dependant on an index or a rate);
 - (iii) paragraph 93 (qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases).

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Consolidation

The financial statements contain information about Shell Property Company 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 Holdings (U.K.) Limited.

The ultimate parent company and controlling party is Royal Dutch Shell plc, which is incorporated in England and Wales. Royal Dutch Shell plc is the parent undertaking of the smallest and largest group to consolidate these financial statements.

The consolidated financial statements 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

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

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.

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 Pounds Sterling (£), which is also the Company's functional currency.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

(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.

Investment property

Property held primarily for the purposes of rental income or capital appreciation is recognised as investment property. Investment property is stated at cost, less accumulated depreciation and provision for impairment. A review for the potential impairment of an investment property is carried out if events or changes in circumstances indicate that the carrying amount of a fixed asset may not be recoverable. Such impairment reviews are performed in accordance with IAS 36. Any impairments are recorded in the profit and loss account.

Investment property is depreciated on a straight line basis over the shorter of the term of lease or the estimated useful life of the property. This is currently assessed as 20-99 years.

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.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Impairment of financial assets

The impairment requirements for expected credit losses are applied to financial assets measured at amortised cost, financial assets measured at FVOCI and financial guarantees contracts to which IFRS 9 is applied and that are not accounted for at FVTPL and lease debtors under IFRS 15 that give rise to a conditional right to consideration. If the credit risk on the financial asset has increased significantly since initial recognition, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses. In other instances, the loss allowance for the financial asset is measured at an amount equal to the twelve month expected credit losses (ECLs). Changes in loss allowances are recognised in profit and loss. For trade debtors that do not contain a significant financing component, the simplified approach is applied recognising expected lifetime credit losses from initial recognition.

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.

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 an investment 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.

Turnover

Turnover represents amounts receivable (excluding value added tax) for the rental of property assets. Rental income is recognised on straight-line basis over the lease period.

Leases (IAS 17) applicable before 1 January 2019

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Leases (IFRS 16) applicable from 1 January 2019

Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This accounting policy is applied to contracts entered into, on or after 1 January 2019.

Lessee:

Classification and measurement:

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date for non-cancellable leases. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company's uses its incremental borrowing rate as the discount rate.

The Company determines the incremental borrowing rate representing the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate applied to each lease was determined taking into account the risk-free rate, adjusted for factors such as the credit rating of the Company and the terms and conditions of the lease.

Lease payments included in the measurement of the lease liability comprise the following:

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Right-of-use assets that meet the definition of investment property are presented in the balance sheet as investment property.

With effect from 2019, expenses related to leases previously classified as operating leases are presented under depreciation within cost of sales and interest payable and similar charges (in 2018 these were mainly reported in Cost of sales).

Subsequent measurement

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability such as variable lease payments or change in terms.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. For remeasurements to lease liabilities, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Lessor

Classification and measurement

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

Subsequent Measurement

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Netting off policy

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

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

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Joint arrangements

The Company has contractual agreement with Esso Property Management Company Limited to engage in joint activities that do not create an entity carrying on a trade or business on its own. The Company includes its share of assets, liabilities in such joint arrangement, measured in accordance with the terms of agreement, which is 50% to the Company's interest in the joint arrangement.

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.

Impairment of investment property

At each balance sheet date, the Company assesses whether there are any indications of investment properties being subject to impairment. If any such indications exist, the recoverable amount of the investment properties is determined. This requires an estimation of future cash flows resulting from the investment properties and also selection of appropriate discount rates in order to calculate the net present value of those cash flows. Refer to note 9 for further information on the carrying value of investment properties.

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, therefore the internal ratings already consider forward looking information.

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.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

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

Determining lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Determining lease discount rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Company estimates the IBR using observable inputs like the risk-free rate and adjust it for factors such as the credit rating of the Company and the terms and conditions of the lease

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

3 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows:

	2019 £ 000	2018 £ 000
Rental income from investment property	<u>1,130</u>	<u>1,964</u>
	<u>1,130</u>	<u>1,964</u>

4 Interest receivable and similar income

	2019 £ 000	2018 £ 000
Interest from Group undertakings:		
Fellow subsidiary undertakings	<u>9</u>	<u>-</u>
	<u>9</u>	<u>-</u>

5 Interest payable and similar charges

	2019 £ 000	2018 £ 000
Interest to Group undertakings:		
Fellow subsidiary undertakings	-	23
Interest expense related to leases	<u>19</u>	<u>-</u>
	<u>19</u>	<u>23</u>

6 Operating profit

Arrived at after charging:

	2019 £ 000	2018 £ 000
Operating lease rental charged:		
Operating lease expense - property	-	74
Depreciation:		
On owned assets	102	149
On lease assets	69	-

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

6 Operating profit (continued)

The Company had no employees during 2019 (2018: none).

None of the Directors received any emoluments (2018: none) in respect of their services to the Company.

7 Auditor's remuneration

The auditor's remuneration of £9,451 (2018: £8,714) 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 auditor and its associates for non-audit services to the Company itself are not disclosed in the individual financial statements of the Company because the Royal Dutch Shell plc consolidated financial statements 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 £251,000 (2018: £394,000) is made up as follows:

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	250	394
UK corporation tax adjustment to prior periods	<u>1</u>	<u>-</u>
Total current tax charge	251	394
Total deferred tax credit	<u>-</u>	<u>-</u>
Tax charge in the profit and loss account	<u>251</u>	<u>394</u>

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (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% (2018: 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
(Profit) before tax	(834)	(1,642)
Tax on (profit) calculated at standard rate (2019: 19.00%) (2018: 19.00%)	158	312
Effects of:		
Income exempt from taxation	-	(8)
Expenses not deductible	20	28
Adjustments in respect of prior periods	1	-
Tax on imputed interest	72	62
Total tax charge	251	394

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.

On 11 March 2020, the UK government announced that the rate applicable from 1 April 2020 would be maintained at 19% and this was substantively enacted on 17 March 2020. Since this change was not substantively enacted before the end of 2019, the relevant deferred tax balances have been measured at 17%, the rate enacted by the Balance Sheet date.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

8 Tax on profit (continued)

Deferred tax assets

	Asset £ 000
2019	
Accelerated tax depreciation	<u>6</u>
2018	
Accelerated tax depreciation	<u>6</u>

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	<u>6</u>	<u>-</u>	<u>6</u>

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	<u>6</u>	<u>-</u>	<u>6</u>

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

9 Investment properties

	2019 £ 000
Cost	
Balance at 31 December 2018	44,807
IFRS 16 transition adjustment	481
Balance at 1 January 2019	45,288
Balance at 31 December 2019	(45,288)
Depreciation	
Balance at 1 January 2019	(22,628)
Depreciation charge	(172)
Balance at 31 December 2019	(22,800)
Carrying amount	
Balance at 31 December 2019	22,488

Land and buildings classified as investment properties are held under the cost model.

IFRS 16 transition adjustment represents the right-of-use assets recognized as on 01 January 2019 for the lease of land taken from The City of Aberdeen District Council.

During the year £1,130,137 (2018 - £1,963,979) was recognised in income in relation to rental income from investment properties. Direct operating expenses, including repairs and maintenance, arising from investment property that generated rental income amounted to £171,389 (2018 - £223,721). Direct operating expenses, including repairs and maintenance, arising from investment property that did not generate rental income amounted to £nil (2018 - £nil).

The balance at 31 December 2019 includes a prepaid lease amount of £20,225,314 pertaining to Aberdeen Asset Management Pension Fund for Tullos land. This is carried at cost in the books with no depreciation charged.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

10 Investments

	Subsidiary undertakings Shares £ 000	Total £ 000
Cost		
Balance at 1 January 2019	700	700
Balance at 31 December 2019	700	700

The investment relates to a holding of ordinary shares of Gainrace Limited, a company engaged in development of land and property investment. 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 2019 are as follows:

Name of subsidiary	Registered office and Country of incorporation	Class of shares	% of ownership
Gainrace Limited	8 York Road, London, SE17NA, England and Wales	Ordinary	100%

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

11 Debtors

Debtors: amounts due within one year

	2019 £ 000	2018 £ 000
Trade debtors	-	287
Amounts owed by Group undertakings:		
Fellow subsidiary undertakings	54,611	55,056
Prepayments and accrued income	633	405
Other debtors	-	39
Tax receivable	26	6
	<u>55,270</u>	<u>55,793</u>

Amounts owed by Group undertakings includes an interest bearing current account balance of £1,032,776 (2018: £1,409,207) with Shell Treasury Centre Limited with an effective average interest rate of 0.48% (2018: 0.4%) per annum. The amounts owed by other Group undertakings are non-interest bearing and payable upon demand.

The company has recorded all financial assets at amortised cost.

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

12 Creditors: amounts falling due within one year

	2019	2018
	£ 000	£ 000
Trade creditors	229	-
Amounts owed to Group undertakings		
Subsidiary undertakings	700	700
Fellow subsidiary undertakings	1	1
Lease liabilities	63	-
Tax liability	644	1,990
Accrued expenses	443	505
Other creditors	2	9
	<u>2,082</u>	<u>3,205</u>

The amounts owed to Group undertakings are non-interest bearing and payable upon demand.

The company has recorded all financial liabilities at amortised cost.

13 Creditors: amounts falling due after more than one year

	2019	2018
	£ 000	£ 000
Lease liabilities	326	-
	<u>326</u>	<u>-</u>

14 Called up share capital

Allotted, called up and fully paid shares

	No.	2019	No.	2018
		£		£
Allotted and Fully paid of £0.20 each	<u>289,998,518</u>	<u>£57,999,704</u>	<u>289,998,518</u>	<u>£57,999,704</u>

Shell Property Company Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

14 Called up share capital (continued)

New shares allotted

During 2018, 40,000,000 of ordinary share capital having an aggregate nominal value of £0.20 were allotted for an aggregate consideration of £8,000,000.

15 Events after the end of the reporting period

After the balance sheet date, we have seen macro-economic uncertainty with regards to prices and demand for oil, gas and products as a result of the COVID-19 (coronavirus) outbreak. Furthermore, recent global developments and uncertainty in oil supply in 2020 have caused further abnormally large volatility in financial markets. The scale and duration of these developments remain uncertain but could impact our earnings, cash flow and financial condition. These developments are not expected to materially impact the recoverability of receivables from other group companies.