

FINANCIAL STATEMENTS AND SUPPLEMENTS

174	Independent Auditor's Report related to the Consolidated and Parent Company Financial Statements
190	Consolidated Financial Statements
239	Supplementary information – oil and gas (unaudited)
257	Parent Company Financial Statements
266	Independent Auditor's Report to Computershare Trustees of the Royal Dutch Shell Dividend Access Trust and the Board of Directors of Royal Dutch Shell plc
268	Royal Dutch Shell Dividend Access Trust Financial Statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL DUTCH SHELL PLC

1. OUR OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1.1 Our unmodified opinion on the financial statements

In our opinion, the financial statements of Royal Dutch Shell plc (the Parent Company) and its subsidiaries (collectively, Shell):

- give a true and fair view of the state of Shell's and of the Parent Company's affairs as at December 31, 2019, and of Shell's and the Parent Company's income for the year then ended;
- have been properly prepared both in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and IFRS as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards Shell's financial statements, Article 4 of the IAS Regulation.

1.2 What we have audited

We have audited Royal Dutch Shell plc's financial statements for the year ended December 31, 2019, which are included in the Annual Report and comprise:

Shell

- Consolidated Balance Sheet as at December 31, 2019
- Consolidated Statement of Income for the year then ended
- Consolidated Statement of Comprehensive Income for the year then ended
- Consolidated Statement of Changes in Equity for the year then ended
- Consolidated Statement of Cash Flows for the year then ended
- Related Notes 1 to 29 to the Consolidated Financial Statements, including a summary of significant accounting policies

Parent Company

- Balance Sheet as at December 31, 2019
- Statement of Income for the year then ended
- Statement of Comprehensive Income for the year then ended
- Statement of Changes in Equity for the year then ended
- Statement of Cash Flows for the year then ended
- Related Notes 1 to 14 to the Parent Company Financial Statements

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and both IFRS as adopted by the EU and IFRS as issued by the IASB.

2. BASIS FOR OUR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISA (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report below. We are independent of Shell and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained during the planning, execution and conclusion of our audit is sufficient and appropriate to provide a suitable basis for our opinion.

3. OVERVIEW OF OUR AUDIT APPROACH

UPDATING OUR UNDERSTANDING OF SHELL'S BUSINESS AND ITS ENVIRONMENT

Our global audit team has deep industry experience through working for many years on the audits of large integrated international oil and gas companies. Our audit planning starts with updating our view on external market factors, for example geopolitical risk, the potential impact of climate change and the energy transition, commodity price risk and major trends in the industry. Building on this knowledge, we updated our understanding of Shell's strategy and business model. This was achieved through the review of external data, enquiry, analytical procedures, observation and visiting several of Shell's operating units.

In planning our 2019 audit, we were mindful of the fact that the outlook for both oil and gas commodity prices continued to narrow. Refining margins remained under pressure due to a number of factors, including the energy transition. The fundamentals of cost control, capital spending, operational excellence, cash flow and capital return continued to be a focus in the industry. Climate change and the energy transition are becoming increasingly important for the sector. As part of our audit, we assessed whether Shell's energy transition assumptions used in setting oil and gas commodity price assumptions and refining margin assumptions were reasonable in the light of the commitments that Shell have made with respect to decarbonisation in accordance with the Paris Agreement. Our updated understanding of Shell's business and the environment in which it operates informed our risk assessment procedures.

IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

The results of our 2018 audit, together with our risk assessment procedures, provided a renewed basis for the identification and assessment of risks of material misstatement for our 2019 audit. Whilst our assessment of risks requiring special audit attention remained consistent with 2018, the impact of the energy transition has increased the inherent risk in estimating both oil and gas reserves and the recoverable amount of oil and gas properties. The risks we identified were as follows:

- the estimation of oil and gas reserves used in the calculation of the recoverable amount of exploration and production assets, depreciation, depletion and amortisation and the estimation of decommissioning and restoration provisions;
- the risk of unrealised trading gains and losses being recognised as a result of errors, unauthorised trading activity or deliberate misstatement of Shell's trading position; and
- risk of fraud through management override within other significant revenue streams.

Our additional areas of audit focus were:

- the recoverable amount of exploration and production assets, and investments in joint ventures and associates;
- the impact of the energy transition on the estimation of refining margins and their potential impact on the carrying value of Shell's refineries, the expected lives of the refineries, whether there is a need for environmental clean up cost provisions and the valuation of deferred tax assets;
- the estimation of decommissioning and restoration provisions;
- legal proceedings and other contingencies, with specific emphasis on Nigeria;
- uncertain tax positions;
- recognition and measurement of deferred tax assets;
- pension assumptions;
- the adoption of the new accounting standard on leases (IFRS 16); and
- the dividend distribution process, including the determination of realised profits and losses for the purposes of making distributions under the Companies Act 2006 (this area of audit focus relates to the parent company only).

We have expanded further our integration of analytical tools and technology into our audit. Not only do these tools deliver to us more efficient and secure access to Shell's data, but they provide us with an integrated view of risk, thus enabling us to focus our audit effort on operating units with higher risk profiles. They also enable us to perform risk-led analyses of entire populations of data.

ASSESSING MATERIALITY (SECTION 4)

When we established our audit strategy, we determined overall materiality for the financial statements. The key criterion in determining materiality is the auditor's perception of the needs of investors. We considered which earnings, activity or capital-based measure aligned best with the expectations of those charged with governance at Shell and users of Shell's financial statements. In so doing, we applied a 'reasonable investor perspective', which reflected our understanding of the common financial information needs of the members of Shell as a group. We also made judgements about the size of misstatements that would be considered material.

Our assessment of overall materiality was derived from an average of Shell's earnings for the prior two years and the estimated result for the current year on a current cost of supplies basis (CCS earnings), excluding identified items reported by Shell in its quarterly results announcements, and adjusted for an effective tax rate. In our judgement, an averaging approach reflects the nature of Shell, the oil and gas industry and the economic environment in which Shell operates.

This approach – which is unchanged from 2018 – resulted in the following materiality measures for 2019:

- planning materiality: \$1,200 million (2018: \$1,000 million);
- performance materiality: \$900 million (2018: \$750 million); and
- reporting differences threshold: \$60 million (2018: \$50 million).

Our determination of performance materiality was underpinned by our assessment of the strength of Shell's control environment. We confirmed with the Audit Committee that they were satisfied that these levels of materiality were appropriate. We kept our assessment of materiality under review throughout the year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL DUTCH SHELL PLC continued

3. OVERVIEW OF OUR AUDIT APPROACH continued

<p>DETERMINING THE SCOPE OF OUR AUDIT (SECTION 5)</p>	<p>Our scope is tailored to the circumstances of our audit of Shell and is influenced by our determination of materiality and our assessed risks of material misstatement.</p> <p>We performed audits of the complete financial information of 17 operating units and specific audit procedures on an additional 32 operating units. In selecting the operating units to be brought into audit scope, we assessed the risks of material misstatement of the financial statements based on size, complexity and risk, including the risk of fraud, and designed and implemented appropriate responses to the assessed risks. We performed procedures at a further 133 operating units that were specified by the group audit engagement in response to specific risk factors. In addition, we performed other group audit procedures at the consolidated level – see section 5 below.</p> <p>In order to reflect changes brought about by enhancements to Shell's finance function, changes to accounting standards and to introduce an appropriate level of unpredictability and rotation in our audit, we made the following refinements to our audit scope in 2019 compared to 2018:</p> <ul style="list-style-type: none"> ■ in order to recognise the increased amount of audit work that we would be carrying out at Shell's business service centres (BSCs), we transferred audit activity from onshore to our business service centre audit teams. For example, our work related to Germany was carried out mainly in Krakow, other than the physical inventory verification, which continued to be performed by our German team. The same applied to US downstream, where much of the activity was transferred to Manila; ■ IFRS 16: we revised our audit procedures to reflect the requirements of the new standard. Also, we brought into scope three new entities in order to obtain sufficient audit coverage of the 'right of use assets'; and ■ we revised our tax audit procedures to test centrally the main consolidated tax regimes (fiscal unities), including the US, UK and Netherlands.
<p>IDENTIFYING KEY AUDIT MATTERS (SECTION 6)</p>	<p>We have identified the following key audit matters that, in our professional judgement, had the greatest effect on our overall audit strategy, the allocation of resources in the audit and in directing the global audit team's efforts:</p> <ul style="list-style-type: none"> ■ the estimation of oil and gas reserves, including reserves used in the calculation of depreciation, depletion and amortisation (DD&A), impairment testing to evaluate the recoverable amounts of production assets and the estimation of decommissioning and restoration (D&R) provisions; ■ the recoverable amounts of exploration and production assets, and investments in joint ventures and associates; ■ the estimation of future refining margins to evaluate the recoverability of manufacturing, supply and distribution assets; ■ the recognition and measurement of deferred tax assets; ■ revenue recognition: the risk of unrealised trading gains and losses being recognised as a result of errors, unauthorised trading activity or deliberate misstatement of Shell's trading position; and ■ the dividend distribution process, including the determination of realised profits and losses for the purposes of making distributions under the Companies Act 2006 (this key audit matter relates to the Parent Company only). <p>In 2018, our auditor's report included two key audit matters that have not been reported as key audit matters in our 2019 report. These relate to: (1) Enhancements to Shell's system of IT general controls, and (2) The recognition, measurement, presentation and disclosure of leases (IFRS 16).</p> <p>Although IFRS 16 was adopted on January 1, 2019, most of our audit effort was carried out in 2018 in order to audit the impact of the new standard, which was disclosed in the 2018 Annual Report. Consequently, we reported the adoption of IFRS 16 as a key audit matter in our 2018 report, and not in 2019.</p> <p>In the current year, we have added two key audit matters that were not reported as key audit matters in our 2018 report. These relate to: (1) The estimation of future refining margins to evaluate the recoverability of manufacturing, supply and distribution assets, and (2) The dividend distribution process (Parent Company only).</p>

4. OUR APPLICATION OF MATERIALITY

The scope of our work is influenced by our view of materiality and our assessed risks of material misstatement. As we develop our audit strategy, we determine materiality at the overall level and at the individual account level (referred to as our 'performance materiality' (see below)).



Overall materiality

What we mean

We apply the concept of materiality both in planning and performing our audit, as well as in evaluating the effect of identified misstatements (including omissions) on our audit and in forming our audit opinion. For the purposes of determining whether or not Shell's financial statements are free from material misstatement (whether due to fraud or error), we define materiality as the magnitude of misstatements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We are required to establish a materiality level for the financial statements as a whole that is appropriate in the light of Shell's particular circumstances.

Our overall materiality provides a basis for identifying and assessing the risk of material misstatement and determining the nature and extent of our audit procedures. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations. It also considers our assessment of the expectations of those charged with governance at Shell and users of Shell's financial statements.

As required by auditing standards, we reassess materiality throughout the duration of the audit.

Level set

Group materiality

We set our preliminary overall materiality for Shell's Consolidated Financial Statements at \$1,200 million (2018: \$1,000 million). We kept this under review throughout the year and reassessed the appropriateness of our original assessment in the light of Shell's results and external market conditions. Based on these reviews and reassessments, we did not find it necessary to revise our level of overall materiality.

Parent Company materiality

We determined materiality for the Parent Company to be \$2.6 billion (2018: \$2.6 billion), which is 1% (2018: 1%) of equity. Equity is an appropriate basis to determine materiality for an investment holding company, and 1% is a typical percentage of equity to use to determine materiality. Any balances in the parent company financial statements that were relevant to our audit of the consolidated group were audited using an allocation of group performance materiality.

Our basis for determining materiality

Our assessment of overall materiality was \$1,200 million. This was derived from an average of Shell's earnings for 2017 and 2018 and the estimated result for 2019 on a current cost of supplies basis (CCS earnings), excluding identified items reported by Shell in its quarterly results announcements, and adjusted for an effective tax rate.

This approach of averaging over three years is consistent with the approach adopted by many large, international groups and moderates the effect of oil and gas price volatility.

The \$1,200 million was determined by applying a percentage to the calculated average CCS earnings. When using an earnings-related measure to determine overall materiality, the norm is to apply a benchmark percentage of 5% of the pre-tax measure. In setting overall materiality, we applied a more prudent rate that was below the 5% benchmark. Our overall materiality is less than 5% of the 2019 income before taxation.

In determining materiality, auditing standards require us to use benchmark measures, such as pre-tax income, gross profit and total revenue. Nevertheless, we have to exercise considerable judgement, including which earnings, activity or capital based measure aligns best with the expectations of users of Shell's financial statements and the Audit Committee. In determining the most appropriate benchmark on which to base our materiality assessment, we have applied a 'reasonable investor perspective'. This reflects our understanding of the common financial information needs of Shell's investors as a group, which we believe is CCS earnings, excluding identified items. Shell's quarterly results announcements feature CCS earnings excluding identified items as the primary measure for earnings.

CCS earnings excluding identified items removes both the effects of changes in oil price on inventory carrying amounts and items disclosed as identified items that can significantly distort Shell's results in any one particular year. In our view, the use of CCS earnings excluding identified items allows investors to understand how management has performed despite the commodity price environment, as opposed to because of it. Furthermore, analyst forecasts predominately feature CCS earnings, excluding identified items, as the basis for earnings. The analyst consensus data supports our judgement that CCS earnings, excluding identified items, is the key indicator of performance from a reasonable investor perspective.

The identified items, reported by Shell in its quarterly results announcements, were: net divestment gains (\$2.6 billion), net impairments (\$4.2 billion charge), fair value accounting of commodity derivatives and certain gas contracts (\$0.6 billion gain), redundancy and restructuring (\$0.1 billion charge), and the aggregate of other individually small items (net \$0.8 billion charge).

The identified items excluded in 2018 were: net divestment gains (\$3.3 billion), net impairments (\$1.0 billion charge), fair value accounting of commodity derivatives and certain gas contracts (\$1.1 billion gain), redundancy and restructuring (\$0.2 billion charge), and the aggregate of other individually small items (net \$0.1 billion charge).

The identified items excluded in 2017 were: net divestment gains (\$1.6 billion), impairments (\$3.0 billion charge), fair value accounting of commodity derivatives and certain gas contracts (\$0.3 billion loss), redundancy and restructuring (\$0.4 billion charge), impact of exchange rate movements on tax balances (\$0.6 billion gain), impact arising from the US tax reform legislation (\$2.0 billion charge) and the aggregate of other individually small items (net \$0.2 billion charge).

On the basis of our analysis of these factors, we concluded that we should focus on Shell's CCS earnings, excluding identified items reported by Shell in its quarterly results announcements, and adjusted for an effective tax rate.

Performance materiality

What we mean

Having established overall materiality, we determined 'performance materiality', which represents our tolerance for misstatement in an individual account. It is calculated as a percentage of overall materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality of \$1,200 million for Shell's financial statements as a whole.

Once we determined our audit scope, we then assigned performance materiality to our various in-scope operating units. Our in-scope operating unit audit teams used this assigned performance materiality in performing their group audit procedures. The performance materiality allocation is dependent on the size of the operating unit, measured by its contribution of earnings to Shell, or other appropriate metric, and the risk associated with the operating unit.

Level set

On the basis of our risk assessment, our judgement was that performance materiality should be 75% (2018: 75%) of our overall materiality, namely \$900 million (2018: \$750 million). In assessing the appropriate level, we consider the nature, the number and impact of the audit differences identified in 2018 as well as the overall control environment.

In 2019, the range of performance materiality allocated to operating units was \$135 million to \$450 million (2018: \$113 million to \$375 million). This is set out in more detail in section 5 below.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL DUTCH SHELL PLC continued

4. OUR APPLICATION OF MATERIALITY continued

Audit difference reporting threshold

What we mean

This is the amount below which identified misstatements are considered to be clearly trivial.

The threshold is the level above which we collate and report audit differences to the Audit Committee.

We also report differences below that threshold that, in our view, warrant reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations in forming our opinion.

Level set

We agreed with the Audit Committee that we would report to the Committee all audit differences more than \$60 million (2018: \$50 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

5. OUR SCOPE OF THE AUDIT OF SHELL'S FINANCIAL STATEMENTS

What we mean

We are required to establish an overall audit strategy that sets the scope, timing and direction of our audit, and that guides the development of our audit plan. Audit scope comprises the physical locations, operating units, activities and processes to be audited that, in aggregate, are expected to provide sufficient coverage of the financial statements for us to express an audit opinion.

Criteria for determining our audit scope

Our assessment of audit risk and our evaluation of materiality determined our audit scope for each operating unit within Shell which, when taken together, enabled us to form an opinion on the financial statements under ISA (UK). Our audit effort was focused towards higher risk areas, such as management judgements, and on operating units that we considered significant based upon size, complexity or risk.

The factors that we considered when assessing the scope of the Shell audit, and the level of work to be performed at the operating units that were in scope for group reporting purposes, included the following:

- the financial significance of an operating unit to Shell's earnings, total assets or total liabilities, including consideration of the financial significance of specific account balances or transactions;
- the significance of specific risks relating to an operating unit, history of unusual or complex transactions, identification of significant audit issues or the potential for, or a history of, material misstatements;
- the effectiveness of the control environment and monitoring activities, including entity-level controls;
- our assessment of locations that carry a higher than normal audit risk in relation to fraud, bribery or corruption; and
- the findings, observations and audit differences that we noted as a result of our 2018 audit.

Selection of in-scope operating units

We reassessed our audit scope for 2019 compared to 2018. In particular, we considered Shell's continued enhancement of their finance function and processes, which included the further standardisation and migration of processes to their BSCs. This enabled us further to centralise our audit procedures and refocus our scope, reducing the audit involvement at a component level and the number of operating units in our audit scope.

We kept our audit scope under review throughout the year to reflect changes in Shell's underlying business and risks; however no significant changes were required.

Full and specific scope

We selected 49 operating units (2018: 52) across 11 countries (2018: 11) based on their size or risk characteristics. We performed full scope audits of the complete financial information of 17 operating units (2018: 19). For 32 operating units (2018: 33) we performed specific scope audit procedures on individual account balances within the operating unit based on their size and risk profiles.

Specified procedures

In addition to the 49 operating units (2018: 52) discussed above, we selected a further 41 operating units (2018: 38) where we performed procedures at the operating unit level that were specified by the group engagement team in response to specific risk factors and in order to ensure that, at the overall group level, we reduced and appropriately covered the residual risk of error.

In addition, specified procedures were performed at the group level on a further 92 (2018: 62) operating units. These procedures included the testing of Shell's centralised activities addressing the implications of significant and complex accounting matters across all operating units, our centralised revenue and accounts receivable analytics program, testing controls for the revenue and purchase to pay processes, including IT general and IT application controls, segment level impairment reviews, procedures over the forecasts as they relate to deferred tax asset recoverability and review of pension scheme assumptions.

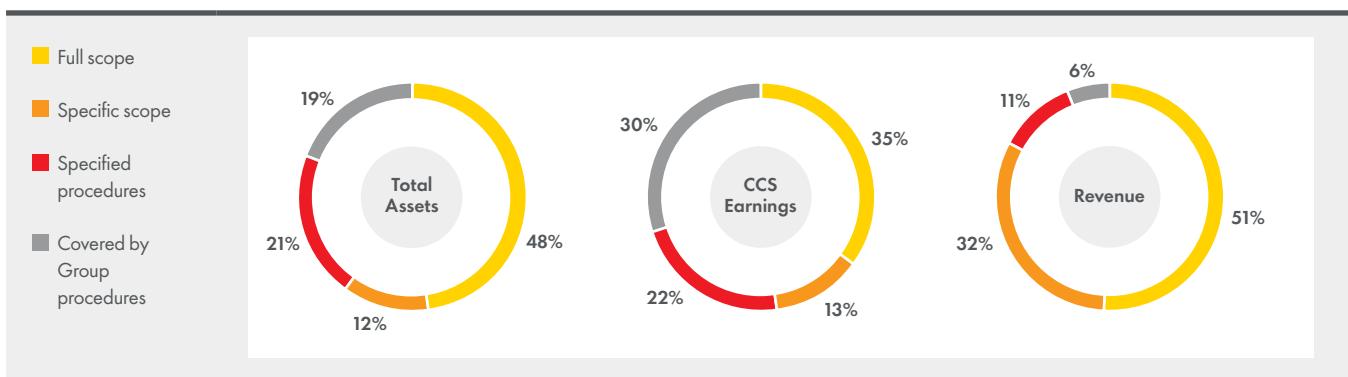
Group procedures

For the remaining 614 operating units (2018: 637), we performed supplementary audit procedures in relation to Shell's centralised group accounting and reporting processes. These included, but were not limited to, Shell's activities addressing the appropriate elimination of intercompany balances and the completeness of provisions for litigation and other claims. We performed testing of both manual and consolidation journal entries through the year, homogenous processes and controls at the BSCs and testing of group wide IT systems. We performed disaggregated analytical reviews on each financial statement line item and also tested Shell's analytical procedures performed at a group, segment and function level.

In addition to this testing, we applied our Risk Scan analytics techniques, which consolidate internal and external data to identify potential risks of material misstatement. This allowed us to risk rate each of the 706 operating units whereby we identified 210 operating units where we believed that it was appropriate to carry out targeted testing. This included the audit of manual journal entries and/or the testing of payments to third party vendors to ensure that these had been approved in line with Shell's policies and had an appropriate business rationale.

Our coverage by full, specific, specified and group procedures is illustrated below. The summary is by Total assets, CCS earnings and Revenue. Overall, our full, specific and specified procedures accounted for 70% of Shell's absolute CCS earnings, excluding identified items reported by Shell in its quarterly results announcements and adjusted for an effective tax rate. The remaining CCS earnings were covered by Group wide procedures.

The Parent Company is located in the United Kingdom and audited directly by the Group engagement team.



Allocation of performance materiality to the in-scope operating units

The level of materiality that we applied in undertaking our audit work at the operating unit level was determined by applying a percentage of our total performance materiality. This percentage is based on the significance of the operating unit relative to Shell as a whole and our assessment of the risk of material misstatement at that operating unit. In 2019 the range of materiality applied at the operating unit level was \$135 million to \$450 million (2018: \$113 million to \$375 million). The operating units selected, together with the ranges of materiality applied, were:

Location	Segment / Function	No. of operating units	Range of materiality applied \$ million
Full scope operating units:			
Australia, Qatar	Integrated gas	4	180-270
Brazil, Nigeria, USA	Upstream	4	180-270
USA	Downstream	2	180-270
Barbados, Singapore, The Netherlands, UAE, UK, USA	Trading and Supply	7	135-450
Total full scope operating units		17	
Specific scope operating units:			
Malaysia, UK	Upstream	3	180
Singapore, USA	Downstream	6	180
Singapore, The Netherlands, UK, USA	Corporate	12	180
Canada, Singapore, UAE, UK, USA	Trading and Supply	11	135-180
Total specific scope operating units		32	
Total full and specific scope operating units		49	

Integrated group engagement team structure

The group engagement partner and Senior Statutory Auditor, Allister Wilson, has overall responsibility for the direction, supervision and performance of the Shell audit engagement in compliance with professional standards and applicable legal and regulatory requirements. He is supported by 24 segment and function partners and associate partners, who are based in the Netherlands and the UK, and who together with related staff comprise the integrated group engagement team. This group engagement team established the overall group audit strategy, communicated with component auditors, performed work on the consolidation process, and evaluated the conclusions drawn from the audit evidence as the basis for forming Ernst & Young's (EY) opinion on the group financial statements.

For the purpose of the group audit, the group engagement team is responsible for directing, supervising, evaluating and reviewing the work of EY global network firms operating under their instruction (local EY teams) to assess whether:

- the work was performed and documented to a sufficiently high standard;
- the local EY audit team demonstrated that they had challenged management sufficiently and had executed their audit procedures with a sufficient level of scepticism; and
- there is sufficient appropriate audit evidence to support the conclusions reached.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL DUTCH SHELL PLC continued

5. OUR SCOPE OF THE AUDIT OF SHELL'S FINANCIAL STATEMENTS continued

Involvement with local EY teams Shell has centralised processes and controls over key areas within its BSCs. Members of the group engagement team provide direct oversight, review, and coordination of our BSC audit teams. Our BSC teams performed centralised testing in the BSCs for certain accounts, including revenue, cash and payroll. In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the operating units or BSCs by the group engagement team or by auditors from other local EY teams.

The group engagement team performed procedures directly on 92 of the in-scope operating units. For the operating units where the work was performed by local EY auditors, we determined the appropriate level of involvement of the group engagement team to enable us to conclude that sufficient appropriate audit evidence had been obtained.

The group engagement team interacted regularly with the local EY teams during each stage of the audit, were responsible for the scope and direction of the audit process and reviewed key working papers. This, together with the additional procedures performed at the group level, gave us sufficient appropriate audit evidence for our opinion on Shell's Consolidated Financial Statements. We maintained continuous dialogue with our local EY teams in addition to holding formal meetings each quarter to ensure that we were fully aware of their progress and the results of their audit procedures.

During 2019, the Senior Statutory Auditor and other group audit partners, associate partners and directors visited operating units across eight countries as well as each of Shell's four BSCs. These visits included discussing the audit approach with the local EY teams and any issues arising from their work, meetings with Shell local management, attending planning and closing meetings, and reviewing key audit working papers on selected areas of audit risk. The visits also promoted deeper engagement with our local EY audit teams, ensuring that a consistent and cohesive audit approach was adopted so as to drive a high-quality audit. The countries and the BSC locations visited were as follows:

Countries visited	BSCs
Australia	India [A]
Brazil [A]	Malaysia [A]
India [A]	Philippines [A]
Nigeria [A]	Poland [A]
The Netherlands [A]	
Trinidad and Tobago	
UK [A]	
USA [A]	

[A] These locations were visited multiple times.

6. OUR ASSESSMENT OF KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. As Shell's auditors, we are required to determine – from the matters communicated by us to the Audit Committee during the year – those matters that required significant attention from us in performing our audit of Shell's 2019 Consolidated and Parent Company Financial Statements. In making this determination we took the following into account:

- the risks that we believed were significant to our audit and therefore required special audit consideration;
- areas of higher assessed risk of material misstatement that influenced our audit focus;
- significant audit judgements relating to areas in Shell's Consolidated and Parent Company Financial Statements including accounting estimates that we identified as having high estimation uncertainty;
- the effect on our audit of significant events or transactions that occurred during the period; and
- those assessed risks of material misstatement that had the greatest effect on the allocation of resources in the audit and directing the efforts of the audit team.

On this basis, we identified the following key audit matters that, in our professional judgement, were of most significance in our audit of Shell's 2019 Consolidated and Parent Company Financial Statements. These matters included those that had the greatest effect on:

- our overall strategy;
- the allocation of resources in the audit; and
- directing the efforts of our audit team.

The key audit matters have been addressed in the context of the audit of Shell's Consolidated and Parent Company Financial Statements as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters. The table below describes the key audit matters, a summary of our procedures carried out and our key observations that we communicated to the Audit Committee.

In 2018, our auditor's report included two key audit matters that have not been reported as key audit matters in our 2019 report. These relate to: (1) Enhancements to Shell's system of IT general controls, and (2) The recognition, measurement, presentation and disclosure of leases (IFRS 16). In the current year, we have added two key audit matters that were not reported as key audit matters in our 2018 report. These relate to: (1) The estimation of future refining margins to evaluate the recoverability of manufacturing, supply and distribution assets, and (2) The dividend distribution process, including the determination of realised profits and losses for the purposes of making distributions under the Companies Act 2006 (Parent Company only).

THE ESTIMATION OF OIL AND GAS RESERVES, INCLUDING RESERVES USED IN THE CALCULATION OF DEPRECIATION, DEPLETION AND AMORTISATION (DD&A), IMPAIRMENT TESTING TO EVALUATE THE RECOVERABLE AMOUNTS OF PRODUCTION ASSETS AND THE ESTIMATION OF DECOMMISSIONING AND RESTORATION (D&R) PROVISIONS

Description of the key audit matter	Our response to the risk
This is a subjective estimate. Risk is unchanged compared to 2018.	<p>Our reserves audit team includes auditors with substantial oil and gas reserves expertise, valuation experience and relevant qualifications in energy economics.</p> <p>The procedures we carried out included the following:</p> <ul style="list-style-type: none"> ■ we obtained an understanding of the controls over Shell's oil and gas reserves estimation process. We then evaluated the design of these controls and tested their operating effectiveness. For example, we tested management's controls over completeness and accuracy of the financial data provided to the reservoir engineers for use in estimating proved oil and gas reserves; ■ we tested that significant additions or reductions in proved reserves had been made in the period in which the new information became available; ■ we evaluated the professional qualifications and objectivity of Shell's internal reservoir engineers: <ul style="list-style-type: none"> – who provide the detailed preparation of the reserve estimates; and – those who are primarily responsible for providing independent review and challenge, and ultimately endorsement of, the reserve estimates; ■ we evaluated the completeness and accuracy of the inputs used by the internal reservoir engineers in estimating the economic limit test for proved oil and gas reserves determination by agreeing the inputs to source documentation. The economic limit of a project is reached when the operating cash flow from a project becomes negative. The economic limit test has a direct impact on DD&A and impairment. Where relevant, we assessed whether the economic limit test incorporated Shell's estimate of future carbon costs to reflect the potential impact of climate change and the energy transition. We also identified and evaluated corroborative and contrary evidence by comparing actual to prior year forecasts; ■ for proved undeveloped reserves, we evaluated management's development plan for compliance with the SEC rule that undrilled locations must be scheduled to be drilled within five years, unless specific circumstances justify a longer time. This evaluation was made by assessing consistency of the development projections with Shell's drilling, development and capital expenditure plans; ■ we tested the proved undeveloped reserves recognised. Where volumes recognised remained undeveloped for more than five years from the date they were booked, or where development was not expected for at least five years, we assessed whether or not Shell was still working towards development by comparing to future development plans, including capital expenditure plans. Also, where reserves are recognised beyond current licence terms, we obtained evidence to support the assumption that the licence would be renewed; and ■ we assessed whether the energy transition assumptions incorporate the commitments that Shell have made with respect to decarbonisation in accordance with the Paris Agreement, specifically considering reserve volumes expected to be lifted beyond 2030. <p>Our procedures were led by the group engagement team, with input from our teams in Australia, Brazil, Canada, Kazakhstan, the Netherlands, Nigeria, Norway, Qatar, Russia and USA.</p>
As described in Note 8 to the Consolidated Financial Statements, production assets amounted to \$150,366 million, and have an associated DD&A charge of \$19,346 million. The accounting for these financial statement amounts relies on management's estimation of proved oil and gas reserves. As described in Note 8, impairment charges of \$3,639 million were recorded during the year. As described in Note 18, D&R provisions amounted to \$19,019 million.	
At December 31, 2019, Shell reported 11,096 million barrels of oil equivalent of proved developed and undeveloped reserves.	
Auditing the estimation of oil and gas reserves is complex as there is significant estimation uncertainty in assessing the quantities of Shell's reserves and resources. The estimates are based on a central group of experts' assessments of petroleum initially in place, production curves and certain inputs, including future capital and operating cost assumptions and future carbon costs.	
In-year movements are driven by revisions of previous estimates resulting from reclassifications, improved recovery assumptions, extensions and discoveries and purchases and sales of reserves in place. Revisions generally arise from new information, for example additional drilling results, changes in production patterns and changes to development plans.	
Auditing these financial statement areas is complex because of the use of the work of reservoir engineers and the evaluation of the inputs selected by management described above, which are used by reservoir engineers in estimating proved oil and gas reserves.	

Key observations communicated to the Shell Audit Committee

In January 2020 we communicated to the Audit Committee that, based on the testing performed, we had not identified any significant errors in the oil and gas reserves estimates and concluded that the inputs and assumptions used to estimate proved reserves were reasonable. We also reported that we saw no evidence that the recognition of the reserve volumes expected to be lifted beyond 2030 results in the overstatement of Shell's balance sheet by overstating the recoverable amounts of Shell's production assets or understatement of D&R liabilities.

Cross-reference: See the Audit Committee Report on page 130 for details on how the Audit Committee reviewed assurances for proved oil and gas reserves. Also, see Notes 2A and 8 to the "Consolidated Financial Statements", and Supplementary information – oil and gas (unaudited) on page 239.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL DUTCH SHELL PLC continued

6. OUR ASSESSMENT OF KEY AUDIT MATTERS continued

THE RECOVERABLE AMOUNTS OF EXPLORATION AND PRODUCTION ASSETS, AND INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

Description of the key audit matter	Our response to the risk
This is a forecast-based valuation. Risk is elevated compared to 2018 due to increased focus on the energy transition.	We obtained an understanding of the controls over Shell's asset impairment process. We then evaluated the design of these controls and tested their operating effectiveness. For example, we tested controls over the identification of cash generating units, of indicators of impairment and reversals of impairment and the approval of key inputs to impairment assessments, including oil and gas prices, discount rates and oil and gas reserves.
As described in Note 8 to the Consolidated Financial Statements, at December 31, 2019, Shell recognised \$165 billion of exploration and production assets within property, plant and equipment (PP&E). As described in Note 9 Shell also recognised investments in joint ventures and associates of \$23 billion.	We evaluated Shell's asset impairment methodology for both exploration and production assets within PP&E and investments in joint ventures and associates. Where impairment assessments were carried out, we tested the mathematical accuracy and completeness of the models used. For those assets or investments impaired previously, we evaluated the actual results versus the assumptions made and considered if reversals were required.
Assets' operational performance and external factors have a significant impact on the estimate of the recoverable amounts of Shell's Upstream and Integrated Gas assets.	To test price assumptions, we compared future short and long-term commodity prices to consensus analysts' forecasts and those adopted by other international oil companies; we evaluated whether prices were used consistently across Shell, including pricing differentials, and evaluated whether Shell's long-term price assumptions incorporated the potential impact of climate change and the energy transition by comparing the assumptions to the International Energy Agency price outlook in the Energy Outlook scenarios.
Auditing the recoverable amounts of assets and investments is complex and subjective due to the significant amount of judgement involved. As described in Note 2A, the most critical assumptions in forecasting future cash flows are management's view on the long-term oil and gas price outlook, future expected production volumes and the discount rate used. Forming a view on long-term oil and gas prices is inherently difficult, in particular with significant demand uncertainty due to factors such as world trade disputes, political instability, fears over a global recession and the pace of decarbonisation.	To test the discount rate used for impairment testing, we involved our oil and gas valuations specialists to assist in evaluating, amongst other things, the methodology applied and assumptions made. We also tested the underlying data used to support the discount rate calculation.
The audit procedures were performed by our group engagement team as well as our local audit teams in Australia, Brazil, Malaysia, Nigeria, Qatar, the UK and USA, which covered 72% of PP&E and investments in joint ventures and associates in Upstream and Integrated Gas segments.	In order to evaluate the cash flow inputs of the impairment models, our procedures included the following: <ul style="list-style-type: none"> ■ tested that operating expenditure profiles and capital costs to complete construction agreed to approved operator budgets and management forecasts; ■ tested that carbon pricing was included in cash flows, where applicable; ■ reconciled reserves volumes in the impairment models and tested that the life-of-field assumptions were consistent with those applied in the decommissioning and restoration provision models; and ■ performed sensitivity analyses on key variables in the base case cash flow models to understand the impact of changes in certain assumptions (including oil and gas prices, production and operating expenditure levels).
We also performed specified procedures over the recoverability of PP&E balances in Argentina, Bolivia, Brunei, Canada, Egypt, UAE, Iraq, Italy, Malaysia, the Netherlands, Nigeria, Oman, Qatar, Russia, Tunisia, Trinidad and Tobago and USA which covered an additional 16% of PP&E in the Upstream and Integrated Gas segments.	We assessed the basis for adjusting the cash flows to reflect the risks of each individual asset. In so doing, we considered the stage of the life of the asset, country risk and compared the consistency of management assumptions across similar fields.

Key observations communicated to the Shell Audit Committee

We reported that our price analysis provided strong independent evidence to support the reasonableness of Shell's commodity price assumptions in relation to comparator benchmarks. Both oil and gas price assumptions have been reduced year on year and we noted that Shell's oil price assumption was conservative versus the sector and analysts; however, we noted that the gas price assumption remained at the top of sector estimates.

We confirmed that we were satisfied that the cash flows used in the impairment tests had been risked appropriately and that the discount rate applied was appropriate.

We concluded that the impairments recorded were appropriately determined. Also, we reported that we were satisfied that there were not material impairment reversals that were required to be recognised. Where impairment tests were undertaken and no impairment was recorded, we performed specific sensitivity analyses on the key assumptions that drive the impairment analysis, and concluded that it was reasonable and supportable not to record an impairment charge.

Since early 2020, the COVID-19 (coronavirus) outbreak across China and elsewhere has caused disruption to business and economic activity and may ultimately impact Shell's future performance and asset values. In addition, an international dispute on or about March 7, 2020 has triggered an oil price war that caused the largest one-day fall in the oil price since 1991. As part of our post balance sheet audit procedures, we have considered whether or not these events provide evidence of conditions that existed at the balance sheet date. On March 10, 2020, we reported to the Audit Committee orally that both events are indicative of conditions that arose after the balance sheet date, and that therefore they are both non-adjusting events that have no impact on our conclusions concerning the recoverable amounts of Shell's assets at the balance sheet date.

Cross-reference: See the Audit Committee Report on page 133 for details on how the Audit Committee considered impairments. Also, see Notes 2A, 8, 9 and 29 to the "Consolidated Financial Statements".

THE ESTIMATION OF FUTURE REFINING MARGINS TO EVALUATE THE RECOVERABILITY OF MANUFACTURING, SUPPLY AND DISTRIBUTION ASSETS

Description of the key audit matter	Our response to the risk
<p>This is a forecast-based assumption. Risk is elevated compared to 2018 due to increased focus on the energy transition.</p> <p>As described in Note 8 to the Consolidated Financial Statements, manufacturing, supply and distribution assets amounted to \$56 billion. As described in Note 2A, forecast refining margins are a key input to:</p> <ul style="list-style-type: none"> ■ assessing whether or not there are indicators that refining assets might be impaired; and ■ whether there is a need for environmental provisions. <p>Auditing future refining margins is inherently complex as the margins are influenced by regional factors and there is limited external refining margin forecast data available. Shell's approach to estimating long-term refining margins focuses on the concept of mean reversion of markets, unless a fundamental shift in markets has been identified, over an asset's life, as opposed to attempting to forecast refining cycles. This approach is consistent with prior years, which is based on Shell statistical analysis showing that refinery margins and product cracking spreads have generally reverted either to a constant mean or trending mean, thus supporting the continued application of the mean reversion methodology. Mean reversion methodology assumes that the refining margin will revert to the average over time. In other words, deviations from the average are expected to revert to the average.</p>	<p>We obtained an understanding of the controls over Shell's process for the estimation of refining margins. We then evaluated the design of these controls and tested their operating effectiveness. For example, we tested controls over the approval of refining margins.</p> <p>Our other procedures included the following:</p> <ul style="list-style-type: none"> ■ we read Shell's documentation with respect to their methodology for determining refining margins and held discussions with the Shell individuals responsible for the analysis and implementing Shell's established methodology; ■ we involved our oil and gas valuations specialists to assess the reasonableness of Shell's refining margin estimation methodology, particularly in light of the expected impacts of a lower carbon economy, by performing an independent research exercise based on third party information to identify the long-term outlook for refining margins; ■ we assessed whether or not mean reversion is a valid methodology for forecasting refining margins by performing several statistical tests over different time spans to examine possible mean-reverting behaviour over the long-term as well as the short-term; ■ we independently calculated mean refining margins for the regional refining hubs of North West Europe, Singapore-Dubai and United States Gulf Coast incorporating 14 years of data covering the period 2006-2019; ■ we assessed the extent to which the reversion to mean analysis is compatible with the potential of future energy transition by performing quantitative and qualitative analysis of refining margins, which included developing econometric and machine learning models to project refining margins, which incorporated the findings from the mean reversion trends; ■ to test the uncertainty related to how oil demand and refining capacity may evolve in the future, we developed different sets of scenarios that are consistent with differing rates of renewable energy adoption, including Shell's "Sky Scenario" and compared to management's refining margin forecast; ■ we considered the impact of oil demand, refining capacity, business cycles, environmental regulation, upcoming regulations, technology substitution and policy changes in our performance of over 900 statistical tests; ■ In evaluating the refining margins, we read third party research papers that examine the behaviour of refining margins from a statistical perspective; and ■ we used external broker reports to support our expectations with respect to future refining margins and assessed whether or not management's projections aligned with our independent analysis. <p>The audit procedures were performed principally by the group engagement team.</p>

Key observations communicated to the Shell Audit Committee

We reported to the Audit Committee in January 2020 that management's approach to estimating refining margins is consistent with industry valuation practice for refining assets. Our own empirical analysis corroborates Shell's view that refining margins exhibit mean reversion in the long-term. It also indicates that, in the long-term, falling refined product demand could create structural change in the refining sector (including the closure of higher-cost refineries), which will result in asset returns that are commensurate with the underlying operating and financial risks.

Cross-reference: See the Audit Committee Report on page 133 for details on how the Audit Committee reviewed refining margins. Also see Notes 2A and 8 to the "Consolidated Financial Statements".

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL DUTCH SHELL PLC continued

6. OUR ASSESSMENT OF KEY AUDIT MATTERS continued

RECOGNITION AND MEASUREMENT OF DEFERRED TAX ASSETS

Description of the key audit matter	Our response to the risk
<p>This is an estimation based on uncertain outcomes. The realisation of these assets is largely dependent on generating substantial future profits. Risk is elevated compared to 2018 due to increased focus on the energy transition.</p> <p>As described in Note 16 of the Consolidated Financial Statements, at December 31, 2019, Shell recognised gross DTAs totalling \$28 billion, which are recognised within two balance sheet line items, deferred tax assets and as an offset against deferred tax liabilities, depending on the overall tax position in a particular jurisdiction. A significant proportion of DTA balances is supported by forecast future taxable profits, which are derived from Shell's commodity price assumptions and business plans.</p> <p>Auditing the recognition and measurement of DTAs is complex because the estimation requires significant judgement, including the timing of reversals of deferred tax liabilities (DTL) and the availability of future profits against which tax deductions represented by the DTA can be offset.</p>	<p>We obtained an understanding of the controls over Shell's process for the estimation of deferred tax assets. We then evaluated the design of these controls and tested their operating effectiveness. For example, we tested controls over projected sources of taxable income and the deferred tax calculations that support the recognition of DTAs.</p> <p>We considered the expected timing of utilisation of the DTA, including the relevant country tax laws that apply to the utilisation of tax losses. This included the ability to carry tax losses forward or back and any restrictions arising from ring fencing tax losses to particular projects.</p> <p>We tested the forecast timing of the unwinding of taxable temporary differences by evaluating the projected sources of taxable income and considering the nature of the temporary differences and the relevant tax law.</p> <p>For DTAs that are supported by forecast taxable profits or tax planning strategies, our procedures included the following:</p> <ul style="list-style-type: none"> ■ we performed sensitivity analyses over the commodity price and/or other key assumptions that underpin Shell's assessment of forecast probable taxable profits; ■ we evaluated the extent to which sufficient probable taxable profits would arise in the period within which the related losses would be available for utilisation, considering, for example, limits on the length of time that losses can be carried forward, if applicable, or if losses are ring fenced for tax purposes; and ■ we considered whether the tax balances were calculated using substantively enacted tax laws and rates. <p>For the tax planning strategies necessary to justify the recognition of the DTA, we involved our tax professionals to evaluate the application of tax law in the Company's available tax planning strategies, Shell's assessment of its ability to carry forward losses, the scheduling of the reversal of existing temporary taxable differences and carry forward amounts, and the evaluation of the carry forward lives of its deferred tax assets.</p> <p>Our audit procedures over the recognition and valuation of DTAs were performed by our tax specialist teams in Australia, Brazil, Canada, Kazakhstan, Malaysia, The Netherlands, Nigeria, Singapore, Qatar, the UK and USA, which covered 81% of the gross DTA balance. We also performed specified procedures over the recognition and valuation of DTAs in Albania, Austria, China, Egypt, France, Germany, Norway, Oman, Spain, Switzerland, Tanzania, Trinidad & Tobago, Tunisia and Turkey, which covered an additional 22% of the gross DTA balance.</p>

Key observations communicated to the Shell Audit Committee

We reported to the January 2020 meeting of the Audit Committee that we had challenged the robustness of the key management judgements and confirmed that we were satisfied that where DTAs recognised are based on income forecast to arise beyond Shell's planning horizon, we consider that there was sufficient future taxable profit that is probable to support the DTAs; however, we noted that a greater degree of judgement is required in recognising DTAs beyond Shell's planning horizon.

We also reported to the Audit Committee that the DTAs were appropriately recognised and valued at the year end.

Cross-reference: See the Audit Committee Report on page 133 for details on how the Audit Committee reviewed certain tax matters, in particular the recoverability of deferred tax assets. Also see Notes 2A and 16 to the "Consolidated Financial Statements".

REVENUE RECOGNITION: THE RISK OF UNREALISED TRADING GAINS AND LOSSES BEING RECOGNISED AS A RESULT OF ERRORS, UNAUTHORISED TRADING ACTIVITY OR DELIBERATE MISSTATEMENT OF SHELL'S TRADING POSITION

Description of the key audit matter	Our response to the risk
<p>This is a risk of error in revenue due to the complexity of Shell's trading and supply function. Risk is unchanged compared to 2018.</p> <p>As described in Note 4 to the Consolidated Financial Statements, at December 31, 2019, Shell recognised \$345 billion of revenue. As described in Note 19, Shell recognised derivative financial instrument assets of \$8 billion and \$7 billion of derivative financial instrument liabilities.</p> <p>The recognition of unrealised trading gains and losses is a complex audit area. There is an inherently higher risk of error, of unauthorised trading activity or of deliberate misstatement of the group's overall trading position.</p> <p>Shell's trading and supply function is integrated within the Downstream, Integrated Gas and Upstream segments and is spread across multiple regions. The trading and supply function is inherently complex due to, amongst other things, the fact that trading is not always carried out in active markets where prices are readily available. This exposes Shell to risks that are not normally associated with core oil and gas activities.</p> <p>Auditing unrealised trading gains and losses is complex because of the significant judgement used in determining the key assumptions used in valuing the trades, the risk of error, of unauthorised trading activity or of deliberate misstatement of Shell's trading positions.</p> <p>The deliberate misstatement of Shell's trading positions or mismarking of positions could result in understated trading losses, overstated trading profits and/or individual bonuses being manipulated through inappropriate inter-period profit/loss allocations.</p>	<p>We obtained an understanding of the controls over Shell's process for the recognition of revenue relating to unrealised trading gains and losses. We then evaluated the design of these controls and tested their operating effectiveness. For example, we tested controls within the front-to-end deal lifecycle across the trading and supply function around the review of valuation models.</p> <p>Our trading audit professionals comprise of individuals who have significant experience of auditing both large commodity trading organisations and financial institutions.</p> <p>The other procedures we performed included the following:</p> <ul style="list-style-type: none"> ■ we enquired whether or not there were any breakdowns of trading controls or instances of rogue trading reported or known or suspected frauds; ■ we obtained external confirmation of a sample of open trading positions with brokers and counterparties; ■ where external confirmations were not received, we tested the existence of the deal by agreement to signed contracts; ■ we compared the price curves used by Shell to value the trading positions to external data; ■ we performed independent testing of valuation models, evaluating contract terms and key assumptions to independent market quotes; and ■ we tested the completeness of the amounts recorded in the financial statements through procedures to search for unrecorded liabilities by comparing sales and trade receivables and purchases and trade payables that occurred near the end of the financial year to evaluate whether or not transactions were recorded in the correct period. <p>The audit procedures were performed principally by the group engagement team and the UK and US component teams.</p>

Key observations communicated to the Shell Audit Committee

In March 2020, we reported to the Audit Committee that:

- the valuation of derivative contracts as at December 31, 2019 was appropriate;
- our testing – through a combination of controls testing and substantive audit procedures – satisfied us that the models used to value contracts were appropriate for the purposes of the valuations included in Shell's Consolidated Financial Statements;
- the unrealised gains and losses had been recorded appropriately; and
- our completeness testing did not identify any unrecorded liabilities or significant cut-off issues.

Cross-reference: See the Audit Committee Report on page 130 on how the Audit Committee reviewed Trading and Supply's control framework. Also see Note 19 to the "Consolidated Financial Statements".

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL DUTCH SHELL PLC continued

6. OUR ASSESSMENT OF KEY AUDIT MATTERS continued

THE DIVIDEND DISTRIBUTION PROCESS, INCLUDING THE DETERMINATION OF REALISED PROFITS AND LOSSES FOR THE PURPOSES OF MAKING DISTRIBUTIONS UNDER THE COMPANIES ACT 2006

Description of the key audit matter	Our response to the risk
This is a risk of non-compliance with laws and regulations. This key audit matter relates to the Parent Company only.	<p>The procedures we performed included the following:</p> <ul style="list-style-type: none"> ■ We obtained an understanding of the procedures performed by management to monitor the profits available for distribution of the Parent Company. This included understanding the processes to monitor profits available for distribution of the subsidiary entities paying significant dividends to the Parent Company; ■ We tested management's distributable reserve controls at both the Parent Company and subsidiary entities that pay significant dividends, which are designed to ensure that there are sufficient profits available for distribution prior to a dividend being proposed and approved. Our testing included a review of management's analysis of non-distributable profits or losses. We also assessed the completeness of the non-distributable profits or losses identified; ■ We analysed transactions that impacted significantly the retained earnings of the Parent Company and subsidiary entities paying significant dividends and considered whether any of these transactions do not meet the criteria of distributable profits or losses. We considered whether operating and financial circumstances existed that could result in a dividend block within the group structure; ■ We reviewed management's analysis of profits available for distribution in the Parent Company and compared this to the expected future dividends and share buy-back commitments. We also reperformed the calculation of distributable profits available for distribution of the Parent Company by reference to the relevant accounts; ■ We compared the market capitalisation of Shell with the carrying amount of the investment held by the Parent Company that directly and indirectly holds the investments of Shell to assess whether there was any indication that the asset may be impaired. We compared the carrying value of the investment to its recoverable amount in order to identify any impairment that could have a direct impact on profits available for distribution; and ■ We satisfied ourselves that dividends paid and shares repurchased in 2019 were allowable, by reference to the most recent relevant accounts, for the purposes of making distributions under the Companies Act 2006.
RDS plc has \$19 billion of distributable profits. At December 31, 2019, Shell distributed \$15 billion of dividends and repurchased \$10 billion of shares.	<p>The audit procedures were performed principally by the group engagement team and the UK component team.</p>
There is considerable public interest in ensuring that companies pay dividends and buy back shares out of profits available for distribution. Shell is both one of the world's highest dividend-paying companies and has a significant share buyback programme.	
The legal framework applicable to UK companies for determining profits available for distribution is contained in both the Companies Act 2006 and complementary technical guidance. Under this framework, distributions are made by individual companies and not by groups. The Shell Consolidated Financial Statements are therefore not relevant for the purpose of determining Shell's profits available for distribution. Whether or not a distribution may be made by Shell is determined by reference to Shell's 'relevant accounts', which are the Parent Company financial statements.	

Key observations communicated to the Shell Audit Committee

In January 2020, we reported to the Audit Committee that:

- the procedures performed by management to monitor the profits available for distribution of the Parent Company and subsidiary entities paying significant dividends to the Parent Company were appropriate;
- the analysis performed by management to identify non-distributable profits or losses and expected future commitments or operating and financial circumstances that could result in a dividend block is appropriate; and
- through a combination of controls testing and substantive audit procedures, we are satisfied that the profits available for distribution, by reference to the relevant accounts, were sufficient to support the dividends paid and declared and share buy-backs made by the Parent Company.

Cross-reference: See Note 23 to the "Consolidated Financial Statements" and Note 8 to the "Parent Company Financial Statements".

7. OTHER INFORMATION AND MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

The other information comprises the information included in the Annual Report set out on pages 1 to 171 and 239 to 256 including the Strategic Report, Governance and Additional Information sections, 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 this report, we do not express any form of assurance conclusion thereon. In the table below, we have outlined our responsibility for the other information in the Annual Report and the matters we would like to draw to your attention.

STRATEGIC REPORT AND THE DIRECTORS' REPORT

Our responsibility

We are required to report whether, based on the work undertaken in the course of the audit:

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

We are required to report by exception whether, in the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have identified material misstatements in the strategic report or the directors' report.

Our reporting

In our opinion, based on the work undertaken in the course of the audit, the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and they have been prepared in accordance with applicable legal requirements.

Our reporting

We have nothing to report by exception.

PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

Our responsibility

ISA(UK) requires us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 27 to 36 that describe the principal risks and cross refer to where there are explanations of how the risks are being managed or mitigated;
- the Directors' confirmation set out on page 169 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 171 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 165 to 166 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our reporting

We have nothing material to add or draw attention to with regard to any of these matters.

FAIR, BALANCED AND UNDERSTANDABLE SET OUT ON PAGE 171

Our responsibility

We are required to consider whether the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Shell's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit.

Our reporting

In the context of our responsibilities on other information, we have nothing to report.

OTHER INFORMATION

Our responsibility

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 the other information, we are required to report that fact.

Our reporting

We have nothing to report in this regard.

DIRECTORS' REMUNERATION REPORT

Our responsibility

We are required to report whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

We are also required to report by exception whether certain disclosures of directors' remuneration specified by law are not made.

Our reporting

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Our reporting

We have nothing to report by exception.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL DUTCH SHELL PLC continued

7. OTHER INFORMATION AND MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION continued

DIRECTORS' STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE SET OUT ON PAGES 115 TO 116

Our responsibility

We are required to consider whether the parts of the Directors' statement required under the Listing Rules relating to Shell's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Our reporting

In the context of our responsibilities on other information, we have nothing to report.

AUDIT COMMITTEE REPORTING SET OUT ON PAGES 139 TO 134

Our responsibility

We are required to consider whether the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

Our reporting

We have nothing to report by exception.

OTHER REPORTING

Our responsibility

Under the Companies Act 2006, we are required to report to you by exception if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Our reporting

We have nothing to report by exception.

8. RESPONSIBILITIES OF THE DIRECTORS

As explained more fully in the statement of Directors' responsibilities set out on page 171, the Directors are responsible for the preparation of the Consolidated 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 Shell and the Parent 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 Shell or the Parent Company or to cease operations, or have no realistic alternative but to do so.

9. OUR 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 ISA (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.

10. EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Shell and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code, the US Securities Exchange Act of 1934 and the Listing Rules of the UK Listing Authority) and the relevant tax compliance regulations in the jurisdictions in which Shell operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, environmental, and bribery and corruption practices;
- We understood how Shell is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence;

- We assessed the susceptibility of Shell's Consolidated Financial Statements to material misstatement, including how fraud might occur, by embedding forensic specialists into our group engagement team. Our forensic specialists worked with the group engagement team to identify the fraud risks across various parts of the business. In addition, we utilised internal and external information to perform a fraud risk assessment for each of the countries of operation. We considered the risk of fraud through management override and, in response, we incorporated data analytics across manual journal entries into our audit approach. We also considered the possibility of fraudulent or corrupt payments made through third parties and conducted detailed analytical testing on third party vendors in high risk jurisdictions. Where instances of risk behaviour patterns were identified through our data analytics, we performed additional audit procedures to address each identified risk. These procedures included testing of transactions back to source information and were designed to provide reasonable assurance that the financial statements were free from fraud or error. We also conducted specific audit procedures in relation to the risk of bribery and corruption across various countries of operation determined by a risk-based process;
- Based on the results of our risk assessment we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business; enquiries of legal counsel, group management, internal audit and all full and specific scope management; review of the volume and nature of complaints received by the whistleblowing hotline during the year; and
- If any instances of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures, supplemented by audit procedures performed at the group level. Where appropriate we consulted our forensic specialists.

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.

11. OTHER MATTERS WE ARE REQUIRED TO ADDRESS

Following the recommendation of the Audit Committee we were re-appointed by Royal Dutch Shell plc's Annual General Meeting (AGM) on May 21, 2019, as auditors of Royal Dutch Shell to hold office until the conclusion of the next AGM of the Company, and signed an engagement letter on May 22, 2019. Our total uninterrupted period of engagement is four years covering periods from our appointment through to the period ending December 31, 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to Shell or the Parent Company and we remain independent of Shell and the Parent Company in conducting the audit.

Our audit opinion is consistent with our additional report to the Audit Committee explaining the results of our audit.

12. USE OF OUR REPORT

This report is made solely to the company's members, 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 members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

/s/ Allister Wilson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP

ALLISTER WILSON

Senior Statutory Auditor
for and on behalf of Ernst & Young LLP
London
March 11, 2020

[A] The maintenance and integrity of the Shell website are the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
[B] Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED FINANCIAL STATEMENTS

- 191** Consolidated Statement of Income
- 191** Consolidated Statement of Comprehensive Income
- 192** Consolidated Balance Sheet
- 193** Consolidated Statement of Changes in Equity
- 194** Consolidated Statement of Cash Flows
- 195** Notes to the Consolidated Financial Statements
- 195** Note 1 Basis of preparation
- 195** Note 2A Significant accounting policies, judgements and estimates
- 203** Note 2B Changes to IFRS not yet adopted
- 204** Note 3 Adoption of IFRS 16 *Leases*
- 206** Note 4 Segment information
- 209** Note 5 Interest and other income
- 209** Note 6 Interest expense
- 209** Note 7 Intangible assets
- 210** Note 8 Property, plant and equipment
- 213** Note 9 Joint ventures and associates
- 214** Note 10 Investments in securities
- 215** Note 11 Trade and other receivables
- 216** Note 12 Inventories
- 216** Note 13 Cash and cash equivalents
- 216** Note 14 Debt and lease arrangements
- 220** Note 15 Trade and other payables
- 220** Note 16 Taxation
- 223** Note 17 Retirement benefits
- 226** Note 18 Decommissioning and other provisions
- 227** Note 19 Financial instruments
- 232** Note 20 Share capital
- 232** Note 21 Share-based compensation plans and shares held in trust
- 233** Note 22 Other reserves
- 235** Note 23 Dividends
- 235** Note 24 Earnings per share
- 235** Note 25 Legal proceedings and other contingencies
- 237** Note 26 Employees
- 237** Note 27 Directors and Senior Management
- 238** Note 28 Auditor's remuneration
- 238** Note 29 Post-balance sheet events

CONSOLIDATED STATEMENT OF INCOME

	Notes	2019	2018	\$ million 2017
Revenue	4	344,877	388,379	305,179
Share of profit of joint ventures and associates	9	3,604	4,106	4,225
Interest and other income	5	3,625	4,071	2,466
Total revenue and other income		352,106	396,556	311,870
Purchases		252,983	294,399	223,447
Production and manufacturing expenses	4	26,438	26,970	26,652
Selling, distribution and administrative expenses	4	10,493	11,360	10,509
Research and development	4	962	986	922
Exploration	4	2,354	1,340	1,945
Depreciation, depletion and amortisation	4	28,701	22,135	26,223
Interest expense	6	4,690	3,745	4,042
Total expenditure		326,621	360,935	293,740
Income before taxation		25,485	35,621	18,130
Taxation charge	16	9,053	11,715	4,695
Income for the period	4	16,432	23,906	13,435
Income attributable to non-controlling interest		590	554	458
Income attributable to Royal Dutch Shell plc shareholders		15,842	23,352	12,977
Basic earnings per share (\$)	24	1.97	2.82	1.58
Diluted earnings per share (\$)	24	1.95	2.80	1.56

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019	2018	\$ million 2017
Income for the period	4	16,432	23,906	13,435
Other comprehensive income, net of tax				
Items that may be reclassified to income in later periods:				
Currency translation differences	22	344	(3,172)	5,156
Unrealised gains on securities [A]				593
Debt instruments remeasurements [A]	22	29	(15)	
Cash flow and net investment hedging (losses)/gains	22	(267)	730	(552)
Deferred cost of hedging [A]	22	66	(209)	
Share of other comprehensive (loss)/income of joint ventures and associates	9	(76)	(10)	170
Total		96	(2,676)	5,367
Items that are not reclassified to income in later periods:				
Retirement benefits remeasurements	22	(2,102)	3,588	604
Equity instruments remeasurements [A]	22	(30)	(153)	
Share of other comprehensive income of joint ventures and associates [A]	9	2	193	
Total		(2,130)	3,628	604
Other comprehensive (loss)/income for the period	22	(2,034)	952	5,971
Comprehensive income for the period		14,398	24,858	19,406
Comprehensive income attributable to non-controlling interest		625	383	578
Comprehensive income attributable to Royal Dutch Shell plc shareholders		13,773	24,475	18,828

[A] Changes in line items from 2018 onwards compared with 2017 are the result of the implementation of IFRS 9 *Financial Instruments*, effective from January 1, 2018.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

	Notes	Dec 31, 2019	\$ million Dec 31, 2018
Assets			
Non-current assets			
Intangible assets	7	23,486	23,586
Property, plant and equipment	8	238,349	223,175
Joint ventures and associates	9	22,808	25,329
Investments in securities	10	2,989	3,074
Deferred tax	16	10,524	12,097
Retirement benefits	17	4,717	6,051
Trade and other receivables	11	8,085	7,826
Derivative financial instruments	19	689	574
		311,647	301,712
Current assets			
Inventories	12	24,071	21,117
Trade and other receivables	11	43,414	42,431
Derivative financial instruments	19	7,149	7,193
Cash and cash equivalents	13	18,055	26,741
		92,689	97,482
Total assets		404,336	399,194
Liabilities			
Non-current liabilities			
Debt	14	81,360	66,690
Trade and other payables	15	2,342	2,735
Derivative financial instruments	19	1,209	1,399
Deferred tax	16	14,522	14,837
Retirement benefits	17	13,017	11,653
Decommissioning and other provisions	18	21,799	21,533
		134,249	118,847
Current liabilities			
Debt	14	15,064	10,134
Trade and other payables	15	49,208	48,888
Derivative financial instruments	19	5,429	7,184
Taxes payable	16	6,693	7,497
Retirement benefits	17	419	451
Decommissioning and other provisions	18	2,811	3,659
		79,624	77,813
Total liabilities		213,873	196,660
Equity			
Share capital	20	657	685
Shares held in trust		(1,063)	(1,260)
Other reserves	22	14,451	16,615
Retained earnings		172,431	182,606
Equity attributable to Royal Dutch Shell plc shareholders		186,476	198,646
Non-controlling interest		3,987	3,888
Total equity		190,463	202,534
Total liabilities and equity		404,336	399,194

Signed on behalf of the Board

/s/ Jessica Uhl

JESSICA UHLChief Financial Officer
March 11, 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

\$ million

	Equity attributable to Royal Dutch Shell plc shareholders						
	Share capital (see Note 20)	Shares held in trust (see Note 22)	Other reserves	Retained earnings	Total	Non- controlling interest	Total equity
At January 1, 2019 (as previously published)	685	(1,260)	16,615	182,606	198,646	3,888	202,534
Impact of IFRS 16 [A]	-	-	-	4	4	-	4
At January 1, 2019 (as revised)	685	(1,260)	16,615	182,610	198,650	3,888	202,538
Comprehensive income/(loss) for the period	-	-	(2,069)	15,842	13,773	625	14,398
Transfer from other comprehensive income	-	-	(74)	74	-	-	-
Dividends (see Note 23)	-	-	-	(15,198)	(15,198)	(537)	(15,735)
Repurchases of shares [B]	(28)	-	28	(10,286)	(10,286)	-	(10,286)
Share-based compensation	-	197	(49)	(613)	(465)	-	(465)
Other changes in non-controlling interest	-	-	-	2	2	11	13
At December 31, 2019	657	(1,063)	14,451	172,431	186,476	3,987	190,463
At January 1, 2018 (as previously published)	696	(917)	16,932	177,645	194,356	3,456	197,812
Impact of IFRS 9	-	-	(138)	88	(50)	-	(50)
At January 1, 2018 (as revised)	696	(917)	16,794	177,733	194,306	3,456	197,762
Comprehensive income for the period	-	-	1,123	23,352	24,475	383	24,858
Transfer from other comprehensive income	-	-	(971)	971	-	-	-
Dividends (see Note 23)	-	-	-	(15,675)	(15,675)	(586)	(16,261)
Repurchases of shares [B]	(11)	-	11	(4,519)	(4,519)	-	(4,519)
Share-based compensation [C]	-	(343)	(342)	693	8	-	8
Other changes in non-controlling interest	-	-	-	51	51	635	686
At December 31, 2018	685	(1,260)	16,615	182,606	198,646	3,888	202,534
At January 1, 2017	683	(901)	11,298	175,566	186,646	1,865	188,511
Comprehensive income for the period	-	-	5,851	12,977	18,828	578	19,406
Dividends (see Note 23)	-	-	-	(15,628)	(15,628)	(406)	(16,034)
Scrip dividends	13	-	(13)	4,751	4,751	-	4,751
Share-based compensation	-	(16)	(204)	(74)	(294)	-	(294)
Other changes in non-controlling interest	-	-	-	53	53	1,419	1,472
At December 31, 2017	696	(917)	16,932	177,645	194,356	3,456	197,812

[A] See Note 3.

[B] The repurchase of shares recognised through retained earnings includes the aggregate maximum consideration to which Shell is contractually bound under the current tranche of the buyback programme, plus associated stamp duty [see Note 20].

[C] The amendments to IFRS 2 Share-based payment became effective January 1, 2018. Following adoption of the amendments, components of share-based payments [related to tax] that were previously classified as cash-settled are classified as equity-settled from 2018 onwards.

CONSOLIDATED FINANCIAL STATEMENTS continued

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2019	2018	\$ million 2017
Income before taxation for the period [A]	4	25,485	35,621	18,130
Adjustment for:				
Interest expense (net)		3,705	2,878	3,365
Depreciation, depletion and amortisation	8	28,701	22,135	26,223
Exploration well write-offs	8	1,218	449	897
Net gains on sale and revaluation of non-current assets and businesses		(2,519)	(3,265)	(1,640)
Share of profit of joint ventures and associates		(3,604)	(4,106)	(4,225)
Dividends received from joint ventures and associates		4,139	4,903	4,998
(Increase)/decrease in inventories		(2,635)	2,823	(2,079)
(Increase)/decrease in current receivables		(921)	1,955	(2,577)
(Decrease)/increase in current payables		(1,223)	(1,336)	2,406
Derivative financial instruments		(1,484)	799	(1,039)
Retirement benefits [A]		(365)	390	(654)
Decommissioning and other provisions [A]		(686)	(1,754)	(1,706)
Other [A]		(28)	1,264	(142)
Tax paid		(7,605)	(9,671)	(6,307)
Cash flow from operating activities		42,178	53,085	35,650
Capital expenditure		(22,971)	(23,011)	(20,845)
Investments in joint ventures and associates		(743)	(880)	(595)
Investment in equity securities [A]		(205)	(187)	(93)
Proceeds from sale of property, plant and equipment and businesses		4,803	4,366	8,808
Proceeds from sale of joint ventures and associates		2,599	1,594	2,177
Proceeds from sale of equity securities [A]		469	4,505	2,636
Interest received		911	823	724
Other investing cash inflows [A]		2,921	1,373	2,909
Other investing cash outflows [A]		(3,563)	(2,242)	(3,750)
Cash flow from investing activities		(15,779)	(13,659)	(8,029)
Net decrease in debt with maturity period within three months		(308)	(396)	(869)
Other debt:				
New borrowings		11,185	3,977	760
Repayments		(14,292)	(11,912)	(11,720)
Interest paid		(4,649)	(3,574)	(3,550)
Derivative financial instruments [B]		(48)		
Change in non-controlling interest		-	678	293
Cash dividends paid to:				
Royal Dutch Shell plc shareholders	23	(15,198)	(15,675)	(10,877)
Non-controlling interest		(537)	(584)	(406)
Repurchases of shares		(10,188)	(3,947)	-
Shares held in trust: net purchases and dividends received		(1,174)	(1,115)	(717)
Cash flow from financing activities		(35,209)	(32,548)	(27,086)
Currency translation differences relating to cash and cash equivalents		124	(449)	647
(Decrease)/increase in cash and cash equivalents		(8,686)	6,429	1,182
Cash and cash equivalents at beginning of year		26,741	20,312	19,130
Cash and cash equivalents at end of year	13	18,055	26,741	20,312

[A] With effect from 2019, the starting point for the Consolidated Statement of Cash Flows is 'Income before taxation' (previously 'Income'). Furthermore, to improve transparency, 'Retirement benefits' and 'Decommissioning and other provisions' have been separately disclosed. The 'Other' component of cash flow from investing activities has been expanded to distinguish between cash inflows and outflows. Prior period comparatives for these line items have been revised to conform with current year presentation. Overall, the revisions do not have an impact on cash flow from operating activities, cash flow from investing activities or cash flow from financing activities, as previously published.

[B] As from 2019, a new line item 'Derivative financial instruments' has been introduced for derivatives related to debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 – BASIS OF PREPARATION

The Consolidated Financial Statements of Royal Dutch Shell plc (the "Company") and its subsidiaries (collectively referred to as "Shell") have been prepared in accordance with the provisions of the Companies Act 2006 (the "Act") and Article 4 of the IAS Regulation, and therefore in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. As applied to Shell, there are no material differences from IFRS as issued by the International Accounting Standards Board ("IASB"); therefore, the Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

As described in the accounting policies in Note 2A, the Consolidated Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. Those accounting policies have been applied consistently in all periods, except for those accounting standards that were adopted from January 1, 2019 (see Note 3 below).

The Consolidated Financial Statements were approved and authorised for issue by the Board of Directors on March 11, 2020.

2A – SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

This Note describes Shell's significant accounting policies, which are those relevant to an understanding of the Consolidated Financial Statements. It includes the measurement bases used in preparing the Consolidated Financial Statements. It allows an understanding as to how transactions, other events and conditions are reported. It also describes: (a) judgements, apart from those involving estimations, that management makes in applying the policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements; and (b) estimations, including assumptions about the future, that management makes in applying the policies. The sources of estimation uncertainty that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are specifically identified as a significant estimate.

The accounting policies applied are consistent with those of the previous financial years except for the adoption as from January 1, 2019 of IFRS 16 Leases ("IFRS 16"), amendments to IAS 19 Employee Benefits ("IAS 19") and the Annual Improvement Cycle 2015-2017.

Mandatory

The impact of the transition to the accounting pronouncements as listed below have an immaterial impact other than for IFRS 16.

IFRS 16 Leases

Under IFRS 16, all lease contracts, with limited exceptions, are recognised in the financial statements by way of right-of-use assets and corresponding lease liabilities. Shell applied the modified retrospective transition method, and consequently comparative information is not restated. As a practical expedient, 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 ("IAS 17") and IFRIC 4 Determining whether an Arrangement contains a Lease. At the adoption date, additional lease liabilities were recognised for leases previously classified as operating leases applying IAS 17 (see Note 3). These lease liabilities were measured at the present value of the remaining lease payments and discounted using entity-specific incremental borrowing rates at January 1, 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 prepaid or accrued lease payment relating to the specific lease contract, as recognised on the balance sheet at December 31, 2018. Provisions for onerous lease contracts at December 31, 2018 were adjusted to the respective right-of-use assets recognised at January 1, 2019.

The adoption of the new standard had an accumulated impact of \$4 million on equity following the recognition of lease liabilities of \$16.0 billion and additional right-of-use assets of \$15.6 billion and reclassifications mainly related to pre-paid leases and onerous contracts previously recognised (see Note 3).

IAS 19 Employee Benefits

IAS 19 specifies how a company accounts for a defined benefit plan. When a plan event (i.e., a plan amendment, curtailment or settlement) occurs, IAS 19 requires a company to update its assumptions and remeasure its net defined benefit liability or asset. The IAS 19 amendments that are adopted clarify that after a plan event, entities would use these updated assumptions to measure current service cost and net interest for the remainder of the reporting period after the plan event. These amendments had no impact on Shell.

Annual Improvement Cycle 2015-2017

The Annual Improvements to IFRS Standards 2015-2017 Cycle includes minor amendments affecting IFRS 3 Business combinations, IFRS 11 Joint arrangements, IAS 12 Income taxes, and IAS 23 Borrowing costs. None of the amendments had a material impact on Shell.

IFRIC 23 Uncertainty over income tax treatments ("IFRIC 23")

IFRIC 23 clarifies the recognition and measurement for income tax when it is unclear whether a taxation authority will accept the tax treatment claimed. An uncertain tax position arises where there is more than one possible interpretation of how tax regulations apply to a given transaction or event. The interpretation requires the Company to determine whether uncertain tax treatments are assessed separately or as a group. The interpretation also requires an assumption that a taxation authority has full knowledge of all relevant information. Where it is not probable that a taxation authority will accept an uncertain tax treatment, it requires the Company to reflect the effect of the uncertainty in the accounting tax position. Finally, reassessment should be performed on a yearly basis in the event of changes in facts and circumstances.

Based on the assessment performed, this interpretation had no material impact on Shell's uncertain income tax accounting positions recognised.

NATURE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements are presented in US dollars (dollars) and comprise the financial statements of the Company and its subsidiaries, being those entities over which the Company has control, either directly or indirectly, through exposure or rights to their variable returns and the ability to affect those returns through its power over the entities. Information about subsidiaries at December 31, 2019, can be found in 'Appendix 1: Significant Subsidiaries and Other Related Undertakings'.

Subsidiaries are consolidated from the date on which control is obtained until the date that such control ceases, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from such transactions, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Non-controlling interest represents the proportion of income, other comprehensive income and net assets in subsidiaries that is not attributable to the Company's shareholders.

CURRENCY TRANSLATION

Foreign currency transactions are translated using the exchange rate at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at quarter-end exchange rates of monetary assets and liabilities denominated in foreign currencies (including those in respect of inter-company balances, unless related to loans of a long-term investment nature) are recognised in income. This is

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2A – SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES continued

except when recognised in other comprehensive income in respect of cash flow or net investment hedges, and presented within interest and other income or within purchases where not related to financing. Share capital issued in currencies other than the dollar is translated at the exchange rate at the date of issue.

On consolidation, assets and liabilities of non-dollar entities are translated to dollars at year-end rates of exchange, while their statements of income, other comprehensive income and cash flows are translated at quarterly average rates. The resulting translation differences are recognised as currency translation differences within other comprehensive income. Upon sale of all or part of an interest in, or upon liquidation of, an entity, the appropriate portion of cumulative currency translation differences related to that entity are generally recognised in income.

REVENUE RECOGNITION (from January 1, 2018)

Revenue from sales of oil, natural gas, chemicals and other products is recognised at the transaction price to which Shell expects to be entitled, after deducting sales taxes, excise duties and similar levies. For contracts that contain separate performance obligations, the transaction price is allocated to those separate performance obligations by reference to their relative standalone selling prices.

Revenue is recognised when control of the products has been transferred to the customer. For sales by Integrated Gas and Upstream operations, this generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism; for sales by refining operations, it is either when the product is placed onboard a vessel or offloaded from the vessel, depending on the contractually agreed terms; and for sales of oil products and chemicals, it is either at the point of delivery or the point of receipt, depending on contractual conditions.

Revenue resulting from hydrocarbon production from properties in which Shell has an interest with partners in joint arrangements is recognised on the basis of Shell's volumes lifted and sold. Revenue resulting from the production of oil and natural gas under production-sharing contracts ("PSCs") is recognised for those amounts relating to Shell's cost recoveries and Shell's share of the remaining production. Gains and losses on derivative contracts and the revenue and costs associated with other contracts that are classified as held primarily for the purpose of being traded are reported on a net basis in the Consolidated Statement of Income. Purchases and sales of hydrocarbons under exchange contracts that are necessary to obtain or reposition feedstocks for refinery operations are presented net in the Consolidated Statement of Income.

Revenue resulting from arrangements that are not considered contracts with customers is presented as revenue from other sources.

REVENUE RECOGNITION (prior to January 1, 2018)

Revenue from sales of oil, natural gas, chemicals and other products is recognised at the fair value of consideration received or receivable, after deducting sales taxes, excise duties and similar levies, when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. For sales by Integrated Gas and Upstream operations, this generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism; for sales by refining operations, it is either when product is placed onboard a vessel or offloaded from the vessel, depending on the contractually agreed terms; and for sales of oil products and chemicals, it is either at the point of delivery or the point of receipt, depending on contractual conditions.

Revenue resulting from hydrocarbon production from properties in which Shell has an interest with partners in joint arrangements is recognised on the basis of Shell's working interest (entitlement method). Revenue resulting from the production of oil and natural gas under PSCs is recognised for those amounts relating to Shell's cost recoveries and Shell's share of the remaining production. Gains and losses on derivative contracts and the revenue and costs associated with other contracts that are classified as held for trading purposes are reported on a net basis in the Consolidated Statement of Income. Purchases and sales of hydrocarbons under exchange contracts that are necessary to obtain or reposition feedstocks for refinery operations are presented net in the Consolidated Statement of Income.

RESEARCH AND DEVELOPMENT

Development costs that are expected to generate probable future economic benefits are capitalised as intangible assets. All other research and development expenditure is recognised in income as incurred.

EXPLORATION COSTS

Hydrocarbon exploration costs are accounted for under the successful efforts method: exploration costs are recognised in income when incurred, except that exploratory drilling costs, including in respect of the recapitalisation of depreciation, are included in property, plant and equipment pending determination of proved reserves. Exploration costs capitalised in respect of exploration wells that are more than 12 months old are written off unless: (a) proved reserves are booked; or (b) (i) they have found commercially producible quantities of reserves and (ii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future or other activities are being undertaken to sufficiently progress the assessing of reserves and the economic and operating viability of the project.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Recognition

Property, plant and equipment comprise assets owned by Shell, assets held by Shell under lease contracts, and assets operated by Shell as contractor in PSCs. They include rights and concessions in respect of properties with proved reserves ("proved properties") and with no proved reserves ("unproved properties"). Property, plant and equipment, including expenditure on major inspections, and intangible assets are initially recognised in the Consolidated Balance Sheet at cost where it is probable that they will generate future economic benefits. This includes capitalisation of decommissioning and restoration costs associated with provisions for asset retirement (see 'Provisions'), certain development costs (see 'Research and development') and the effects of associated cash flow hedges (see 'Financial instruments (from January 1, 2018)') as applicable. The accounting for exploration costs is described separately (see 'Exploration costs'). Intangible assets include goodwill, liquefied natural gas ("LNG") off-take and sales contracts obtained through acquisition, software costs and trademarks. Interest is capitalised as an increase in property, plant and equipment, on major capital projects during construction.

Property, plant and equipment and intangible assets are subsequently carried at cost less accumulated depreciation, depletion and amortisation (including any impairment). Gains and losses on sale are determined by comparing the proceeds with the carrying amounts of assets sold and are recognised in income, within interest and other income.

An asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, which is when the sale is highly probable, and it is available for immediate sale. Assets classified as held for sale are measured at the lower of the carrying amount upon classification and the fair value less costs to sell.

Depreciation, depletion and amortisation

Property, plant and equipment related to hydrocarbon production activities are in principle depreciated on a unit-of-production basis over the proved developed reserves of the field concerned, other than assets whose useful lives differ from the lifetime of the field which are depreciated applying the straight-line method. However, for certain Upstream assets, the use for this purpose of proved developed reserves, which are determined using the SEC-mandated yearly average oil and gas prices, would result in depreciation charges for these assets which do not reflect the pattern in which their future economic benefits are expected to be consumed as, for example, it may result in assets with long-term expected lives being depreciated in full within one year. Therefore, in these instances, other approaches are applied to determine the reserves base for the purpose of calculating depreciation, such as using management's expectations of future oil and gas prices rather than yearly average prices, to provide a phasing of periodic depreciation charges that more appropriately reflects the expected utilisation of the assets concerned.

Rights and concessions in respect of proved properties are depleted on the unit-of-production basis over the total proved reserves of the relevant area. Where individually insignificant, unproved properties may be grouped and depreciated based on factors such as the average concession term and past experience of recognising proved reserves.

Property, plant and equipment held under leases contracts and capitalised LNG off-take and sales contracts are depreciated or amortised over the term of the respective contract. Other property, plant and equipment and intangible assets are depreciated or amortised on a straight-line basis over their estimated useful lives, except for goodwill, which is not amortised. They include refineries and chemical plants (for which the useful life is generally 20 years), retail service stations (15 years), upgraders (30 years) and major inspection costs, which are depreciated over the estimated period before the next planned major inspection (three to five years).

On classification of an asset as held for sale, depreciation ceases.

Estimates of the useful lives and residual values of property, plant and equipment and intangible assets are reviewed annually and adjusted if appropriate.

Impairment

The carrying amount of goodwill is tested for impairment annually; in addition, assets other than unproved properties (see 'Exploration costs') are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable. On classification as held for sale, the carrying amounts of property, plant and equipment and intangible assets are also reviewed. 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 (see 'Fair value measurements') 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. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices, market supply and demand, potential costs associated with operational GHG emissions, and forecast product and refining margins. In addition, management takes into consideration the expected useful lives of the refineries, and exploration and production assets, and expected production volumes. The latter takes into account assessments of field and reservoir performance and includes expectations about both proved reserves and volumes that are expected to constitute proved reserves in the future (unproved volumes), which are risk-weighted utilising geological, production, recovery and economic projections. Cash flow estimates are risk-adjusted to reflect local conditions as appropriate and discounted at a rate based on Shell's marginal cost of debt.

Impairments, except those related to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed.

Impairment losses and reversals are reported within depreciation, depletion and amortisation.

Judgements and estimates

Proved oil and gas reserves

Unit-of-production depreciation, depletion and amortisation charges are principally measured based on management's estimates of proved developed oil and gas reserves. Also, exploration drilling costs are capitalised pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved reserves are estimated by a central group of reserves experts. The estimated proved reserves are made by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Yearly average oil and gas prices are applied in the determination of proved reserves. Estimates of proved reserves are inherently imprecise, require the application of judgement and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms, legislation or development plans.

Changes to estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of exploration and production assets. It is expected, however, that in the normal course of business the diversity of the asset portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being recognised in income in that period.

Judgement is involved in determining when to use an alternative reserves base in order to appropriately reflect the expected utilisation of the assets concerned (see 'Depreciation, depletion and amortisation').

Information about the carrying amounts of exploration and production assets and the amounts charged to income, including depreciation, depletion and amortisation and the quantitative impact of the use of an alternative reserve base, is presented in Note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2A – SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

continued

Judgements and estimates

Impairment

For the purposes of determining whether impairment of assets has occurred, and the extent of any impairment loss or its reversal, the key assumptions management uses in estimating risk-adjusted future cash flows for value-in-use measures are future oil and gas prices, potential costs associated with operational GHG emissions, expected production volumes and refining margins appropriate to the local circumstances and environment. These assumptions and the judgements of management that are based on them are subject to change as new information becomes available. Changes in economic conditions can affect the rate used to discount future cash flow estimates or the risk-adjustment in the future cash flows.

Estimation is involved with respect to the expected life of refineries and chemicals sites, and also including management's view on the future development of refining margins.

The determination of cash-generating units requires judgement. Changes in this determination could impact the calculation of value in use and therefore the conclusion on the recoverability of assets' carrying amounts when performing an impairment test.

Judgement, which is subject to change as new information becomes available, can be required in determining when an asset is classified as held for sale. A change in that judgement could result in impairment charges affecting income, depending on whether classification requires a write down of the asset to its fair value less costs to sell.

Significant estimates

Future commodity price assumptions, presented in Note 8, tend to be stable because management does not consider short-term increases or decreases in prices as being indicative of long-term levels, but they are nonetheless subject to change. Expected production volumes, which comprise proved reserves and unproved volumes, are used for impairment testing because management believes this to be the most appropriate indicator of expected future cash flows. As discussed in 'Proved oil and gas reserves' above, reserves estimates are inherently imprecise. Furthermore, projections about unproved volumes are based on information that is necessarily less robust than that available for mature reservoirs. Due to the nature and geographical spread of the business activity in which those assets are used, it is typically not practicable to estimate the likelihood or extent of impairments under different sets of assumptions for Shell overall.

Changes in assumptions could affect the carrying amounts of assets, and any impairment losses and reversals will affect income.

Forecast refining margins are a key input for impairment testing in Downstream. Management's estimate of longer-term refining margins is based on the mean reversion of markets, unless a fundamental shift in markets has been identified, over the life of the refineries. Under this approach, that is consistently applied, it is assumed that refining margins will revert to historical averages over time.

Changes in assumptions could affect the carrying amounts of assets and estimation of environmental provisions. Any impairment losses and reversals will affect income.

Information about the carrying amounts of assets and impairments is presented in Notes 7 and 8.

LEASES (from January 1, 2019)

A contract or parts of contracts, that conveys the right to control the use of an identified asset for a period of time in exchange for payments to be made to the owners (lessors) are accounted for as leases. Contracts are assessed to determine whether a contract is, or contains, a lease at the inception of a contract or when the terms and conditions of a contract are significantly changed. The lease term is the non-cancellable period of a lease, together with contractual options to extend or to terminate the lease early, where it is reasonably certain that an extension option will be exercised or a termination option will not be exercised.

At the commencement of a lease contract, a right-of-use asset and a corresponding lease liability are recognised, unless the lease term is 12 months or less. The commencement date of a lease is the date the underlying asset is made available for use. The lease liability is measured at an amount equal to the present value of the lease payments during the lease term that are not paid at that date. The lease liability includes contingent rentals and variable lease payments that depend on an index, rate, or where they are fixed payments in substance. The lease liability is remeasured when the contractual cash flows of variable lease payments change due to a change in an index or rate when the lease term changes following a reassessment.

Lease payments are discounted using the interest rate implicit in the lease. If that rate is not readily available, the incremental borrowing rate is applied. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar nature and value to the right-of-use asset in a similar economic environment.

In general, a corresponding right-of-use asset is recognised for an amount equal to each lease liability, adjusted by the amount of any pre-paid lease payment relating to the specific lease contract. The depreciation on right-of-use assets is recognised in income unless capitalised as exploration drilling cost (see 'Exploration cost') or capitalised when the right-of-use asset is used to construct another asset.

Where Shell is the lessor in a lease arrangement at inception, the lease arrangement will be classified as a finance lease or an operating lease. Classification is based on the extent to which the risks and rewards incidental to ownership of the underlying asset lie with the lessor or the lessee.

Where Shell, usually in its capacity as operator, has entered into a lease contract on behalf of a joint arrangement, a lease liability is recognised to the extent that Shell has primary responsibility for the lease liability. A finance sub-lease is subsequently recognised if the related right-of-use asset is subleased to the joint arrangement. This is usually the case when the joint arrangement has the right to direct the use of the asset.

Impairment of the right-of-use asset

Right-of-use assets are subject to existing impairment requirements as set out in 'Property, plant and equipment' (see Note 8).

Judgements and estimates

A lease term includes optional lease periods where it is reasonably certain to exercise the option to extend or not to exercise the option to terminate the lease. Determination of the lease term is subject to judgement and has an impact on the measurement of the lease liability and related right-of-use asset.

Where the rate implicit in the lease is not readily available, an incremental borrowing rate is applied. This incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar nature and value to the right-of-use asset in a similar economic environment. Determination of the incremental borrowing rate requires estimation. The incremental borrowing rate is determined using the risk-free rate over a matched term, adjusted for factors such as the credit rating of the lessee and the borrowing currency.

Significant estimate

The operating leases that were recognised on the balance sheet following the adoption of IFRS 16 (see Note 3) were measured applying an incremental borrowing rate at transition date to the future payments under these lease contracts. To determine the incremental borrowing rate for each lease contract, a risk-free rate at transition date was applied, adjusted for other factors such as the credit rating of the entity that entered into the lease contract, a country risk premium, the impact of currency, an asset specific element and the term of the lease contract. All factors are subject to estimation. If a higher or lower incremental borrowing rate had been applied, the lease liability and corresponding right-of-use asset would respectively have been lower or higher. The incremental borrowing rate will not be revised each period and will not result in a material adjustment to the carrying amount of lease liability and right-of-use asset in the future years.

LEASES (prior to January 1, 2019)

Agreements under which payments are made to owners in return for the right to use an asset for a period are accounted for as leases. Leases that transfer substantially all the risks and rewards of ownership are recognised at the commencement of the lease term as finance leases within property, plant and equipment and debt at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Finance lease payments are apportioned between interest expense and repayments of debt. All other leases are classified as operating leases and the cost is recognised in income on a straight-line basis, except where capitalised as exploration drilling costs (see 'Exploration costs').

JOINT ARRANGEMENTS AND ASSOCIATES

Arrangements under which Shell has contractually agreed to share control (see 'Nature of the Consolidated Financial Statements' for the definition of control) with another party or parties are joint ventures where the parties have rights to the net assets of the arrangement, or joint operations where the parties have rights to the assets and obligations for the liabilities relating to the arrangement. Investments in entities over which Shell has the right to exercise significant influence but neither control nor joint control are classified as associates. Information about incorporated joint arrangements and associates at December 31, 2019, can be found in 'Appendix 1: Significant Subsidiaries and Other Related Undertakings'.

Investments in joint ventures and associates are accounted for using the equity method, under which the investment is initially recognised at cost and subsequently adjusted for the Shell share of post-acquisition income less dividends received and the Shell share of other comprehensive income and other movements in equity, together with any loans of a long-term investment nature. Where necessary, adjustments are made to the financial statements of joint ventures and associates to bring the accounting policies used into line with those of Shell. In an exchange of assets and liabilities for an interest in a joint venture, the non-Shell share of any excess of the fair value of the assets and liabilities transferred over the pre-exchange carrying amounts is recognised in income. Unrealised gains on other transactions between Shell and its joint ventures and associates are eliminated to the extent of Shell's interest in them; unrealised losses are treated similarly but may also result in an assessment of whether the asset transferred is impaired.

Shell recognises its assets and liabilities relating to its interests in joint operations, including its share of assets held jointly and liabilities incurred jointly with other partners.

INVENTORIES

Inventories are stated at cost or net realisable value, whichever is lower. Cost comprises direct purchase costs (including transportation), and associated costs incurred in bringing inventories to their present condition and location, and is determined using the first-in, first-out ("FIFO") method for oil, gas and chemicals and by the weighted average cost method for materials.

TAXATION

The charge for current tax is calculated based on the income reported by the Company and its subsidiaries, as adjusted for items that are non-taxable or disallowed and using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is determined, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Balance Sheet and on unused tax losses and credits carried forward.

Deferred tax assets and liabilities are calculated using the enacted or substantively enacted rates that are expected to apply when an asset is realised or a liability is settled. They are not recognised where they arise on the initial recognition of goodwill or of an asset or liability in a transaction (other than in a business combination) that, at the time of the transaction, affects neither accounting nor taxable profit, or in respect of taxable temporary differences associated with subsidiaries, joint ventures and associates where the reversal of the respective temporary difference can be controlled by Shell and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and credits carried forward can be utilised.

Income tax receivables and payables as well as deferred tax assets and liabilities include provisions for uncertain income tax positions/treatments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2A – SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES continued

Income taxes are recognised in income except when they relate to items recognised in other comprehensive income, in which case the tax is recognised in other comprehensive income. Income tax assets and liabilities are presented separately in the Consolidated Balance Sheet except where there is a right of offset within fiscal jurisdictions and an intention to settle such balances on a net basis.

Judgements and estimates

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. Provisions for uncertain income tax positions/treatments are measured at the most likely amount or the expected value, whichever method is more appropriate. Generally, uncertain tax treatments are assessed on an individual basis, except where they are expected to be settled collectively. It is assumed that taxing authorities will examine positions taken if they have the right to do so and that they have full knowledge of the relevant information. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognised in income in the period in which the change occurs. This requires the application of judgement as to the ultimate outcome, which can change over time depending on facts and circumstances. Judgements mainly relate to transfer pricing, including inter-company financing, interpretation of PSCs, expenditure deductible for tax purposes and taxation arising on disposal.

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in respect of deferred tax assets as well as in the amounts recognised in income in the period in which the change occurs.

Taxation information, including charges and deferred tax assets and liabilities, is presented in Note 16. Income taxes include taxes at higher rates levied on income from certain Integrated Gas and Upstream activities.

RETIREMENT BENEFITS

Benefits in the form of retirement pensions and healthcare and life insurance are provided to certain employees and retirees under defined benefit and defined contribution plans.

Obligations under defined benefit plans are calculated annually by independent actuaries using the projected unit credit method, which takes into account employees' years of service and, for pensions, average or final pensionable remuneration, and are discounted to their present value using interest rates of high-quality corporate bonds denominated in the currency in which the benefits will be paid and of a duration consistent with the plan obligations. Where plans are funded, payments are made to independently managed trusts; assets held by those trusts are measured at fair value. Defined benefit plan surpluses are recognised as assets to the extent that they are considered recoverable, which is generally by way of a refund or lower future employer contributions.

The amounts recognised in income in respect of defined benefit plans mainly comprise service cost and net interest. Service cost comprises principally the increase in the present value of the obligation for benefits resulting from employee service during the period (current service cost) and also amounts relating to past service and settlements or amendments of plans. Plan amendments are changes to benefits and are generally recognised when all legal and regulatory approvals have been received and the effects have been communicated to members. Net interest is calculated using the net defined benefit liability or asset matched against the discount rate yield curve at the beginning of each year for each plan. Remeasurements of the net defined benefit liability or asset resulting from actuarial gains and losses, and the return on plan assets excluding the amount recognised in income, are recognised in other comprehensive income.

For defined contribution plans, pension expense represents the amount of employer contributions payable for the period.

Significant judgements and estimates

Defined benefit obligations and plan assets, and the resulting liabilities and assets that are recognised, are subject to significant volatility as actuarial assumptions regarding future outcomes and market values change. Substantial judgement is required in determining the actuarial assumptions, which vary for the different plans to reflect local conditions but are determined under a common process in consultation with independent actuaries. The assumptions applied in respect of each plan are reviewed annually and adjusted where necessary to reflect changes in experience and actuarial recommendations.

Information about the amounts reported in respect of defined benefit pension plans, assumptions applicable to the principal plans and their sensitivity to changes are presented in Note 17.

PROVISIONS

Provisions are recognised at the balance sheet date at management's best estimate of the expenditure required to settle the present obligation. Non-current amounts are discounted at a rate intended to reflect the time value of money. The carrying amounts of provisions are regularly reviewed and adjusted for new facts or changes in law or technology.

Provisions for decommissioning and restoration costs, which arise principally in connection with hydrocarbon production facilities and pipelines, are measured on the basis of current requirements, technology and price levels; the present value is calculated using amounts discounted over the useful economic life of the assets. The liability is recognised (together with a corresponding amount as part of the related property, plant and equipment) once an obligation crystallises in the period when a reasonable estimate can be made. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related property, plant and equipment. However, where there is no related asset, or the change reduces the carrying amount to nil, the effect, or the amount in excess of the reduction in the related asset to nil, is recognised in income.

Redundancy provisions are recognised when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Other provisions are recognised in income in the period in which an obligation arises and the amount can be reasonably estimated. Provisions are measured based on current legal requirements and existing technology where applicable. Recognition of any joint and several liability is based on management's best estimate of the final pro rata share of the liability. Provisions are determined independently of expected insurance recoveries. Recoveries are recognised when virtually certain of realisation.

Significant estimates

Estimates of provisions for future decommissioning and restoration costs are recognised and based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes. The discount rate applied is reviewed annually.

Information about decommissioning and restoration provisions is presented in Note 18.

FINANCIAL INSTRUMENTS (from January 1, 2018)

Financial assets and liabilities are presented separately in the Consolidated Balance Sheet except where there is a legally enforceable right of offset and Shell has the intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial Assets

Financial assets are classified at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. 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. It is 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 fair value through other comprehensive income instead of fair value through profit and loss. Dividends received on equity instruments are recognised as other income in profit or loss when the right of payment has been established, except when Shell 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.

Investments in securities

Investments in securities ("securities") comprise equity and debt securities. Equity securities are carried at fair value. Generally, unrealised holding gains and losses are recognised in other comprehensive income. On sale, net gains and losses previously accumulated in other comprehensive income are transferred to retained earnings. Debt securities are generally carried at fair value with unrealised holding gains and losses recognised in other comprehensive income. On sale, net gains and losses previously accumulated in other comprehensive income are recognised in income.

Impairment of financial assets

The expected credit loss model is applied for recognition and measurement of impairments in financial assets measured at amortised cost or at fair value through other comprehensive income. The expected credit loss model is also applied for financial guarantee contracts to which IFRS 9 applies and are not accounted for at fair value through profit or loss. The loss allowance for the financial asset is measured at an amount equal to the 12-month expected credit losses. 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. Changes in loss allowances are recognised in profit and loss. For trade receivables, a simplified impairment approach is applied recognising expected lifetime losses from initial recognition.

Financial Liabilities

Financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss, such as instruments held for trading, or Shell has opted to measure them at fair value through profit or loss. Debt and trade payables are recognised initially at fair value based on amounts exchanged, net of transaction costs, and subsequently at amortised cost except for fixed rate debt subject to fair value hedging which is remeasured for the hedged risk (see below). Interest expense on debt is accounted for using the effective interest method, and other than interest capitalised, is recognised in income. For financial liabilities that are measured under the fair value option, the change in the fair value related to own credit risk is recognised in other comprehensive income. The remaining fair value change is recognised to fair value through profit and loss.

Derivative contracts and hedges

Derivative contracts are used in the management of interest rate risk, foreign exchange risk, commodity price risk, and foreign currency cash balances. Derivatives that are not closely related to the host contract in terms of economic characteristics and risks of which the host contract is not a financial asset, are separated from their host contract and recognised at fair value with the associated gains and losses recognised in income.

Certain derivative contracts qualify and are designated either as a "fair value" hedge of the change in fair value of a recognised asset or liability or an unrecognised firm commitment or as a "cash flow" hedge for the change in cash flows to be received or paid relating to a recognised asset or liability or a highly probable forecast transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2A – SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES continued

A change in the fair value of a fair value hedge is recognised in income, together with the consequential adjustment to the carrying amount of the hedged item. The effective portion of a change in fair value of a derivative contract designated as a cash flow hedge is recognised in other comprehensive income until the hedged transaction occurs; any ineffective portion is recognised in income. Where the hedged item is a non-financial asset or liability, the amount in accumulated other comprehensive income is transferred to the initial carrying amount of the asset or liability (reclassified to the balance sheet); for other hedged items, the amount in accumulated other comprehensive income is reclassified to income when the hedged transaction affects income.

The effective portion of a change due to retranslation at quarter-end exchange rates in the carrying amount of debt and the principal amount of derivative contracts used to hedge net investments in foreign operations is recognised in other comprehensive income until the related investment is sold or liquidated; any ineffective portion is recognised in income.

All relationships between hedging instruments and hedged items are documented, as well as risk management objectives and strategies for undertaking hedge transactions. The effectiveness of hedges is also continually assessed and hedge accounting is discontinued when there is a change in the risk management strategy.

Unless designated as hedging instruments, contracts to sell or purchase non-financial items that can be settled net as if the contracts were financial instruments and that do not meet expected own use requirements (typically, forward sale and purchase contracts for commodities in trading operations), and contracts that are or contain written options, are recognised at fair value; associated gains and losses are recognised in income.

Derivatives that are held primarily for the purpose of trading are presented as current in the Consolidated Balance Sheet.

FINANCIAL INSTRUMENTS (prior to January 1, 2018)

Financial assets and liabilities are presented separately in the Consolidated Balance Sheet except where there is a legally enforceable right of offset and Shell has the intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial assets

Investments in securities

Investments in securities (also referred to as "securities") comprise equity and debt securities classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment. Unrealised holding gains and losses other than impairments are recognised in other comprehensive income, except for translation differences arising on foreign currency debt securities, which are recognised in income. On maturity or sale, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, including offsetting bank overdrafts, short-term bank deposits, money market funds, reverse repos and similar instruments that have a maturity of three months or less at the date of purchase.

Trade receivables

Trade receivables are recognised initially at fair value based on amounts exchanged and subsequently at amortised cost less any impairment.

Financial liabilities

Debt and trade payables are recognised initially at fair value based on amounts exchanged, net of transaction costs, and subsequently at amortised cost except for fixed rate debt subject to fair value hedging which is remeasured for the hedged risk (see below). Interest expense on debt is accounted for using the effective interest method and, other than interest capitalised, is recognised in income.

Derivative contracts and hedges

Derivative contracts are used in the management of interest rate risk, foreign exchange risk and commodity price risk, and in the management of foreign currency cash balances. These contracts are recognised at fair value.

Certain derivative contracts qualify and are designated either as a "fair value" hedge of the change in fair value of a recognised asset or liability or an unrecognised firm commitment or as a "cash flow" hedge of the change in cash flows to be received or paid relating to a recognised asset or liability or a highly probable forecast transaction.

A change in the fair value of a hedging instrument designated as a fair value hedge is recognised in income, together with the consequential adjustment to the carrying amount of the hedged item. The effective portion of a change in fair value of a derivative contract designated as a cash flow hedge is recognised in other comprehensive income until the hedged transaction occurs; any ineffective portion is recognised in income. Where the hedged item is a non-financial asset or liability, the amount in accumulated other comprehensive income is transferred to the initial carrying amount of the asset or liability (reclassified to the balance sheet); for other hedged items, the amount in accumulated other comprehensive income is reclassified to income when the hedged transaction affects income.

The effective portion of a change due to retranslation at quarter-end exchange rates in the carrying amount of debt and the principal amount of derivative contracts used to hedge net investments in foreign operations is recognised in other comprehensive income until the related investment is sold or liquidated; any ineffective portion is recognised in income.

All relationships between hedging instruments and hedged items are documented, as well as risk management objectives and strategies for undertaking hedge transactions. The effectiveness of hedges is also continually assessed and hedge accounting is discontinued when a hedge ceases to be highly effective.

Gains and losses on derivative contracts not qualifying and designated as hedges, including forward sale and purchase contracts for commodities in trading operations that may be settled by the physical delivery or receipt of the commodity, are recognised in income.

Unless designated as hedging instruments, contracts to sell or purchase non-financial items that can be settled net as if the contracts were financial instruments and that do not meet expected own use requirements (typically, forward sale and purchase contracts for commodities in trading operations), and contracts that are or contain written options, are recognised at fair value; associated gains and losses are recognised in income.

Derivatives embedded within contracts that are not already required to be recognised at fair value, and that are not closely related to the host contract in terms of economic characteristics and risks, are separated from their host contract and recognised at fair value; associated gains and losses are recognised in income.

FAIR VALUE MEASUREMENTS

Fair value measurements are estimates of the amounts for which assets or liabilities could be transferred at the measurement date, based on the assumption that such transfers take place between participants in principal markets and, where applicable, taking highest and best use into account.

Judgements and estimates

Where available, fair value measurements are derived from prices quoted in active markets for identical assets or liabilities. In the absence of such information, other observable inputs are used to estimate fair value. Inputs derived from external sources are corroborated or otherwise verified, as appropriate. In the absence of publicly available information, fair value is determined using estimation techniques that take into account market perspectives relevant to the asset or liability, in as far as they can reasonably be ascertained, based on predominantly unobservable inputs. For derivative contracts where publicly available information is not available, fair value estimations are generally determined using models and other valuation methods, the key inputs for which include future prices, volatility, price correlation, counterparty credit risk and market liquidity, as appropriate; for other assets and liabilities, fair value estimations are generally based on the net present value of expected future cash flows.

SHARE-BASED COMPENSATION PLANS

The fair value of share-based compensation expense arising from the Performance Share Plan ("PSP") and the Long-term Incentive Plan ("LTIP") – Shell's main equity-settled plans – is estimated using a Monte Carlo option pricing model and is recognised in income from the date of grant over the vesting period with a corresponding increase directly in equity. The model projects and averages the results for a range of potential outcomes for the vesting conditions, the principal assumptions for which are the share price volatility and dividend yields for Shell and four of its main competitors over the last three years and the last 10 years. Prior to the adoption of the IFRS 2 amendments in 2018, changes in the fair value of share-based compensation for cash-settled plans were recognised in income with a corresponding change in liabilities.

SHARES HELD IN TRUST

Shares in the Company, which are held by employee share ownership trusts and trust-like entities, are not included in assets but are reflected at cost as a deduction from equity as shares held in trust.

ACQUISITIONS AND SALES OF INTERESTS IN A BUSINESS

Assets acquired and liabilities assumed when control is obtained over a business, and when an interest or an additional interest is acquired in a joint operation which is a business, are recognised at their fair value at the date of the acquisition; the amount of the purchase consideration above this value is recognised as goodwill. When control is obtained, any non-controlling interest is recognised as the proportionate share of the identifiable net assets. The acquisition of a non-controlling interest in a subsidiary and the sale of an interest while retaining control are accounted for as transactions within equity. The difference between the purchase consideration or sale proceeds after tax and the relevant proportion of the non-controlling interest, measured by reference to the carrying amount of the interest's net assets at the date of acquisition or sale, is recognised in retained earnings as a movement in equity attributable to Royal Dutch Shell plc shareholders.

CONSOLIDATED STATEMENT OF INCOME PRESENTATION

Purchases reflect all costs related to the acquisition of inventories and the effects of the changes therein, and include associated costs incurred in conversion into finished or intermediate products. Production and manufacturing expenses are the costs of operating, maintaining and managing production and manufacturing assets. Selling, distribution and administrative expenses include direct and indirect costs of marketing and selling products.

2B – CHANGES TO IFRS NOT YET ADOPTED

Inter-Bank Offered Rate ("IBOR") Reform – Phase 1

Amendments to IFRS 9 *Financial Instruments* ("IFRS 9") and IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7") were issued in September 2019. The amendments contain a temporary exception from applying specific hedge accounting requirements pre-IBOR reform (Phase 1). Further amendments to IFRS standards (Phase 2) are expected to address potential financial reporting implications when an existing interest rate benchmark is replaced with an alternative.

Shell's fixed rate debt hedged to floating rate will be affected by the market-wide replacement of London Inter-Bank Offered Rate ("LIBOR") to alternative risk-free reference rates, most significantly by reform of dollar LIBOR.

The majority of Shell's debt related interest rate and currency swaps were designated in fair value hedge relationships at December 31, 2019. In relation to the required prospective assessment of the existence of an economic relationship between the hedged items and hedging instruments for these hedge relationships, Shell will apply the temporary exception in IFRS 9 on hedge relationships directly affected by the IBOR reform. By applying the exception, Shell anticipates that the interest rate benchmark on which the hedged risk is based is not altered as a result of the IBOR reform.

The notional amount of hedging instruments designated in hedge relationships affected by the reform, at December 31, 2019, was \$31,823 million.

A Group-wide project is in progress to manage the transition to alternative benchmark rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2B – CHANGES TO IFRS NOT YET ADOPTED continued

IFRS 17 *Insurance contracts ("IFRS 17")*

IFRS 17 was issued in 2017, and is currently envisaged to become effective for annual reporting periods beginning on or after January 1, 2021 (the IASB is presently reviewing the effective date, with a potential extension by one or two years). The IFRS 17 model combines a current balance sheet measurement of insurance contracts with recognition of profit over the period that services are provided. The general model in the standard requires insurance contract liabilities to be measured using probability-weighted current estimates of future cash flows, an adjustment for risk, and a contractual service margin representing the profit expected from fulfilling the contracts. Effects of changes in the estimates of future cash flows and the risk adjustment relating to future services are recognised over the period services are provided rather than immediately in profit or loss. Shell is in the process of evaluating the initial impact of this pronouncement.

3 – ADOPTION OF IFRS 16 LEASES

IFRS 16 was adopted as from January 1, 2019. All operating lease contracts, with limited exceptions, were recognised on the balance sheet by recognising right-of-use assets and corresponding lease liabilities at the transition date. Shell applied the modified retrospective transition method, and consequently comparative information is not restated. As a practical expedient, 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* ("IAS 17") and IFRIC 4 *Determining whether an Arrangement contains a Lease*. At the adoption date, 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 January 1, 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 prepaid or accrued lease payments relating to the specific lease contract, as recognised on the balance sheet at December 31, 2018. Provisions for onerous lease contracts at December 31, 2018 were adjusted to the respective right-of-use assets recognised at January 1, 2019. As a practical expedient the recognition exemption for leases with a remaining term of less than 12 months from the adoption date was applied upon adoption.

At the transition date, the remaining lease payments were discounted, as required under the transition approach chosen, using the incremental borrowing rate as per the transition date of January 1, 2019. To determine the incremental borrowing rate for each lease contract, a risk-free rate at transition date was applied, adjusted for other factors such as the credit rating of the entity that entered into the lease contract, a country risk premium, the impact of currency, an asset specific element and the term the lease contract. The weighted average incremental borrowing rate applied upon transition was 7.2%.

Compared with the previous accounting for operating leases under IAS 17, the application of the new standard has a significant impact on the classification of expenditures and cash flows. It also impacts the timing of expenses recognised in the statement of income. With effect from 2019, expenses related to leases previously classified as operating leases are presented under 'Depreciation, depletion and amortisation' and 'Interest expense'. Before 2019, these were mainly included in 'Purchases, Production and manufacturing expenses', and 'Selling, distribution and administrative expenses'. Payments related to leases previously classified as operating leases are presented under 'Cash flow from financing activities' (before 2019 these were included in 'Cash flow from operating activities' and 'Cash flow from investing activities').

The adoption of the new standard had an accumulated impact at January 1, 2019 of \$4 million on equity following the recognition of lease liabilities of \$16.0 billion and additional right-of-use assets of \$15.6 billion and reclassifications mainly related to pre-paid leases and onerous contracts previously recognised.

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 January 1, 2019 is as follows:

Lease liabilities reconciliation

	\$ million
Undiscounted future minimum lease payments under operating leases at December 31, 2018	24,219
Impact of discounting	(5,167)
Leases not yet commenced at January 1, 2019	(2,586)
Short-term leases	(277)
Long-term leases expiring before December 31, 2019	(192)
Other reconciling items (net)	40
Additional lease liability at January 1, 2019	16,037
Finance lease liability at December 31, 2018	14,026
Total lease liability at January 1, 2019	30,063

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

Consolidated Balance Sheet

	Dec 31, 2018	IFRS 16 impact	\$ million Jan 1, 2019
Assets			
Non-current assets			
Intangible assets	23,586	-	23,586
Property, plant and equipment	223,175	15,558	238,733
Joint ventures and associates	25,329	-	25,329
Investments in securities	3,074	-	3,074
Deferred tax	12,097	-	12,097
Retirement benefits	6,051	-	6,051
Trade and other receivables [A]	7,826	(814)	7,012
Derivative financial instruments	574	-	574
	301,712	14,744	316,456
Current assets			
Inventories	21,117	-	21,117
Trade and other receivables	42,431	69	42,500
Derivative financial instruments	7,193	-	7,193
Cash and cash equivalents	26,741	-	26,741
	97,482	69	97,551
Total assets	399,194	14,813	414,007
Liabilities			
Non-current liabilities			
Debt	66,690	13,125	79,815
Trade and other payables [B]	2,735	(540)	2,195
Derivative financial instruments	1,399	-	1,399
Deferred tax	14,837	-	14,837
Retirement benefits	11,653	-	11,653
Decommissioning and other provisions [C]	21,533	(347)	21,186
	118,847	12,238	131,085
Current liabilities			
Debt	10,134	2,912	13,046
Trade and other payables	48,888	(23)	48,865
Derivative financial instruments	7,184	-	7,184
Taxes payable	7,497	-	7,497
Retirement benefits	451	-	451
Decommissioning and other provisions [C]	3,659	(318)	3,341
	77,813	2,571	80,384
Total liabilities	196,660	14,809	211,469
Equity			
Share capital	685	-	685
Shares held in trust	(1,260)	-	(1,260)
Other reserves	16,615	-	16,615
Retained earnings	182,606	4	182,610
Equity attributable to Royal Dutch Shell plc shareholders	198,646	4	198,650
Non-controlling interest	3,888	-	3,888
Total equity	202,534	4	202,538
Total liabilities and equity	399,194	14,813	414,007

[A] Mainly in respect of pre-paid leases.

[B] Mainly related to operating lease contracts that were measured at fair value under IFRS 3 Business Combinations following the acquisition of BG in 2016.

[C] Mainly in respect of onerous contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

4 – SEGMENT INFORMATION

General Information

Shell is an international energy company engaged in the principal aspects of the oil and gas industry and reports its business through the segments: Integrated Gas, Upstream, Downstream, and Corporate.

The Integrated Gas segment covers liquefied natural gas ("LNG") activities and the conversion of natural gas into gas-to-liquids fuels and other products, as well as the New Energies portfolio. It includes natural gas exploration and extraction and the operation of the upstream and midstream infrastructure necessary to deliver gas to market. It markets and trades natural gas, LNG, electricity and carbon-emission rights and also markets and sells LNG as a fuel for heavy-duty vehicles and marine vessels.

Upstream combines the following two operating segments: 1) Upstream, which is engaged in the exploration for and extraction of crude oil, natural gas and natural gas liquids, and the marketing and transportation of oil and gas, and 2) Oil Sands, which is engaged in the extraction of bitumen from mined oil sands and conversion into synthetic crude oil. These operating segments have similar economic characteristics because their earnings are significantly dependent on crude oil and natural gas prices and production volumes.

The Downstream segment is engaged in oil products and chemicals manufacturing, marketing and trading activities, that turn crude oil and other feedstocks into a range of products which are moved and marketed around the world for domestic, industrial and transport use.

The Corporate segment covers the non-operating activities supporting Shell, comprising Shell's holdings and treasury organisation, its self-insurance activities and its headquarters and central functions.

Basis of Segmental Reporting

Sales between segments are based on prices generally equivalent to commercially available prices. Third-party revenue and non-current assets information by geographical area are based on the country of operation of the group subsidiaries that report this information. Separate disclosure is provided for the UK as this is the Company's country of domicile.

Segment earnings are presented on a current cost of supplies basis ("CCS earnings"), which is the earnings measure used by the Chief Executive Officer for the purposes of making decisions about allocating resources and assessing performance. On this basis, the purchase price of volumes sold during the period is based on the current cost of supplies during the same period after making allowance for the tax effect. CCS earnings therefore exclude the effect of changes in the oil price on inventory carrying amounts.

With the adoption of IFRS 16, the interest expense on leases, formerly classified as operating leases, is reported under the Corporate segment, while depreciation related to the respective right-of-use assets is reported in the segment making use of the assets. This treatment is consistent with how formerly classified finance leases were treated.

Information by segment on a current cost of supplies basis is as follows:

2019

	Integrated Gas	Upstream	Downstream	Corporate	Total
Revenue:					
Third-party	41,322	9,965	293,545	45	344,877 [A][B]
Inter-segment	4,280	36,448	1,132	–	41,860
Share of profit/(loss) of joint ventures and associates (CCS basis)	1,791	379	1,725	(307)	3,588
Interest and other income, of which:	263	2,180	266	916	3,625
Interest income	–	–	–	899	899
Net gains on sale and revaluation of non-current assets and businesses	282	1,888	297	52	2,519
Other	(19)	292	(31)	(35)	207
Third-party and inter-segment purchases (CCS basis)	23,498	7,168	264,966	(6)	295,626
Production and manufacturing expenses	5,768	11,545	9,088	37	26,438
Selling, distribution and administrative expenses	716	48	9,280	449	10,493
Research and development expenses	181	452	329	–	962
Exploration expenses	281	2,073	–	–	2,354
Depreciation, depletion and amortisation charge, of which:	6,238	17,003	5,413	47	28,701
Impairment losses	579	2,576	627	–	3,782 [C]
Impairment reversals	–	–	(190)	–	(190)[D]
Interest expense	104	534	74	3,978	4,690
Taxation charge/(credit) (CCS basis)	2,242	5,954	1,241	(578)	8,859
CCS earnings	8,628	4,195	6,277	(3,273)	15,827

[A] Includes \$3,760 million of revenue from sources other than from contracts with customers, which mainly comprises the impact of fair value accounting of commodity derivatives.

[B] In March 2019, the IFRS Interpretation Committee ("IFRIC") finalised an agenda decision regarding 'Physical settlement of contracts to buy or sell a non-financial item (IFRS 9)'.

This agenda decision has been analysed and will be prospectively implemented from January 1, 2020. The impact will be limited to a reclassification within total revenue.

[C] Impairment losses comprise Property, plant and equipment (\$3,639 million) and Intangible assets (\$143 million).

[D] See Note 8.

2018

	Integrated Gas	Upstream	Downstream	Corporate	\$ million Total
Revenue:					
Third-party	43,764	9,892	334,680	43	388,379 [A]
Inter-segment	5,031	37,841	917	-	43,789 [B]
Share of profit/(loss) of joint ventures and associates (CCS basis)	2,273	285	1,785	(222)	4,121
Interest and other income, of which:	2,230	600	345	896	4,071
Interest income	-	-	-	772	772
Net gains on sale and revaluation of non-current assets and businesses	2,231	712	302	20	3,265
Other	(1)	(112)	43	104	34
Third-party and inter-segment purchases (CCS basis)	27,775	6,144	303,709	1	337,629
Production and manufacturing expenses	5,370	11,463	10,294	(157)	26,970
Selling, distribution and administrative expenses	458	200	10,142	560	11,360
Research and development expenses	186	493	307	-	986
Exploration expenses	208	1,132	-	-	1,340
Depreciation, depletion and amortisation charge, of which:	4,850	13,006	4,064	215	22,135
Impairment losses	200	1,065	424	7	1,696 [C]
Impairment reversals	-	(1,265)	-	-	(1,265) [D]
Interest expense	212	591	95	2,847	3,745 [E]
Taxation charge/(credit) (CCS basis)	2,795	8,791	1,515	(1,270)	11,831
CCS earnings	11,444	6,798	7,601	(1,479)	24,364

[A] Includes \$3,348 million of revenue from sources other than from contracts with customers, which mainly comprises the impact of fair value accounting of commodity derivatives.

[B] Inter-segment revenue has been revised to amend for transactions within segments that were previously reported as inter-segment revenue, and vice versa.

[C] Impairment losses comprise Property, plant and equipment (\$1,515 million) and Intangible assets (\$181 million).

[D] See Note 8.

[E] Interest expense has been reclassified between segments compared with prior year.

2017

	Integrated Gas	Upstream	Downstream	Corporate	\$ million Total
Revenue:					
Third-party	32,674	7,723	264,731	51	305,179
Inter-segment	4,096	32,469	1,090	-	37,655 [A]
Share of profit/(loss) of joint ventures and associates (CCS basis)	1,714	623	1,956	(129)	4,164
Interest and other income, of which:	687	1,188	154	437	2,466
Interest income	-	-	-	677	677
Net gains on sale and revaluation of non-current assets and businesses	301	1,189	136	14	1,640
Other	386	(1)	18	(254)	149
Third-party and inter-segment purchases (CCS basis)	22,478	5,535	234,321	20	262,354
Production and manufacturing expenses	5,120	12,119	9,519	(106)	26,652
Selling, distribution and administrative expenses	237	5	9,789	478	10,509
Research and development expenses	114	533	275	-	922
Exploration expenses	141	1,804	-	-	1,945
Depreciation, depletion and amortisation charge, of which:	4,965	17,303	3,877	78	26,223
Impairment losses	302	4,118	385	-	4,805 [B]
Impairment reversals	(10)	(605)	-	-	(615) [C]
Interest expense	248	744	109	2,941	4,042
Taxation charge/(credit) (CCS basis)	790	2,409	1,783	(636)	4,346
CCS earnings	5,078	1,551	8,258	(2,416)	12,471

[A] Inter-segment revenue has been revised to amend for transactions within segments that were previously reported as inter-segment revenue, and vice versa.

[B] Impairment losses comprise Property, plant and equipment (\$4,572 million) and Intangible assets (\$233 million).

[C] See Note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

4 – SEGMENT INFORMATION

Reconciliation of CCS earnings to income for the period

	2019	2018	2017	\$ million
CCS earnings	15,827	24,364	12,471	
Current cost of supplies adjustment:				
Purchases	784	(559)	1,252	
Taxation	(194)	116	(349)	
Share of profit of joint ventures and associates	15	(15)	61	
	605	(458)	964	
Income for the period	16,432	23,906	13,435	

Information by geographical area is as follows:

2019

	Europe	Asia, Oceania, Africa	USA	Other Americas	Total	\$ million
Third-party revenue, by origin	98,455 [A]	139,916 [B]	83,212	23,294	344,877	
Intangible assets, property, plant and equipment, joint ventures and associates at December 31	43,262 [C]	119,732	67,105	54,544	284,643	

[A] Includes \$41,094 million that originated from the UK.

[B] Includes \$84,282 million that originated from Singapore.

[C] Includes \$24,696 million located in the UK.

2018

	Europe	Asia, Oceania, Africa	USA	Other Americas	Total	\$ million
Third-party revenue, by origin	118,960 [A]	153,716 [B]	89,876	25,827	388,379	
Intangible assets, property, plant and equipment, joint ventures and associates at December 31	38,617 [C]	117,127	59,625	56,721	272,090	

[A] Includes \$54,659 million that originated from the UK.

[B] Includes \$89,811 million that originated from Singapore.

[C] Includes \$21,863 million located in the UK.

2017

	Europe	Asia, Oceania, Africa	USA	Other Americas	Total	\$ million
Third-party revenue, by origin	100,609 [A]	114,683 [B]	66,854	23,033	305,179	
Intangible assets, property, plant and equipment, joint ventures and associates at December 31	41,416 [C]	122,345	55,898	58,828	278,487	

[A] Includes \$49,370 million that originated from the UK.

[B] Includes \$62,046 million that originated from Singapore.

[C] Includes \$22,734 million located in the UK.

5 – INTEREST AND OTHER INCOME

	\$ million		
	2019	2018	2017
Interest income	899	772	677
Dividend income (from investments in equity securities)	23	104	375
Net gains on sale and revaluation of non-current assets and businesses	2,519	3,265	1,640
Net foreign exchange gains/(losses) on financing activities	5	(174)	(453)
Other	179	104	227
Total	3,625	4,071	2,466

In 2019, net gains on sale of non-current assets and businesses arose mainly in respect of gains on the sale of Upstream assets in the USA and Denmark, as well as Downstream assets in Saudi Arabia and China and Integrated Gas assets in Australia.

In 2018, net gains on sale of non-current assets and businesses arose mainly in respect of gains on the sale of Integrated Gas assets in Thailand, Malaysia, Oman and New Zealand, as well as Upstream assets in Iraq and Malaysia and a Downstream divestment in Argentina, partly offset by a charge related to the disposal of our Upstream assets in Ireland.

In 2017, net gains on sale of non-current assets and businesses arose mainly in respect of gains on the sale of Upstream assets in the UK and the USA as well as Downstream assets in Australia and Saudi Arabia, partly offset by a loss on the Motiva transaction. Net foreign exchange losses on financing activities in 2017 includes a charge of \$545 million from the release of cumulative currency translation differences following the restructuring of funding for our North America businesses.

6 – INTEREST EXPENSE

	\$ million		
	2019	2018	2017
Interest incurred and similar charges	4,592 [A]	3,550	3,448
Less: interest capitalised	(752)	(876)	(622)
Other net losses on fair value hedges of debt	132	169	114
Accretion expense	718	902	1,102
Total	4,690	3,745	4,042

[A] Includes \$2,186 million of interest expenses related to leases of which \$1,137 million related to those leases which formerly would have been classified as operating leases (see Note 3).

The rate applied in determining the amount of interest capitalised in 2019 was 4.5% (2018: 4.0%; 2017: 3.0%). The rate increase in 2019 was mainly driven by the weighted average rate for leases recognised upon the adoption of IFRS 16 Leases (see Note 3).

7 – INTANGIBLE ASSETS

2019

	Goodwill	LNG off-take and sales contracts	Other	Total
Cost				
At January 1	14,338	10,365	6,392	31,095
Additions	674	–	586	1,260
Sales, retirements and other movements	(46)	(154)	(122)	(322)
Currency translation differences	7	–	10	17
At December 31	14,973	10,211	6,866	32,050
Depreciation, depletion and amortisation, including impairments				
At January 1	622	3,293	3,594	7,509
Charge for the year	135	876	354	1,365
Sales, retirements and other movements	(1)	(155)	(172)	(328)
Currency translation differences	12	–	6	18
At December 31	768	4,014	3,782	8,564
Carrying amount at December 31	14,205	6,197	3,084	23,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

7 – INTANGIBLE ASSETS continued

2018

				\$ million	
		Goodwill	LNG off-take and sales contracts	Other	Total
Cost					
At January 1		14,154	10,429	6,106	30,689
Additions		331	–	659	990
Sales, retirements and other movements		(75)	(64)	(253)	(392)
Currency translation differences		(72)	–	(120)	(192)
At December 31		14,338	10,365	6,392	31,095
Depreciation, depletion and amortisation, including impairments					
At January 1		492	2,432	3,585	6,509
Charge for the year		173	925	370	1,468
Sales, retirements and other movements		(21)	(64)	(275)	(360)
Currency translation differences		(22)	–	(86)	(108)
At December 31		622	3,293	3,594	7,509
Carrying amount at December 31		13,716	7,072	2,798	23,586

Goodwill at December 31, 2019, principally related to the acquisition of BG Group plc in 2016, allocated to Integrated Gas (\$4,897 million) and Upstream (\$5,967 million) at the operating segment level, and to Pennzoil-Quaker State Company (\$1,609 million), a lubricants business in the Downstream segment based largely in North America. Information on annual impairment testing is included in Note 8.

8 – PROPERTY, PLANT AND EQUIPMENT

2019

				\$ million		
		Exploration and production	Manufacturing, supply and distribution			
		Exploration and evaluation	Production	Other	Total	
Cost						
At January 1 (as previously published)		21,181	280,381	91,235	22,040	414,837
Impact of IFRS 16 [A]		–	4,871	6,459	4,228	15,558
At January 1 (as revised)		21,181	285,252	97,694	26,268	430,395
Additions		2,659	11,374	10,945	3,145	28,123
Sales, retirements and other movements		(5,442)	(11,253)	(3,683)	(456)	(20,834)
Currency translation differences		198	1,293	(139)	124	1,476
At December 31		18,596	286,666	104,817	29,081	439,160
Depreciation, depletion and amortisation, including impairments						
At January 1		3,287	131,692	46,218	10,465	191,662
Charge for the year		1,096	19,346	5,742	1,573	27,757
Sales, retirements and other movements		(440)	(15,567)	(2,981)	(437)	(19,425)
Currency translation differences		67	829	(107)	28	817
At December 31		4,010	136,300	48,872	11,629	200,811
Carrying amount at December 31		14,586	150,366	55,945	17,452	238,349

[A] See Note 3.

	Exploration and production		Manufacturing, supply and distribution	Other	Total
	Exploration and evaluation	Production			
Cost					
At January 1	22,510	292,256	86,948	22,355	424,069
Additions	3,514	12,596	6,438	1,594	24,142
Sales, retirements and other movements	(4,443)	(19,643)	(667)	(814)	(25,567)
Currency translation differences	(400)	(4,828)	(1,484)	(1,095)	(7,807)
At December 31	21,181	280,381	91,235	22,040	414,837
Depreciation, depletion and amortisation, including impairments					
At January 1	5,060	137,525	44,483	10,621	197,689
Charge for the year	(979)	16,551	4,000	1,095	20,667
Sales, retirements and other movements	(608)	(19,631)	(1,353)	(756)	(22,348)
Currency translation differences	(186)	(2,753)	(912)	(495)	(4,346)
At December 31	3,287	131,692	46,218	10,465	191,662
Carrying amount at December 31	17,894	148,689	45,017	11,575	223,175

Sales, retirements and other movements in 2019 related to sales of Shell's 36.8% non-operating interest in the Danish Underground Consortium, its 50% interest in the SASREF joint venture in Saudi Arabia and its 22.45% non-operating interest in the Caesar-Tonga asset in the Gulf of Mexico.

The carrying amount of property, plant and equipment at December 31, 2019, included \$27,779 million (2018: \$33,451 million) of assets under construction. This amount excludes exploration and evaluation assets. The carrying amount at December 31, 2019, also included \$1,401 million of assets classified as held for sale (2018: \$705 million).

The carrying amount of exploration and production assets at December 31, 2019, included rights and concessions in respect of proved and unproved properties of \$14,355 million (2018: \$15,860 million). Exploration and evaluation assets principally comprise rights and concessions in respect of unproved properties and capitalised exploration drilling costs.

The carrying amount of assets at December 31, 2019, for which an alternative reserves base was applied in the calculation of the depreciation charge (see Note 2A), was \$173 million (2018: \$5,838 million). If no alternative reserves base had been used, the pre-tax depreciation charge for the year ended December 31, 2019, would have been \$77 million higher (2018: \$1,003 million, 2017: \$5,558 million).

Contractual commitments for the purchase and lease of property, plant and equipment at December 31, 2019, amounted to \$5,519 million. In 2018, the contractual commitments for the purchase of property, plant and equipment amounted to \$4,783 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

8 – PROPERTY, PLANT AND EQUIPMENT continued

Within property, plant and equipment the following amounts relate to leases:

Right-of-use assets

					\$ million
		Exploration and production			
		Exploration and evaluation	Production	Manufacturing, supply and distribution	
Cost					
At January 1 (as previously published)		-	11,508	4,259	789
Impact of IFRS 16 [A]		-	4,871	6,459	4,228
At January 1 (as revised)		-	16,379	10,718	5,017
Additions	5	664	3,124	917	4,710
Sales, retirements and other movements		-	(1,867)	(268)	(157)
Currency translation differences		-	37	-	(18)
At December 31	5	15,213	13,574	5,759	34,551
Depreciation, depletion and amortisation, including impairments					
At January 1		-	5,209	1,110	589
Charge for the year		-	1,632	1,855	703
Sales, retirements and other movements		-	(1,091)	(30)	(128)
Currency translation differences		-	11	1	12
At December 31		-	5,761	2,936	1,164
Carrying amount at December 31	5	9,452	10,638	4,595	24,690

[A] Up to and including 2018, Shell recognised lease assets and liabilities that were classified as finance leases under IAS 17 Leases (see Note 3).

Impairments

			\$ million		
			2019	2018	2017
Impairment losses [A]					
Exploration and production			2,983	1,066	4,187
Manufacturing, supply and distribution			654	441	376
Other			2	8	9
Total			3,639	1,515	4,572
Impairment reversals [A]					
Exploration and production			-	1,265	615
Manufacturing, supply and distribution			190	-	-
Total			190	1,265	615

[A] See Note 4.

Impairment losses in 2019 were mainly triggered by the revision to Shell's long-term oil and gas price outlook and change to future capital expenditure plans. The impairment losses related primarily to Upstream shale and deep-water properties in North and South America, in Integrated Gas to properties in Australia and in Downstream to the refining portfolio. Impairment losses in 2018 were mainly in Upstream, and principally related to the disposal of Shell's interests in Norway and Ireland and related to assets in the Gulf of Mexico. Impairment reversals in 2018 were mainly related to assets in North America. Impairment losses in 2017 were mainly in Upstream, and principally related to the disposal of interests in Canada and interests in Ireland classified as held for sale.

For impairment testing purposes, the respective carrying amounts of property, plant and equipment and intangible assets were compared with their value in use. Cash flow projections used in the determination of value in use were made using management's forecasts of commodity prices, market supply and demand, potential costs associated with operational GHG emissions, product margins including forecast refining margins and expected production volumes (see Note 2A). These cash flows were adjusted for the risks specific to the assets, and therefore these risks were not included in the determination of the discount rate applied. The nominal pre-tax rate applied in 2019 was 6% (2018: 6%; 2017: 6%).

Oil and gas price assumptions applied for impairment testing are reviewed and, where necessary, adjusted on a periodic basis. Reviews include comparison with available market data and forecasts that reflect developments in demand such as global economic growth, technology efficiency, policy measures and, in supply, consideration of investment and resource potential, cost of development of new supply, and behaviour of major resource holders. The near-term commodity price assumptions applied in impairment testing in 2019 were as follows:

Commodity price assumptions [A]

	2020	2021	2022
Brent crude oil (\$/b)	60	60	60
Henry Hub natural gas (\$/MMBtu)	2.75	2.75	3.00

[A] Money of the day.

For periods after 2022, the real terms long-term price assumptions applied were \$60 per barrel (/b) (2018: \$70/b after 2021) for Brent crude oil and \$3.00 per million British thermal units (/MMBtu) (2018: \$3.50/MMBtu after 2021) for Henry Hub natural gas.

Capitalised exploration drilling costs

	2019	2018	2017
At January 1	6,629	6,981	7,910
Additions pending determination of proved reserves	2,036	2,588	1,708
Amounts charged to expense	(1,218)	(449)	(897)
Reclassifications to productive wells on determination of proved reserves	(1,655)	(2,461)	(1,894)
Other movements	(124)	(30)	154
At December 31	5,668	6,629	6,981

	Projects		Wells	
	Number	\$ million	Number	\$ million
Between 1 and 5 years	45	3,195	150	2,117
Between 6 and 10 years	10	961	74	1,746
Between 11 and 15 years	5	237	25	495
Between 16 and 20 years	-	-	2	35
Total	60	4,393	251	4,393

Exploration drilling costs capitalised for periods greater than one year at December 31, 2019, analysed according to the most recent year of activity, are presented in the table above. They comprise \$284 million relating to five projects where drilling activities were under way or firmly planned for the future, and \$4,109 million relating to 55 projects awaiting development concepts.

9 – JOINT VENTURES AND ASSOCIATES

Shell share of comprehensive income of joint ventures and associates

	\$ million								
	2019			2018			2017		
	Joint ventures	Associates	Total	Joint ventures	Associates	Total	Joint ventures	Associates	Total
Income for the period	1,121	2,483	3,604	1,307	2,799	4,106	2,102	2,123	4,225
Other comprehensive (loss)/income for the period	(82)	8	(74)	172	11	183	164	6	170
Comprehensive income for the period	1,039	2,491	3,530	1,479	2,810	4,289	2,266	2,129	4,395

Carrying amount of interests in joint ventures and associates

	\$ million					
	Dec 31, 2019			Dec 31, 2018		
	Joint ventures	Associates	Total	Joint ventures	Associates	Total
Net assets	13,426	9,382	22,808	14,263	11,066	25,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

9 – JOINT VENTURES AND ASSOCIATES continued

Transactions with joint ventures and associates

	\$ million		
	2019	2018	2017
Sales and charges to joint ventures and associates	7,748	8,270	13,121
Purchases and charges from joint ventures and associates	9,573	11,212	10,680

These transactions principally comprise sales and purchases of goods and services in the ordinary course of business. Related balances outstanding at December 31, 2019, and 2018, are presented in Notes 11 and 15.

Other arrangements in respect of joint ventures and associates

	\$ million	
	Dec 31, 2019	Dec 31, 2018
Commitments to make purchases from joint ventures and associates [A]	2,177	1,823 [B]
Commitments to provide debt or equity funding to joint ventures and associates	897	638

[A] Commitments to make purchases from joint ventures and associates mainly relate to contracts associated with LNG processing fees and transportation capacity. Shell has other purchase obligations related to joint ventures and associates that are not fixed or determinable and are principally intended to be resold in a short period of time through sales agreements with third parties.

These include long-term LNG and natural gas purchase commitments and commitments to purchase refined products or crude oil at market prices.

[B] As revised to include commitments of \$569 million.

10 – INVESTMENTS IN SECURITIES

Investment in securities

	\$ million	
	Dec 31, 2019	Dec 31, 2018
Equity securities:		
Equity securities at fair value through other comprehensive income	1,437	1,823
Debt securities:		
Debt securities at amortised cost	11	8
Debt securities at fair value through other comprehensive income	1,086	953
Debt securities at fair value through profit and loss	455	290
Total	2,989	3,074
At fair value		
Measured by reference to prices in active markets for identical assets	1,725	1,873
Measured using predominantly unobservable inputs	1,253	1,193
Total	2,978	3,066
At cost	11	8
Total	2,989	3,074

Equity securities at December 31, 2019, principally comprised interests below 5%, in various investments. Debt securities principally comprised a portfolio required to be held by the Company's internal insurance entities as security for their activities.

Investments in securities measured using predominantly unobservable inputs [A]

	\$ million	
	2019	2018
At January 1	1,193	1,268
(Losses)/Gains recognised in other comprehensive income	(42)	212
Other movements	102	(287)
At December 31	1,253	1,193

[A] Based on expected dividend flows, adjusted for country and other risks as appropriate and discounted to their present value.

11 – TRADE AND OTHER RECEIVABLES

	Dec 31, 2019		\$ million	
	Current	Non-current	Dec 31, 2018	Non-current
Trade receivables	30,216	–	27,541	–
Lease receivables [A]	213	1,528		
Other receivables [A]	7,791	4,039	8,543	4,823
Amounts due from joint ventures and associates	912	1,078	992	1,183
Prepayments and deferred charges	4,282	1,440	5,355	1,820
Total	43,414	8,085	42,431	7,826

[A] In 2018 'Lease receivables' were included in 'Other receivables'.

The fair value of financial assets included above approximates the carrying amount and was determined from predominantly unobservable inputs.

Other receivables at December 31, 2019, include receivables from certain governments in their capacity as joint arrangement partners, of \$1,209 million (2018: \$1,449 million), after provisions for impairments, that are overdue in part or in full. Recoverability and timing thereof is subject to uncertainty, however, the ultimate risk of default on the carrying amount is considered to be low. Other receivables also include income tax and other tax receivables (see Note 16).

Provisions for impairments deducted from trade and other receivables amounted to \$649 million at December 31, 2019 (2018: \$790 million).

Shell uses a provision matrix to calculate expected credit losses ("ECLs") for trade receivables. The provision matrix is initially based on Shell's historical observed default rates. Shell calculates the ECL to adjust the historical credit loss experienced with forward-looking information. The ECL at December 31, 2019 is \$83 million (2018: \$23 million) which represents 0.08%-0.27% of all trade receivables.

A loss allowance provision of \$193 million (2018: \$243 million) was established, in addition to all other impairments to trade receivables as at December 31, 2019, that are outside of the provision matrix calculations.

Lease receivables

Lease contracts where Shell is the lessor are classified as finance lease or operating lease. Receivables for lease contracts classified as finance leases are as follows:

Finance lease

	\$ million	
	Dec 31, 2019	
Less than one year	305	
Between 1 and 5 years	953	
5 years and later	1,019	
Total undiscounted lease payments receivable	2,277	
Unearned finance income	536	
Net investment in the lease	1,741	

In addition at December 31, 2019, Shell is entitled to contractual payments under operating leases of \$344 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

12 – INVENTORIES

	\$ million	
	Dec 31, 2019	Dec 31, 2018
Oil, gas and chemicals	22,654	19,516
Materials	1,417	1,601
Total	24,071	21,117

Inventories at December 31, 2019, include write-downs to net realisable value of \$546 million (2018: \$1,473 million).

13 – CASH AND CASH EQUIVALENTS

	\$ million	
	Dec 31, 2019	Dec 31, 2018
Cash	4,168	4,034
Short-term bank deposits	2,665	3,655
Money market funds, reverse repos and other cash equivalents	11,222	19,052
Total	18,055	26,741

Included in cash and cash equivalents at December 31, 2019, were amounts totalling \$431 million (2018: \$443 million as revised) subject to currency controls or other legal restrictions. Information about credit risk is presented in Note 19.

14 – DEBT AND LEASE ARRANGEMENTS

DEBT

Debt

	Dec 31, 2019			Dec 31, 2018		
	Debt (excluding lease liabilities)	Lease liabilities [A]	Total	Debt (excluding lease liabilities)	Finance lease liabilities	Total
Short-term debt	3,962	–	3,962	693	–	693
Long-term debt due within 1 year	6,146	4,956	11,102	8,419	1,022	9,441
Current debt	10,108	4,956	15,064	9,112	1,022	10,134
Non-current debt	55,779	25,581	81,360	53,686	13,004	66,690
Total	65,887	30,537	96,424	62,798	14,026	76,824

[A] See Note 3.

Net debt

	Current debt	Non-current debt	Derivative financial instruments	Cash and cash equivalents (see Note 13)	\$ million Net debt
At January 1, 2019 (as previously published)	(10,134)	(66,690)	(1,345)	26,741	(51,428)
Impact of IFRS 16 [A]	(2,912)	(13,125)			(16,037)
At January 1, 2019 (as revised)	(13,046)	(79,815)	(1,345)	26,741	(67,465)
Cash flow	10,333	(7,269)	351	(8,810)	(5,395)
Lease additions	(971)	(3,547)			(4,518)
Other movements [B]	(11,453)	9,179	453	-	(1,821)
Currency translation differences and foreign exchange gains/(losses)	73	92	(183)	124	106
At December 31, 2019	(15,064)	(81,360)	(724)	18,055	(79,093)
At January 1, 2018	(11,795)	(73,870)	(591)	20,312	(65,944)
Cash flow	10,392	(2,418)	446	6,878	15,298
Finance lease additions	(51)	(652)			(703)
Other movements	(8,939)	9,270	(261)	-	70
Currency translation differences and foreign exchange gains/(losses)	259	980	(939)	(449)	(149)
At December 31, 2018	(10,134)	(66,690)	(1,345)	26,741	(51,428)

[A] See Note 3.

[B] 'Other movements' includes \$1,618 million relating to existing leases entered into on behalf of certain joint operations.

Management's financial strategy is to manage Shell's assets and liabilities with the aim that, across the business cycle, 'cash in' at least equals 'cash out' while maintaining a strong balance sheet.

Gearing is a key measure of Shell's capital structure and is defined as net debt as a percentage of total capital. Net debt is defined as the sum of current and non-current debt, less cash and cash equivalents, adjusted for the fair value of derivative financial instruments used to hedge foreign exchange and interest rate risks relating to debt, and associated collateral balances. Across the business cycle, management aims to return to a gearing level within a range of 15%-25%.

Gearing

	\$ million, except where indicated	
	Dec 31, 2019	Dec 31, 2018 [A]
Net debt	79,093	51,428
Total equity	190,463	202,534
Total capital	269,556	253,962
Gearing	29.3% [B]	20.3%

[A] Shell used the modified retrospective transition method for implementing IFRS 16 Leases (see Note 3). Comparative information was not restated, and continues to be presented as previously reported under IAS 17 Leases.

[B] Gearing increased to 29.3%, at December 31, 2019, comparable with 25.0% on an IAS 17 basis (2018: 20.3%).

Management's priorities for applying Shell's cash are the servicing and reduction of debt commitments, payment of dividends, followed by a balance of capital investment and share buybacks. Management's policy is to grow the dollar dividend through time, in line with its view of Shell's underlying earnings and cash flow.

Shell has access to international debt capital markets via two commercial paper ("CP") programmes, a Euro medium-term note ("EMTN") programme and a US universal shelf ("US shelf") registration. Issuances under the CP programmes are supported by a committed credit facility and cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

14 – DEBT AND LEASE ARRANGEMENTS continued

Borrowing facilities and amounts undrawn

	Facility		\$ million	
	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018
CP programmes	20,000	20,000	16,610	20,000
EMTN programme	unlimited	unlimited	N/A	N/A
US shelf registration	unlimited	unlimited	N/A	N/A
Committed credit facilities	10,000	8,840	10,000	8,840

Under the CP programmes, Shell can issue debt of up to \$10 billion with maturities not exceeding 270 days and \$10 billion with maturities not exceeding 397 days. The EMTN programme is updated each year, most recently in July 2019. In 2019, debt issued under this programme amounted to \$3 billion (2018: \$nil). The US shelf registration provides Shell with the flexibility to issue debt securities, ordinary shares, preferred shares and warrants. The registration is updated every three years and was last updated in December 2017. During 2019, debt totalling \$4 billion (2018: \$3 billion) was issued under the registration. On December 13, 2019, Shell entered into \$10 billion revolving credit facilities, which in anticipation of the LIBOR reform (see Note 2B), were linked to the new Secured Overnight Financing Rate ("SOFR"). Under the terms of the facilities, the LIBOR interest rate will be replaced by SOFR as early as the first anniversary of the signing date of these revolving credit facilities. The committed credit facilities are available at pre-agreed margins, with \$2 billion expiring in 2020 and \$8 billion expiring in 2024. Each facility includes two one-year extension options at the discretion of each lender. The terms and availability are not conditional on Shell's financial ratios nor its financial credit ratings. The interest and fees paid on both facilities are linked to Shell's progress towards reaching its short-term Net Carbon Footprint intensity target.

In addition, other subsidiaries have access to undrawn short-term bank facilities totalling \$2,784 million at December 31, 2019 (2018: \$3,035 million).

The following tables compare contractual cash flows for debt excluding lease liabilities at December 31, with the carrying amount in the Consolidated Balance Sheet. Contractual amounts reflect the effects of changes in foreign exchange rates; differences from carrying amounts reflect the effects of discounting, premiums and, where fair value hedge accounting is applied, fair value adjustments. Interest is estimated assuming interest rates applicable to variable rate debt remain constant and there is no change in aggregate principal amounts of debt other than repayment at scheduled maturity, as reflected in the table.

2019

	Contractual payments							\$ million	
	Less than 1 year	Between 1 and 2 years	Between 2 and 3	Between 3 and 4 years	Between 4 and 5 years	5 years and later	Total	Difference from carrying amount	Carrying amount
Commercial paper	3,390	–	–	–	–	–	3,390	(38)	3,352
Bonds	5,900	4,971	4,392	4,326	2,091	38,323	60,003	694	60,697
Bank and other borrowings	859	425	56	71	15	412	1,838	–	1,838
Total (excluding interest)	10,149	5,396	4,448	4,397	2,106	38,735	65,231	656	65,887
Interest	1,665	1,559	1,430	1,357	1,263	14,618	21,892		

2018

	Contractual payments							\$ million	
	Less than 1 year	Between 1 and 2 years	Between 2 and 3	Between 3 and 4 years	Between 4 and 5 years	5 years and later	Total	Difference from carrying amount	Carrying amount
Bonds	8,163	5,900	4,993	4,458	4,312	33,162	60,988	181	61,169
Bank and other borrowings	945	39	209	50	27	359	1,629	–	1,629
Total (excluding interest)	9,108	5,939	5,202	4,508	4,339	33,521	62,617	181	62,798
Interest	1,780	1,555	1,426	1,319	1,244	14,406	21,730		

Interest rate swaps have been entered into against certain fixed rate debt affecting the effective interest rate on these balances (see Note 19). The fair value of debt excluding lease liabilities at December 31, 2019, was \$71,163 million (2018: \$64,708 million), mainly determined from the prices quoted for those securities.

LEASE ARRANGEMENTS

From January 1, 2019, leases are recognised as a right-of-use asset (see Note 8) and a corresponding liability at the date which the lease asset is available for the use by Shell (see Note 3). Lease liabilities are secured on the leased assets. Shell has lease contracts in Upstream and Integrated Gas for floating production storage and offloading units, subsea equipment, power generation for drilling and ancillary equipment, service vessels, LNG vessels and land and buildings; in Downstream, principally for tankers, storage capacity and retail sites; and in Corporate, principally for land and buildings.

Lease expenses not included in the measurement of lease liability

	\$ million
	2019
Expense relating to short-term leases	834
Expense relating to variable lease payments not included in the lease liabilities	1,091

The total cash outflow in respect of leases representing repayment of principal and payment of interest in 2019 was \$7,866 million, recognised in the Consolidated Statement of Cash Flows from financing activities.

The future lease payments under lease contracts and the present value of future lease payments at December 31, by payment date are as follows:

2019

	\$ million	Contractual lease payments	Interest	Lease liabilities [A]
Less than 1 year		7,337	2,381	4,956
Between 1 and 5 years		17,435	6,141	11,294
5 years and later		21,340	7,053	14,287
Total		46,112 [B]	15,575	30,537

[A] See Note 3.

[B] Future cash outflows in respect of leases may differ from lease liabilities recognised due to future decisions that may be taken by Shell in respect of the use of leased assets. These decisions may result in variable lease payments to be made. In addition, Shell may reconsider whether it will exercise extension options or termination options, where future reconsideration is not reflected in the lease liabilities. There is no exposure to these potential additional payments in excess of the recognised lease liabilities until these decisions have been taken by Shell.

2018

	\$ million	Finance leases [A]	Operating leases [A]
	Future minimum lease payments	Present value of future minimum lease payments	Future minimum lease payments
	Interest		
Less than 1 year	2,061	1,039	1,022
Between 1 and 5 years	7,508	3,391	4,117
5 years and later	13,370	4,483	8,887
Total	22,939	8,913	14,026

[A] Shell used the modified retrospective transition method for the adoption of IFRS 16 Leases (see Note 3). Comparative information is not restated and continues to be presented as previously reported under IAS 17 Leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

15 – TRADE AND OTHER PAYABLES

	\$ million			
	Dec 31, 2019		Dec 31, 2018	
	Current	Non-current	Current	Non-current
Trade payables	29,497	–	30,351	–
Other payables	6,356	2,060	5,597	2,413
Amounts due to joint ventures and associates	3,312	40	2,851	33
Accruals and deferred income	10,043	242	10,089	289
Total	49,208	2,342	48,888	2,735

The fair value of financial liabilities included above approximates the carrying amount and was determined from predominantly unobservable inputs.

Other payables include amounts due to joint arrangement partners and in respect of other project-related items.

Information about offsetting, collateral and liquidity risk is presented in Note 19.

16 – TAXATION

Taxation charge

	\$ million		
	2019	2018	2017
Current tax:			
Charge in respect of current period	7,597	10,415	7,204
Adjustments in respect of prior periods	(1)	60	(613)
Total	7,596	10,475	6,591
Deferred tax:			
Relating to the origination and reversal of temporary differences, tax losses and credits	1,377	1,438	(4,102)
Relating to changes in tax rates and legislation	(67)	(157)	2,004 [A]
Adjustments in respect of prior periods	147	(41)	202
Total	1,457	1,240	(1,896)
Total taxation charge	9,053	11,715	4,695

[A] Mainly in respect of the US Tax Cuts and Jobs Act.

Adjustments in respect of prior periods relate to events in the current period and reflect the effects of changes in rules, facts or other factors compared with those used in establishing the current tax position or deferred tax balance in prior periods.

Reconciliation of applicable tax charge at statutory tax rates to taxation charge

	\$ million		
	2019	2018	2017
Income before taxation	25,485	35,621	18,130
Less: share of profit of joint ventures and associates	(3,604)	(4,106)	(4,225)
Income before taxation and share of profit of joint ventures and associates	21,881	31,515	13,905
Applicable tax charge at standard statutory tax rates [A]	7,214	11,641	4,709
Adjustments in respect of prior periods	146	19	(411)
Tax effects of: [B]			
Expenses not deductible for tax purposes	1,493	1,176	1,000
Derecognition/(recognition) of deferred tax assets	846	(381)	(957)
Incentives for investment and development [A]	(757)	(557)	(527)
Disposals	(235)	(524)	(910)
Income not subject to tax at standard statutory rates	159	(286)	(359)
Changes in tax rates and legislation	(67)	(157)	2,004
Exchange rate differences	(34)	623	320
Other reconciling items	288	161	(174)
Taxation charge	9,053	11,715	4,695

[A] Incentives for investment and development include conditional preferential tax rates to attract investment, uplift on carried forward losses and capital expenditure, investment tax allowances and credits for research and development. Up to and including 2018, preferential tax rates were reported within the applicable tax charge at standard statutory tax rates. Comparative numbers for 2018 and 2017 were reclassified to conform with the current year presentation.

[B] The tax effect categories have changed to provide better insights. Comparative numbers for 2018 and 2017 were reclassified to conform with the current year presentation.

The weighted average of statutory tax rates was 33% in 2019 (2018: 37% as revised; 2017: 34% as revised). Compared with 2018, the decrease in the rate reflects a higher proportion of earnings in the Downstream and Integrated Gas segments, subject to relatively lower tax rates than earnings in the Upstream segment. In addition, a higher proportion of Integrated Gas income was earned in countries with relatively lower statutory tax rates.

Taxes payable

	\$ million	
	Dec 31, 2019	Dec 31, 2018
Income taxes	3,478	3,990
Sales taxes, excise duties and similar levies	3,215	3,507
Total	6,693	7,497

Included in other receivables at December 31, 2019 was income tax receivable of \$1,328 million (2018: \$1,042 million) (see Note 11).

2019 – Deferred tax

	\$ million				
Deferred tax asset	Decommissioning and other provisions	Property, plant and equipment	Tax losses and credits carried forward	Retirement benefits	Other
At January 1, 2019 (as previously published)	5,902	3,718	12,167	3,310	4,233
Impact of IFRS 16	(43)	-	-	-	43
At January 1, 2019 (as revised)	5,859	3,718	12,167	3,310	4,276
(Charge)/credit to income	15	(521)	(647)	(76)	10
Currency translation differences	56	6	57	(8)	(2)
Other	(550)	(189)	52	434	77
At December 31, 2019	5,380	3,014	11,629	3,660	4,361
Deferred tax liability					
At January 1, 2019 (as previously published)		(27,771)	(1,674)	(2,625)	(32,070)
Impact of IFRS 16		144	-	(144)	-
At January 1, 2019 (as revised)		(27,627)	(1,674)	(2,769)	(32,070)
(Charge)/credit to income		(227)	46	(57)	(238)
Currency translation differences		(129)	(6)	(5)	(140)
Other		(57)	541	(78)	406
At December 31, 2019		(28,040)	(1,093)	(2,909)	(32,042)
Net deferred tax liability at December 31, 2019					(3,998)
Deferred tax asset/liability as presented in the balance sheet at December 31, 2019					
Deferred tax asset					10,524
Deferred tax liability					(14,522)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

16 – TAXATION continued

2018 – Deferred tax

Deferred tax asset	Decommissioning and other provisions	Property, plant and equipment	Tax losses and credits carried forward	Retirement benefits	Other	\$ million
						Total
At January 1, 2018	6,182	3,379	13,684	3,868	4,144	31,257
(Charge)/credit to income	166	345	(553)	14	119	91
Currency translation differences	(177)	(32)	(462)	(93)	(42)	(806)
Other	(269)	26	(502)	(479)	12	(1,212)
At December 31, 2018	5,902	3,718	12,167	3,310	4,233	29,330
Deferred tax liability						
At January 1, 2018			(26,904)	(742)	(2,827)	(30,473)
(Charge)/credit to income			(1,751)	180	240	(1,331)
Currency translation differences			409	24	36	469
Other			475	(1,136)	(74)	(735)
At December 31, 2018			(27,771)	(1,674)	(2,625)	(32,070)
Net deferred tax liability at December 31, 2018						(2,740)
Deferred tax asset/liability as presented in the balance sheet at December 31, 2018						
Deferred tax asset						12,097
Deferred tax liability						(14,837)

The presentation in the balance sheet takes into consideration the offsetting of deferred tax assets and deferred tax liabilities within the same tax jurisdiction, where this is permitted. The overall deferred tax position in a particular tax jurisdiction determines if a deferred tax balance related to that jurisdiction is presented within deferred tax assets or deferred tax liabilities.

Other movements in deferred tax assets and liabilities principally relate to acquisitions, sales of non-current assets and businesses, and amounts recognised in other comprehensive income.

The deferred tax category 'Other' primarily includes deferred tax positions in respect of leases, financial assets and liabilities, inventories, intangible assets and investments in subsidiaries, joint ventures and associates.

The amount of deferred tax assets dependent on future taxable profits not arising from the reversal of existing deferred tax liabilities, and which relate to tax jurisdictions where Shell has suffered a loss in the current or preceding year, was \$8,773 million at December 31, 2019 (2018: \$9,979 million). It is considered probable based on business forecasts that such profits will be available.

Unrecognised taxable temporary differences associated with undistributed retained earnings of investments in subsidiaries, joint ventures and associates amounted to \$6,356 million at December 31, 2019 (2018: \$3,951 million). These retained earnings are subject to withholding tax upon distribution. The increase of the amount compared with 2018 is related to a change in the withholding tax legislation, as a result of which a larger part of the undistributed retained earnings will be subject to withholding tax.

Unrecognised deductible temporary differences, unused tax losses and credits carried forward amounted to \$33,068 million at December 31, 2019 (2018: \$30,010 million as revised) including amounts of \$24,295 million (2018: \$22,704 million as revised) that are subject to time limits for utilisation of five years or later, or are not time limited.

Furthermore, there are unrecognised losses for Petroleum Resource Rent Tax ("PRRT") in Australia, amounting to \$36,905 million as at the end of the most recent PRRT fiscal year (June 30, 2019). In 2018, a portion of the PRRT losses amounting to \$4,900 million was included in the amount of the unrecognised deductible temporary differences, unused tax losses and credits carried forward. Based on business forecasts at existing commodity price levels, and the annual augmentation of the unused PRRT losses, this amount is expected to increase in the near future.

17 – RETIREMENT BENEFITS

Retirement benefits are provided through a number of funded and unfunded defined benefit plans and defined contribution plans, the most significant of which are in the Netherlands, UK and USA. Benefits comprise principally pensions; retirement healthcare and life insurance are also provided in certain countries.

Retirement benefit expense

	\$ million		
	2019	2018	2017
Defined benefit plans:			
Current service cost, net of plan participants' contributions	1,188	1,494	1,500
Interest expense on obligations	2,364	2,282	2,309
Interest income on plan assets	(2,253)	(2,087)	(2,019)
Other	26	(221)	(404)
Total	1,325	1,468	1,386
Defined contribution plans	428	410	429
Total retirement benefit expense	1,753	1,878	1,815

Retirement benefit expense is presented principally within production and manufacturing expenses and selling, distribution and administrative expenses in the Consolidated Statement of Income. Interest income on plan assets is calculated using the same rate as that applied to the related defined benefit obligations for each plan to determine interest expense.

Remeasurements

	\$ million		
	2019	2018	2017
Actuarial gains/(losses) on obligations:			
Due to changes in financial assumptions [A]	(11,711)	8,186	(4,495)
Due to experience adjustments [B]	232	(268)	37
Due to changes in demographic assumptions [C]	(75)	(459)	933
Total	(11,554)	7,459	(3,525)
Return on plan assets in excess/(shortage) of interest income	8,460	(2,312)	4,942
Other movements	(12)	66	50
Total remeasurements	(3,106)	5,213	1,467

[A] Primarily relates to changes in the discount rate assumptions.

[B] Experience adjustments arise from differences between the actuarial assumptions made in respect of the year and actual outcomes.

[C] Primarily relates to updates in mortality assumptions.

Defined benefit plans

	\$ million	
	Dec 31, 2019	Dec 31, 2018
Obligations	(103,545)	(91,856)
Plan assets	94,826	85,803
Net liability	(8,719)	(6,053)
Retirement benefits in the Consolidated Balance Sheet:		
Non-current assets	4,717	6,051
Non-current liabilities	(13,017)	(11,653)
Current liabilities	(419)	(451)
Total	(8,719)	(6,053)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

17 – RETIREMENT BENEFITS continued

Defined benefit plan obligations

	\$ million, except where indicated	
	2019	2018
At January 1	91,856	104,285
Current service cost	1,186	1,491
Interest expense	2,364	2,282
Actuarial losses/(gains)	11,554	(7,459)
Benefit payments	(3,961)	(4,435)
Other movements	194	(360)
Currency translation differences	352	(3,948)
At December 31	103,545	91,856
Comprising:		
Funded pension plans	93,727	83,276
Weighted average duration	17 years	17 years
Unfunded pension plans	4,793	4,359
Weighted average duration	13 years	13 years
Other unfunded plans	5,025	4,221
Weighted average duration	14 years	12 years

Defined benefit plan assets

	\$ million, except where indicated	
	2019	2018
At January 1	85,803	93,243
Return on plan assets in excess/(shortage) of interest income	8,460	(2,312)
Interest income	2,253	2,087
Employer contributions	1,462	763
Plan participants' contributions	42	47
Benefit payments	(3,741)	(4,123)
Other movements	160	(102)
Currency translation differences	387	(3,800)
At December 31	94,826	85,803
Comprising:		
Quoted in active markets:		
Equities	26%	24%
Debt securities	51%	53%
Real estate	1%	1%
Other	0%	1%
Other:		
Equities	8%	8%
Debt securities	4%	3%
Real estate	6%	6%
Investment funds	3%	3%
Cash	1%	1%

Long-term investment strategies of plans are generally determined by the relevant pension plan trustees using a structured asset/liability modelling approach to define the asset mix that best meets the objectives of optimising returns within agreed risk levels while maintaining adequate funding levels.

Employer contributions to defined benefit pension plans are based on actuarial valuations in accordance with local regulations and are estimated to be \$0.7 billion in 2020.

Significant funding requirements:

- Additional contributions to the Netherlands defined benefit pension plan would be required if the 12-month rolling average local funding percentage falls below 105% for six months or more. At the most recent (2019) funding valuation the local funding percentage was above this level;
- There are no set minimum statutory funding requirements for the UK plans. Under an agreement with the trustee of the main UK defined benefit plan, Shell will provide additional contributions if the funding position falls below a certain level, although this is currently not anticipated; and
- Under the Pension Protection Act, US pension plans are subject to minimum required contribution levels based on the funding position. No contributions are required based on the most recent funding valuation.

The principal assumptions applied in determining the present value of defined benefit obligations and their bases were as follows:

- rates of increase in pensionable remuneration, pensions in payment and healthcare costs: historical experience and management's long-term expectation;
- discount rates: prevailing long-term AA corporate bond yields, chosen to match the currency and duration of the relevant obligation; and
- mortality rates: published standard mortality tables for the individual countries concerned adjusted for Shell experience where statistically significant.

The weighted averages for those assumptions and related sensitivity information at December 31 are presented below. Sensitivity information indicates by how much the defined benefit obligations would increase or decrease if a given assumption were to increase or decrease with no change in other assumptions.

Assumptions used	\$ million, except where indicated				
	Effect of using alternative assumptions				
	2019	2018	Range of assumptions	2019	2018
Rate of increase in pensionable remuneration	4.1%	4.1%	-1% to +1%	(1,975) to 2,266	(1,576) to 1,819
Rate of increase in pensions in payment	1.6%	1.8%	-1% to +1%	(9,541) to 11,757	(8,304) to 10,104
Rate of increase in healthcare costs	6.1%	6.3%	-1% to +1%	(546) to 675	(410) to 496
Discount rate for pension plans	2.1%	2.9%	-1% to +1%	18,431 to (14,155)	15,606 to (12,078)
Discount rate for healthcare plans	3.2%	4.2%	-1% to +1%	704 to (558)	536 to (436)
Expected age at death for persons aged 60:					
Men	87 years	87 years	-1 year to +1 year	(1,717) to 1,782	(1,538) to 1,583
Women	89 years	89 years	-1 year to +1 year	(1,631) to 1,694	(1,436) to 1,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

18 – DECOMMISSIONING AND OTHER PROVISIONS

	Decommissioning and restoration	Legal	Environmental	Redundancy	Other	\$ million
At January 1, 2019						
Current (as previously published)	876	213	264	491	1,815	3,659
Impact of IFRS 16 [A]	–	–	–	(50)	(268)	(318)
Current (as revised)	876	213	264	441	1,547	3,341
Non-current (as previously published)	17,057	1,247	1,074	468	1,687	21,533
Impact of IFRS 16 [A]	–	–	–	(188)	(159)	(347)
Non-current (as revised)	17,057	1,247	1,074	280	1,528	21,186
	17,933	1,460	1,338	721	3,075	24,527
Additions	625	585	229	290	535	2,264
Amounts charged against provisions	(797)	(216)	(223)	(304)	(562)	(2,102)
Accretion expense	644	28	16	3	25	716
Disposals	(1,238) [B]	–	(8)	–	(14)	(1,260)
Remeasurements and other movements	1,696	(45)	(155)	(192)	(988) [C]	316
Currency translation differences	156	(1)	–	(3)	(3)	149
	1,086	351	(141)	(206)	(1,007)	83
At December 31, 2019						
Current	755	626	263	295	872	2,811
Non-current	18,264	1,185	934	220	1,196	21,799
	19,019	1,811	1,197	515	2,068	24,610
At January 1, 2018						
Current	817	423	287	758	1,180	3,465
Non-current	19,767	1,095	1,218	560	2,326	24,966
	20,584	1,518	1,505	1,318	3,506	28,431
Additions	418	196	191	535	1,070	2,410
Amounts charged against provisions	(497)	(200)	(212)	(504)	(887)	(2,300)
Accretion expense	755	17	17	15	48	852
Disposals	(1,781)	(14)	(11)	(3)	(49)	(1,858)
Remeasurements and other movements	(1,065)	(47)	(130)	(367)	(122)	(1,731)
Currency translation differences	(481)	(10)	(22)	(35)	(64)	(612)
	(2,651)	(58)	(167)	(359)	(4)	(3,239)
At December 31, 2018						
Current	876	213	264	491	1,815	3,659
Non-current	17,057	1,247	1,074	468	1,687	21,533
	17,933	1,460	1,338	959	3,502	25,192

[A] Following the implementation of IFRS 16 Leases (see Note 3) provisions related to onerous operating lease contracts at December 31, 2018 were derecognised and related right-of-use assets were adjusted accordingly. Certain operating lease contracts, mainly related to office buildings became onerous following restructuring and these onerous operating lease contracts were included in the provision for redundancy.

[B] Mainly related to the disposal of interests in Denmark and Canada.

[C] Mainly related to reclassifications to Trade and other payables.

The amount and timing of settlement in respect of these provisions are uncertain and dependent on various factors that are not always within management's control. Reviews of estimated future decommissioning and restoration costs and the discount rate applied are carried out annually. The discount rate applied at December 31, 2019 was 3% (December 31, 2018: 4%). This decrease resulted from the decrease in capital markets rates in 2019.

In 2019, there was an increase of \$2,241 million (2018: \$nil) in the decommissioning and restoration provision as a result of the change in the discount rate, partly offset by a decrease in the provision resulting from changes in cost estimates of \$545 million (2018: \$982 million), reported within re-measurements and other movements.

Of the decommissioning and restoration provision at December 31, 2019, an estimated \$2,869 million is expected to be utilised within one to five years, \$2,432 million within six to 10 years, and the remainder in later periods.

Other provisions include amounts recognised in respect of employee benefits.

19 – FINANCIAL INSTRUMENTS

Financial instruments in the Consolidated Balance Sheet include investments in securities (see Note 10), cash and cash equivalents (see Note 13), debt (see Note 14) and derivative contracts.

Risks

In the normal course of business, financial instruments of various kinds are used for the purposes of managing exposure to interest rate, foreign exchange and commodity price movements.

Treasury standards are applicable to all subsidiaries and each subsidiary is required to adopt a treasury policy consistent with these standards. These policies cover: financing structure; interest rate and foreign exchange risk management; insurance; counterparty risk management; and use of derivative contracts. Wherever possible, treasury operations are carried out through specialist regional organisations without removing from each subsidiary the responsibility to formulate and implement appropriate treasury policies.

Apart from forward foreign exchange contracts to meet known commitments, the use of derivative contracts by most subsidiaries is not permitted by their treasury policy.

Other than in exceptional cases, the use of external derivative contracts is confined to specialist trading and central treasury organisations that have appropriate skills, experience, supervision, control and reporting systems.

Shell's operations expose it to market, credit and liquidity risk, as described below.

Market risk

Market risk is the possibility that changes in interest rates, foreign exchange rates or the prices of crude oil, natural gas, LNG, refined products, chemical feedstocks, power and carbon-emission rights will adversely affect the value of assets, liabilities or expected future cash flows.

Interest rate risk

Most debt is raised from central borrowing programmes. Shell's policy continues to be to have debt principally denominated in dollars and to maintain a largely floating interest rate exposure profile; however, Shell has issued a significant amount of fixed rate debt in recent years, taking advantage of historically low interest rates available in debt markets. As a result, a substantial portion of the debt portfolio at December 31, 2019, is at fixed rates and this reduces Shell's exposure to the dollar LIBOR interest rate (see Note 2B).

The financing of most subsidiaries is structured on a floating-rate basis, and any further interest rate risk management is only applied under exceptional circumstances.

On the basis of the floating-rate net debt position at December 31, 2019 (both issued and hedged), and assuming other factors (principally foreign exchange rates and commodity prices) remained constant and that no further interest rate management action was taken, an increase in interest rates of 1% would have decreased 2019 income before taxation by \$98 million (2018: \$37 million, based on the floating rate position at December 31, 2018).

The carrying amounts and maturities of debt and borrowing facilities are presented in Note 14. Interest expense is presented in Note 6.

Foreign exchange risk

Many of the markets in which Shell operates are priced, directly or indirectly, in dollars. As a result, the functional currency of most Integrated Gas and Upstream entities and those with significant cross-border business is the dollar. For Downstream entities, the functional currency is typically the local currency. Consequently, Shell is exposed to varying levels of foreign exchange risk when an entity enters into transactions that are not denominated in its functional currency, when foreign currency monetary assets and liabilities are translated at the balance sheet date and as a result of holding net investments in operations that are not dollar-functional. Each entity is required to adopt treasury policies that are designed to measure and manage its foreign exchange exposures by reference to its functional currency.

Foreign exchange gains and losses arise in the normal course of business from the recognition of receivables and payables and other monetary items in currencies other than an entity's functional currency. Foreign exchange risk may also arise in connection with capital expenditure. For major projects, an assessment is made at the final investment decision stage whether to hedge any resulting exposure.

Assuming other factors (principally interest rates and commodity prices) remained constant and that no further foreign exchange risk management action were taken, a 10% appreciation against the dollar at December 31 of the main currencies to which Shell is exposed would have the following effects:

	\$ million				
	Increase/(decrease)		Increase in net assets		
	in income before taxation	2019	2018	2019	2018
10% appreciation against the dollar of:					
Canadian dollar		(97)	(40)	1,380	1,245
Euro		36	65	1,227	1,190
Australian dollar		(55)	(109)	835	835
Sterling		(58)	(46)	581	779

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

19 – FINANCIAL INSTRUMENTS continued

The above sensitivity information was calculated by reference to carrying amounts of assets and liabilities at December 31 only. The effect on income before taxation arises in connection with monetary balances denominated in currencies other than an entity's functional currency; the effect on net assets arises principally from the translation of assets and liabilities of entities that are not dollar-functional.

Foreign exchange gains and losses included in income are presented in Note 5.

Commodity price risk

Certain subsidiaries have a mandate to trade crude oil, natural gas, LNG, refined products, chemical feedstocks, power and carbon-emission rights, and to use commodity derivative contracts (forwards, futures, swaps and options) as a means of managing price and timing risks arising from this trading activity. In effecting these transactions, the entities concerned operate within procedures and policies designed to ensure that risks, including those relating to the default of counterparties, are managed within authorised limits.

Value-at-risk ("VAR") techniques based on variance/covariance or Monte Carlo simulation models are used to make a statistical assessment of the market risk arising from possible future changes in market values over a 1-day holding period and within a 95% confidence level. The calculation of potential changes in fair value takes into account positions, the history of price movements and the correlation of these price movements. Models are regularly reviewed against actual fair value movements to ensure integrity is maintained. The VAR year-end positions in respect of commodities traded in active markets, which are presented in the table below, are calculated on a diversified basis in order to reflect the effect of offsetting risk within combined portfolios.

Value-at-risk (pre-tax)

	\$ million	
	December 31, 2019	December 31, 2018
Global oil	22	28
North America gas and power	12	11
Europe gas and power	5	3
Carbon-emission rights	4	2

Credit risk

Policies are in place to ensure that sales of products are made to customers with appropriate creditworthiness. These policies include detailed credit analysis and monitoring of trading partners against counterparty credit limits. Credit information is regularly shared between business and finance functions, with dedicated teams in place to quickly identify and respond to cases of credit deterioration. Mitigation measures are defined and implemented for high-risk business partners and customers, and include shortened payment terms, collateral or other security posting and vigorous collections. In addition, policies limit the amount of credit exposure to any individual financial institution. There are no material concentrations of credit risk, with individual customers or geographically, and there has been no significant level of counterparty default in recent years.

Surplus cash is invested in a range of short-dated, secure and liquid instruments including short-term bank deposits, money market funds, reverse repos and similar instruments. The portfolio of these investments is diversified to avoid concentrating risk in any one instrument, country or counterparty. Management monitors the investments regularly and adjusts the investment portfolio in light of new market information where necessary to ensure credit risk is effectively diversified.

In commodity trading, counterparty credit risk is managed within a framework of credit limits with utilisation being regularly reviewed. Credit risk exposure is monitored and the acceptable level is determined by a credit committee. Credit checks are performed by a department independent of traders, and are undertaken before contractual commitment. Where appropriate, netting arrangements, credit insurance, prepayments and collateral are used to manage specific risks.

Shell routinely enters into offsetting, master netting and similar arrangements with trading and other counterparties to manage credit risk. Where there is a legally enforceable right of offset under such arrangements and Shell has the intention to settle on a net basis or realise the asset and settle the liability simultaneously, the net asset or liability is recognised in the Consolidated Balance Sheet, otherwise assets and liabilities are presented gross. These amounts, as presented net and gross within trade and other receivables, trade and other payables and derivative financial instruments in the Consolidated Balance Sheet at December 31, were as follows:

2019

	Gross amounts before offset	Amounts offset	Amounts not offset			\$ million
			Net amounts as presented	Cash collateral received/pledged	Other offsetting instruments	
Assets:						
Within trade receivables	13,821	8,975	4,846	54	101	4,691
Within derivative financial instruments	12,995	7,310	5,685	531	2,262	2,892
Liabilities:						
Within trade payables	13,335	9,029	4,306	11	101	4,194
Within derivative financial instruments	12,355	7,253	5,102	706	2,262	2,134

2018

	Gross amounts before offset	Amounts offset	Net amounts as presented	Amounts offset		Net amounts
				Cash collateral received/pledged	Other offsetting instruments	
Assets:						
Within trade receivables	12,697	8,340	4,358	62	221	4,075
Within derivative financial instruments	12,323	6,353	5,970	437	2,653	2,880
Liabilities:						
Within trade payables	12,931	8,264	4,667	97	221	4,349
Within derivative financial instruments	12,227	5,044	7,183	1,115	2,653	3,415

Amounts not offset principally relate to contracts where the intention to settle on a net basis was not clearly established at December 31.

The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities at December 31, 2019, presented within trade and other receivables, was \$1,948 million (2018: \$3,094 million). The carrying amount of collateral held at December 31, 2019, presented within trade and other payables, was \$718 million (2018: \$535 million). Collateral mainly relates to initial margins held with commodity exchanges and over-the-counter counterparty variation margins. Some derivative contracts are fully cash collateralised, thereby eliminating both counterparty risk and the Group's own non-performance risk.

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for Shell's business activities may not be available. Management believes that it has access to sufficient debt funding sources (capital markets), and to undrawn committed borrowing facilities to meet foreseeable requirements. Information about borrowing facilities is presented in Note 14.

DERIVATIVE CONTRACTS AND HEDGES

Derivative contracts are used principally as hedging instruments, however, because hedge accounting is not always applied, movements in the carrying amounts of derivative contracts that are recognised in income are not always matched in the same period by the recognition of the income effects of the related hedged items.

Carrying amounts, maturities and hedges

The carrying amounts of derivative contracts at December 31, designated and not designated as hedging instruments for hedge accounting purposes, were as follows:

2019

	Assets			Liabilities			\$ million
	Designated	Not designated	Total	Designated	Not designated	Total	
Interest rate swaps	227	8	235	34	24	58	177
Forward foreign exchange contracts	7	236	243	2	309	311	(68)
Currency swaps and options	90	15	105	932	56	988	(883)
Commodity derivatives	-	6,914	6,914	-	5,281	5,281	1,633
Other contracts	-	341	341	-	-	-	341
Total	324	7,514	7,838	968	5,670	6,638	1,200

2018

	Assets			Liabilities			\$ million
	Designated	Not designated	Total	Designated	Not designated	Total	
Interest rate swaps	86	3	89	174	14	188	(99)
Forward foreign exchange contracts	-	331	331	33	264	297	34
Currency swaps and options	186	26	212	1,202	203	1,405	(1,193)
Commodity derivatives	-	6,864	6,864	-	6,637	6,637	227
Other contracts	-	271	271	-	56	56	215
Total	272	7,495	7,767	1,409	7,174	8,583	(816)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

19 – FINANCIAL INSTRUMENTS continued

Net losses before tax on derivative contracts, excluding realised commodity contracts and those accounted for as hedges, were \$2,004 million in 2019 (2018: \$1,818 million losses; 2017: \$1,321 million losses).

Certain contracts, mainly to hedge price risk relating to forecast commodity transactions which mature in 2020-2021, were designated in cash flow hedging relationships. The net carrying amount of commodity derivative contracts designated as cash flow hedging instruments at December 31, 2019, was a liability of \$101 million (2018: \$120 million asset) (see Note 22), and was presented after the offset of related margin balances maintained with exchanges.

Certain interest rate and currency swaps were designated in fair value hedges, principally in respect of debt for which the net carrying amount of the related derivative contracts, net of accrued interest, at December 31, 2019, was a liability of \$518 million (2018: \$1,242 million).

In the course of trading operations, certain contracts are entered into for delivery of commodities that are accounted for as derivatives. The resulting price exposures are managed by entering into related derivative contracts. These contracts are managed on a fair value basis and the maximum exposure to liquidity risk is the undiscounted fair value of derivative liabilities.

For a minority of commodity derivative contracts, carrying amounts cannot be derived from quoted market prices or other observable inputs, in which case fair value is estimated using valuation techniques such as Black-Scholes, option spread models and extrapolation using quoted spreads with assumptions developed internally based on observable market activity.

Other contracts include certain contracts that are held to sell or purchase commodities and others containing embedded derivatives, which are required to be recognised at fair value because of pricing or delivery conditions, even though they were entered into to meet operational requirements. These contracts are expected to mature in 2020-2025, with certain contracts having early termination rights (for either party). Valuations are derived from quoted market prices.

The contractual maturities of derivative liabilities at December 31 compare with their carrying amounts in the Consolidated Balance Sheet as follows:

2019

	Contractual maturities							\$ million	
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	5 years and later	Total	Difference from carrying amount [A]	Carrying amount
Interest rate swap	35	8	4	4	5	4	60	(2)	58
Forward foreign exchange contracts	214	40	8	–	118	–	380	(69)	311
Currency swaps and options	255	475	444	201	204	1,777	3,356	(2,368)	988
Commodity derivatives	3,472	756	349	189	123	511	5,400	(119)	5,281
Total	3,976	1,279	805	394	450	2,292	9,196	(2,558)	6,638

[A] Mainly related to the effect of discounting.

2018

	Contractual maturities							\$ million	
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	5 years and later	Total	Difference from carrying amount [A]	Carrying amount
Interest rate swap	101	68	20	1	1	1	192	(4)	188
Forward foreign exchange contracts	177	(24)	33	(1)	(5)	(15)	165	132	297
Currency swaps and options	605	265	474	405	198	1,715	3,662	(2,257)	1,405
Commodity derivatives	4,733	978	422	213	138	382	6,866	(229)	6,637
Other contracts	58	–	–	–	–	–	58	(2)	56
Total	5,674	1,287	949	618	332	2,083	10,943	(2,360)	8,583

[A] Mainly related to the effect of discounting.

Fair value measurements

The net carrying amounts of derivative contracts held at December 31, categorised according to the predominant source and nature of inputs used in determining the fair value of each contract, were as follows:

2019

		\$ million		
	Prices in active markets for identical assets/liabilities	Other observable inputs	Unobservable inputs	Total
Interest rate swaps	-	177	-	177
Forward foreign exchange contracts	-	(68)	-	(68)
Currency swaps and options	-	(883)	-	(883)
Commodity derivatives	(6)	895	744	1,633
Other contracts	27	304	10	341
Total	21	425	754	1,200

2018

		\$ million		
	Prices in active markets for identical assets/liabilities	Other observable inputs	Unobservable inputs	Total
Interest rate swaps	-	(99)	-	(99)
Forward foreign exchange contracts	-	34	-	34
Currency swaps and options	-	(1,193)	-	(1,193)
Commodity derivatives	(52)	431	(152)	227
Other contracts	-	90	125	215
Total	(52)	(737)	(27)	(816)

Net carrying amounts of derivative contracts measured using predominantly unobservable inputs

		\$ million	
		2019	2018
At January 1		(27)	297
Net gains/(losses) recognised in revenue		1,085	(258)
Purchases		453	461
Sales		(633)	(540)
Recategorisations [net]		(125)	18
Currency translation differences		1	(5)
At December 31		754	(27)

Included in net gains recognised in revenue in 2019 were unrealised net gains totalling \$612 million relating to assets and liabilities held at December 31, 2019 (2018: \$36 million losses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

20 – SHARE CAPITAL

Issued and fully paid ordinary shares of €0.07 each [A]

	Number of shares		Nominal value (\$ million)		
	A	B	A	B	Total
At January 1, 2019	4,471,889,296	3,745,486,731	376	309	685
Repurchases of shares	(320,101,779)	(16,079,624)	(27)	(1)	(28)
At December 31, 2019	4,151,787,517	3,729,407,107	349	308	657
At January 1, 2018	4,597,136,050	3,745,486,731	387	309	696
Repurchases of shares	(125,246,754)	–	(11)	–	(11)
At December 31, 2018	4,471,889,296	3,745,486,731	376	309	685

[A] Share capital at December 31, 2019, and 2018, also included 50,000 issued and fully paid sterling deferred shares of £1 each.

At the Company's Annual General Meeting ("AGM") on May 21, 2019, the Board was authorised to allot ordinary shares in the Company, and to grant rights to subscribe for or to convert any security into ordinary shares in the Company, up to an aggregate nominal amount of €190.3 million (representing 2,720 million ordinary shares of €0.07 each), and to list such shares or rights on any stock exchange. This authority expires at the earlier of the close of business on August 21, 2020, and the end of the AGM to be held in 2020, unless previously renewed, revoked or varied by the Company in a general meeting.

At the May 21, 2019 AGM, shareholders granted the Company the authority to repurchase up to 815 million ordinary shares (excluding any treasury shares), renewing the authority granted by the shareholders at previous AGMs. The authority will expire at the earlier of the close of business on August 21, 2020, and the end of the AGM of the Company to be held in 2020. Ordinary shares purchased by the Company pursuant to this authority will either be cancelled or held in treasury. Treasury shares are shares in the Company which are owned by the Company itself. The minimum price, exclusive of expenses, which may be paid for an ordinary share is €0.07. The maximum price, exclusive of expenses, which may be paid for an ordinary share is the higher of: (i) an amount equal to 5% above the average market value for an ordinary share for the five business days immediately preceding the date of the purchase; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

21 – SHARE-BASED COMPENSATION PLANS AND SHARES HELD IN TRUST

Share-based compensation expense

	\$ million		
	2019	2018	2017
Equity-settled	537	531	422
Cash-settled [A]	–	–	380
Total	537	531	802

[A] As from 2018 onwards, components of share-based payments (related to tax) that were previously classified as cash-settled are classified as equity-settled. On an incidental basis awards may be cash settled, where an equity settlement is not possible under local regulations.

The principal share-based employee compensation plans are the PSP and LTIP. Awards of shares and American Depository Shares ("ADSs") of the Company under the PSP and LTIP are granted upon certain conditions to eligible employees. The actual amount of shares that may vest ranges from 0% to 200% of the awards, depending on the outcomes of prescribed performance conditions over a three-year period beginning on January 1 of the award year. Shares and ADSs vest for nil consideration.

Share awards under the PSP and LTIP

	Number of A shares (million)	Number of B shares (million)	Number of A ADSs (million)	Weighted Average remaining contractual life (years)
At January 1, 2019	30	12	8	1.0
Granted	11	3	3	–
Vested	(11)	(5)	(3)	–
Forfeited	(1)	–	–	–
At December 31, 2019	29	10	8	1.0
At January 1, 2018	33	12	9	0.9
Granted	10	4	3	–
Vested	(12)	(4)	(4)	–
Forfeited	(1)	–	–	–
At December 31, 2018	30	12	8	1.0

Other plans offer eligible employees opportunities to acquire shares and ADSs of the Company or receive cash benefits measured by reference to the Company's share price.

Shell employee share ownership trusts and trust-like entities purchase the Company's shares in the open market to meet delivery commitments under employee share plans. At December 31, 2019, they held 17.4 million A shares (2018: 19.6 million), 6.5 million B shares (2018: 7.1 million) and 5.3 million A ADSs (2018: 5.9 million).

22 – OTHER RESERVES

Other reserves attributable to Royal Dutch Shell plc shareholders

	Merger reserve	Share premium reserve	Capital redemption reserve	Share plan reserve	Accumulated other comprehensive income	\$ million
						Total
At January 1, 2019	37,298	154	95	1,098	(22,030)	16,615
Other comprehensive loss attributable to Royal Dutch Shell plc shareholders	–	–	–	–	(2,069)	(2,069)
Transfer from other comprehensive income	–	–	–	–	(74)	(74)
Repurchases of shares	–	–	28	–	–	28
Share-based compensation	–	–	–	(49)	–	(49)
At December 31, 2019	37,298	154	123	1,049	(24,173)	14,451
At January 1, 2018 (as previously published)	37,298	154	84	1,440	(22,044)	16,932
Impact of IFRS 9	–	–	–	–	(138)	(138)
At January 1, 2018 (as revised)	37,298	154	84	1,440	(22,182)	16,794
Other comprehensive income attributable to Royal Dutch Shell plc shareholders	–	–	–	–	1,123	1,123
Transfer from other comprehensive income	–	–	–	–	(971)	(971)
Repurchases of shares	–	–	11	–	–	11
Share-based compensation	–	–	–	(342)	–	(342)
At December 31, 2018	37,298	154	95	1,098	(22,030)	16,615
At January 1, 2017	37,311	154	84	1,644	(27,895)	11,298
Other comprehensive loss attributable to Royal Dutch Shell plc shareholders	–	–	–	–	5,851	5,851
Scrip dividends	(13)	–	–	–	–	(13)
Share-based compensation	–	–	–	(204)	–	(204)
At December 31, 2017	37,298	154	84	1,440	(22,044)	16,932

The merger reserve and share premium reserve were established as a consequence of the Company becoming the single parent company of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, plc, now The Shell Transport and Trading Company Limited, in 2005. The capital redemption reserve was established in connection with repurchases of shares of the Company. The share plan reserve is in respect of equity-settled share-based compensation plans (see Note 21). The movement represents the net of the charge for the year and the release as a result of vested awards and is after deduction of tax of \$45 million in 2019 (2018: \$71 million; 2017: \$11 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

22 – OTHER RESERVES continued

Accumulated other comprehensive income comprises the following:

Accumulated other comprehensive income attributable to Royal Dutch Shell plc shareholders

\$ million

	Currency translation differences	Unrealised gains/ (losses) on securities	Debt instruments remeasurements	Cash flow and net investment hedging gains/(losses)	Deferred cost of hedging	Retirement benefits remeasurements	Equity instrument remeasurements	Total
At January 1, 2019	(11,747)		(21)	117	(353)	(10,932)	906	(22,030)
Recognised in other comprehensive income	302		24	(579)	9	(3,106)	(17)	(3,367)
Reclassified to income	38		5	268	86	–	–	397
Reclassified to the balance sheet	–		–	11	–	–	–	11
Reclassified to retained earnings	–		–	–	–	11	(85)	(74)
Tax on amounts recognised/reclassified	4		–	33	(29)	1,004	(13)	999
Total, net of tax	344		29	(267)	66	(2,091)	(115)	(2,034)
Share of joint ventures and associates	(2)		–	(74)	–	–	2	(74)
Other comprehensive income/(loss) for the period	342		29	(341)	66	(2,091)	(113)	(2,108)
Less: non-controlling interest	(35)		–	–	–	–	–	(35)
Attributable to Royal Dutch Shell plc shareholders	307		29	(341)	66	(2,091)	(113)	(2,143)
At December 31, 2019	(11,440)		8	(224)	(287)	(13,023)	793	(24,173)
At January 1, 2018 (as previously published)	(8,735)	1,969	–	(633)	–	(14,645)	–	(22,044)
Impact of IFRS 9	–	(1,969)	(6)	6	(144)	–	1,975	(138)
At January 1, 2018 (as revised)	(8,735)		(6)	(627)	(144)	(14,645)	1,975	(22,182)
Recognised in other comprehensive income	(3,794)		(15)	50	(362)	5,213	(147)	945
Reclassified to income	651		–	722	95	–	–	1,468
Reclassified to the balance sheet	–		–	(30)	–	–	–	(30)
Reclassified to retained earnings	–		–	–	–	137	(1,108)	(971)
Tax on amounts recognised/reclassified	(29)		–	(12)	58	(1,625)	(6)	(1,614)
Total, net of tax	(3,172)		(15)	730	(209)	3,725	(1,261)	(202)
Share of joint ventures and associates	(25)		–	14	–	1	193	183
Other comprehensive loss for the period	(3,197)		(15)	744	(209)	3,726	(1,068)	(19)
Less: non-controlling interest	185		–	–	–	(13)	(1)	171
Attributable to Royal Dutch Shell plc shareholders	(3,012)		(15)	744	(209)	3,713	(1,069)	152
At December 31, 2018	(11,747)		(21)	117	(353)	(10,932)	906	(22,030)
At January 1, 2017	(13,831)	1,321	–	(144)	–	(15,241)	–	(27,895)
Recognised in other comprehensive income	4,513	796	–	(467)	–	1,467	–	6,309
Reclassified to income	610	(211)	–	(87)	–	–	–	312
Reclassified to the balance sheet	–	–	–	(18)	–	–	–	(18)
Tax on amounts recognised/reclassified	33	8	–	20	–	(863)	–	(802)
Total, net of tax	5,156	593	–	(552)	–	604	–	5,801
Share of joint ventures and associates	53	55	–	63	–	(1)	–	170
Other comprehensive income/(loss) for the period	5,209	648	–	(489)	–	603	–	5,971
Less: non-controlling interest	(113)	–	–	–	–	(7)	–	(120)
Attributable to Royal Dutch Shell plc shareholders	5,096	648	–	(489)	–	596	–	5,851
At December 31, 2017	(8,735)	1,969	–	(633)	–	(14,645)	–	(22,044)

23 – DIVIDENDS

Interim dividends

		\$ million	2019	2018	2017
A shares:					
Cash: \$1.88 per share (2018: \$1.88; 2017: \$1.88)		8,147	8,605	4,919	
Scrip: none (2018: none; 2017: \$1.88 per share)		–	–	3,558	
Total – A shares		8,147	8,605	8,477	
B shares:					
Cash: \$1.88 per share (2018: \$1.88; 2017: \$1.88)		7,051	7,070	5,958	
Scrip: none (2018: none; 2017: \$1.88 per share)		–	–	1,193	
Total – B shares		7,051	7,070	7,151	
Total		15,198	15,675	15,628	

In addition, on January 30, 2020, the Directors announced a further interim dividend in respect of 2019 of \$0.47 per A share and \$0.47 per B share. The total dividend is estimated to be \$3,691 million and is payable on March 23, 2020, to shareholders on the register at February 14, 2020. The Scrip Dividend Programme has been cancelled with effect from the fourth quarter 2017 interim dividend.

Dividends on A shares are by default paid in euros, although holders may elect to receive dividends in US dollars or in sterling. Dividends on B shares are by default paid in sterling, although holders may elect to receive dividends in US dollars or in euros. Dividends on ADSs are paid in dollars.

24 – EARNINGS PER SHARE

	2019	2018	2017
Income attributable to Royal Dutch Shell plc shareholders (\$ million)	15,842	23,352	12,977
Weighted average number of A and B shares used as the basis for determining:			
Basic earnings per share (million)	8,058.3	8,282.8	8,223.4
Diluted earnings per share (million)	8,112.5	8,348.7	8,299.0

Basic earnings per share are calculated by dividing the income attributable to Royal Dutch Shell plc shareholders for the year by the weighted average number of A and B shares outstanding during the year. The weighted average number of shares outstanding excludes shares held in trust.

Diluted earnings per share are based on the same income figures. The weighted average number of shares outstanding during the year is increased by dilutive shares related to share-based compensation plans.

Earnings per share are identical for A and B shares.

25 – LEGAL PROCEEDINGS AND OTHER CONTINGENCIES

General

In the ordinary course of business, Shell subsidiaries are subject to a number of contingencies arising from litigation and claims brought by governmental, including tax authorities, and private parties. The operations and earnings of Shell subsidiaries continue, from time to time, to be affected to varying degrees by political, legislative, fiscal and regulatory developments, including those relating to the protection of the environment and indigenous groups in the countries in which they operate. The industries in which Shell subsidiaries are engaged are also subject to physical risks of various types.

The amounts claimed in relation to such events and, if such claims against Shell were successful, the costs of implementing the remedies sought in the various cases could be substantial. Based on information available to date and taking into account that in some cases it is not practicable to estimate

the possible magnitude or timing of any resultant payments, management believes that the foregoing are not expected to have a material adverse impact on Shell's Consolidated Financial Statements. However, there remains a high degree of uncertainty around these contingencies, as well as their potential effect on future operations, earnings, cash flows and Shell's financial condition.

In certain divestment transactions, liabilities related to dismantling and restoration are de-recognised upon transfer of these obligations to the buyer. For certain of these obligations Shell has issued guarantees to third parties and continues to be liable in case that the primary obligator is not able to meet its obligation. These potential obligations arising from issuance of these guarantees are assessed to be remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

Pesticide litigation

Shell Oil Company ("SOC"), along with another agricultural chemical pesticide manufacturer and several distributors, has been sued by public and quasi-public water purveyors alleging responsibility for groundwater contamination caused by applications of chemical pesticides. There are approximately 36 such cases currently pending. These suits assert various theories of strict liability and negligence, and seek to recover actual damages, including drinking well treatment and remediation costs. Most assert claims for punitive damages. While the Company continues to vigorously defend these lawsuits, a new environmental regulatory standard became effective in the State of California, where a majority of the suits are pending. The new standard requires public water systems state wide to perform quarterly or monthly sampling of their drinking water sources for a chemical contained in certain pesticides, beginning in January 2018. Water systems deemed out of compliance with the new five parts per trillion regulatory standard must take corrective action to resolve the exceedance or take the potable water source out of service. In response to this new regulatory standard, the Company is monitoring the sampling results to determine the number of wells potentially impacted. Based on the claims asserted and SOC's track record, with regard to amounts paid to resolve varying claims, management does not expect the outcome of these lawsuits pending at December 31, 2019, to have a material adverse impact on Shell. However, there remains a high degree of uncertainty regarding the potential outcome of some of these pending lawsuits, as well as their potential effect on future operations, earnings, cash flows and Shell's financial condition.

Climate change litigation

In the USA, 12 lawsuits have been filed by several municipalities and one state against oil and gas companies, including Royal Dutch Shell plc. The plaintiffs seek damages for claimed harm to their public and private infrastructure from rising sea levels allegedly due to climate change caused by the defendants' fossil fuel products. A similar suit has been filed by a crab fishing industry group claiming harm to their fisheries as a result of alleged ocean-related impacts of climate change. In the Netherlands a case has been filed against Shell by a group of environmental non-governmental organisations ("eNGOs") and individual claimants seeking a court order that Shell reduce by (net) 100% by 2050 the emissions associated with its business activities and products. Management believes the outcome of these matters should be resolved in a manner favourable to Shell, however, there remains a high degree of uncertainty regarding the ultimate outcome of these lawsuits, as well as their potential effect on future operations, earnings, cash flows and Shell's financial condition.

Brazil tax

Pursuant to Law 7.183/2015 issued by the State of Rio de Janeiro (RJ State) and effective March 2016, a value-added levy has been imposed on oil extraction in the RJ State. The Company understands that the obligations arising from this law are not legally sustainable and Shell obtained favourable injunctions suspending the enforcement of the law in two separate lawsuits, one filed to cover year 2016 and the other covering year 2017 onwards. The injunctions remain in effect and Shell received favourable decisions on the subject matter from the RJ State Court. The RJ State has appealed against both decisions and one is pending confirmation by the State Court while the other is pending final decisions by the Brazilian Superior and Supreme Courts. In addition, and as this is an industry-wide issue, the Brazilian Association of Oil and Gas Exploration and Production Companies, of which Shell is a member, filed a suit in February 2016 before the Brazilian Supreme Court, challenging the constitutionality of the law. This matter is currently pending with the Supreme Court. Should Shell be required to pay such a levy, it could result in a potential total liability of approximately \$5,275 million as of end 2019.

Louisiana coast litigation

The State of Louisiana and multiple local governments have initiated 43 lawsuits against 200+ Oil and Gas companies claiming historical oil and gas operations caused or contributed to wide-spread contamination, land loss and the erosion of the Louisiana coastline. Shell entities are named in 14 of the suits. The amounts claimed are unspecified. The cases are of first impression, arise out of an untested 1980 Louisiana statute and represent a novel attempt to render illegal operations that federal and state agencies permitted and authorized at the time. Management believes the outcome of these matters should be resolved in a manner favourable to Shell; there remains a high degree of uncertainty, however, concerning the scope of the claims and the ultimate outcome, as well as their potential effect on future operations, earnings, cash flows and Shell's financial condition.

Nigerian litigation

Shell subsidiaries and associates operating in Nigeria are parties to various environmental and contractual disputes brought in the courts of Nigeria, England and the Netherlands. These disputes are at different stages in litigation, including at the appellate stage, where judgements have been rendered against Shell entities. If taken at face value, the aggregate amount of these judgements could be seen as material. Management, however, believes that the outcomes of these matters will ultimately be resolved in a manner favourable to Shell. However, there remains a high degree of uncertainty regarding these cases, as well as their potential effect on future operations, earnings, cash flows and Shell's financial condition.

The authorities in various countries are investigating Shell Nigeria Exploration and Production Company Ltd.'s ("SNEPCO's") investment in Nigerian oil block OPL 245 and the 2011 settlement of litigation pertaining to that block with regard to potential anti-bribery, anti-corruption and anti-money laundering laws.

On January 27, 2017, the Nigeria Federal High Court issued an Interim Order of Attachment for Oil Prospecting Licence 245 ("OPL 245"), pending the conclusion of the investigation. SNEPCO applied for and was granted a discharge of this order on constitutional and procedural grounds. Also in Nigeria, in March 2017 criminal charges alleging official corruption and conspiracy to commit official corruption were filed against SNEPCO, one current Shell employee and third parties including ENI SpA and one of its subsidiaries. Those proceedings are ongoing. In January 2020, criminal charges alleging disobeying direction of law were filed in Nigeria against Shell Nigeria Ultra Deep Ltd., SNEPCO, and third parties including Nigeria Agip Exploration Limited. Those proceedings are ongoing. In March 2017, parties alleging to be shareholders of Malabu Oil and Gas Company Ltd. (Malabu) filed two actions to challenge the 2011 settlement and the award of OPL 245 to SNEPCO and an ENI SpA subsidiary by the Federal Government of Nigeria. Those proceedings are also ongoing. On May 8, 2018, Human Environmental Development Agenda ("HEDA") sought permission from the Federal High Court of Nigeria to apply for an order to direct the Attorney General of the Federation to revoke OPL 245 on grounds that the entire Malabu transaction in relation to the OPL is unconstitutional, illegal and void as it was obtained through fraudulent and corrupt practice. On October 4, 2018, SNEPCO was joined as a defendant in the HEDA action. Those proceedings are ongoing. On December 12, 2018, the Federal Republic of Nigeria issued a claim form in the UK against Shell and six subsidiaries, ENI SpA and two of its subsidiaries, Malabu as well as two other entities for the amount of \$1,092 million plus damages for having participated in a fraudulent and corrupt scheme leading to the acquisition by Shell and ENI corporate defendants in 2011 of OPL 245. The Shell entities were served in April and May 2019. The Shell entities and other defendants have challenged the jurisdiction of the English courts to try the claims and a hearing is scheduled for April 2020. On February 14, 2017, Royal Dutch Shell plc received a notice of request for indictment from the Milan public

prosecutor with respect to this matter. On December 20, 2017, Royal Dutch Shell plc along with four former Shell employees including one former executive were remanded to trial in Milan. On May 14, 2018, a trial commenced in the Court of Milan. On September 18, 2018, Shell was joined to the proceedings as the civilly responsible party (responsabile civile) for the damages caused by the alleged illegal acts of the four former Shell employees. Three other Shell entities (Shell UK Ltd, Shell Petroleum Development Company of Nigeria Ltd. and Shell Exploration and Production Africa Ltd.) also joined the proceedings but were denied status as responsabile civile for their respective former employees at that phase of the proceedings. The trial is ongoing with closing arguments scheduled to begin on March 25, 2020. Based on Shell's review of the Prosecutor of Milan's file and all the information and facts currently available to Shell, management does not believe that there is a basis to convict Shell in Milan. Furthermore, management is not aware of any evidence to convict any former or current Shell employee in Milan.

On September 20, 2018, a guilty judgement was filed by the Milan Judge of the Preliminary Hearing in a separate OPL 245 fast track trial of two individuals, neither of whom worked on behalf of Shell. That decision is under appeal.

26 – EMPLOYEES

Employee costs

	\$ million		
	2019	2018	2017
Remuneration	10,075	10,167	10,855
Social security contributions	844	810	844
Retirement benefits (see Note 17)	1,753	1,878	1,815
Share-based compensation (see Note 21)	537	531	802
Total [A]	13,209	13,386	14,316

[A] Excludes employees seconded to joint ventures and associates.

Average employee numbers

	Thousand		
	2019	2018	2017
Integrated Gas	10	9	8
Upstream	14	14	16
Downstream	36	39	42
Corporate [A]	23	20	19
Total [B]	83	82	85

[A] Includes all employees working in business service centres irrespective of the segment they support.

[B] Excludes employees seconded to joint ventures and associates (2019: 3,000 employees, 2018: 3,000 employees, 2017: 3,000 employees).

27 – DIRECTORS AND SENIOR MANAGEMENT

Remuneration of Directors of the Company

	\$ million		
	2019	2018	2017
Emoluments	8	12	11
Value of released awards under long-term incentive plans	12	20	5
Employer contributions to pension plans	1	1	1

Emoluments comprise salaries and fees, annual bonuses (for the period for which performance is assessed) and other benefits. The value of released awards under long-term incentive plans for the period is in respect of the performance period ending in that year. In 2019, retirement benefits were accrued in respect of qualifying services under defined benefit plans by two Directors.

Further information on the remuneration of the Directors can be found in the Directors' Remuneration Report on pages 135-138.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

27 – DIRECTORS AND SENIOR MANAGEMENT

Directors and Senior Management expense

	\$ million		
	2019	2018	2017
Short-term benefits	18	26	23
Retirement benefits	3	3	3
Share-based compensation	15	14	17
Termination and related amounts	2	–	3
Total	38	43	46

Directors and Senior Management comprise members of the Executive Committee and the Non-executive Directors of the Company.

Short-term benefits comprise salaries and fees, annual bonuses delivered in cash and shares (for the period for which performance is assessed), other benefits and employer social security contributions.

28 – AUDITOR'S REMUNERATION

	\$ million		
	2019	2018	2017
Fees in respect of the audit of the Consolidated and Parent Company Financial Statements, including audit of consolidation returns	32	31	27
Other audit fees, principally in respect of audits of accounts of subsidiaries	18	16	21
Total audit fees	50	47	48
Audit-related fees	4	5	4
Fees in respect of other non-audit services	–	1	1
Total	54	53	53

In addition, the auditor provided audit services to retirement benefit plans for employees of subsidiaries. Remuneration paid by those benefit plans amounted to \$1 million in 2019 (2018: \$1 million; 2017: \$1 million).

29 – POST-BALANCE SHEET EVENTS

On February 27, 2020 the fully-consolidated Shell Midstream Partners, L.P. (“SHLX”) signed an agreement with its Shell-controlled general partner to eliminate all incentive distribution rights and economic general partner interest in SHLX and convert the general partner’s two per cent general partner interest in SHLX into a non-economic general partner interest in SHLX. SHLX has also entered into a Purchase and Sale Agreement with Shell affiliates to acquire our 79% interest in the Mattox Pipeline Company LLC, which owns the Mattox Pipeline, and certain logistics assets at the Shell Norco Manufacturing Complex. As consideration for the assets and the elimination of incentive distribution rights, Shell will receive 160 million newly issued SHLX common units, plus \$1.2 billion of Series A perpetual convertible preferred units at a price of \$23.63 per unit. The transaction is expected to close in the second quarter of 2020 and is subject to regulatory approvals and other customary closing conditions.

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 March have caused further abnormally large volatility in commodity markets. The scale and duration of these developments remain uncertain but could impact our earnings, cash flow and financial condition.

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED)

The information set out on pages 239-256 is referred to as “unaudited” as a means of clarifying that it is not covered by the audit opinion of the independent registered public accounting firm that has audited and reported on the Consolidated Financial Statements.

PROVED RESERVES

Proved reserves estimates are calculated pursuant to the US Securities and Exchange Commission (“SEC”) Rules and the Financial Accounting Standard Board’s Topic 932. Proved reserves can be either developed or undeveloped. The definitions used are in accordance with the SEC Rule 4-10 (a) of Regulation S-X. We include proved reserves associated with future production that will be consumed in operations.

Proved reserves shown are net of any quantities of crude oil or natural gas that are expected to be (or could be) taken as royalties in kind. Proved reserves outside North America include quantities that will be settled as royalties in cash. Proved reserves include certain quantities of crude oil or natural gas that will be produced under arrangements that involve Shell subsidiaries, joint ventures and associates in risks and rewards but do not transfer title of the product to those entities.

Subsidiaries’ proved reserves at December 31, 2019, were divided into 79% developed and 21% undeveloped on a barrel of oil equivalent basis. For the Shell share of joint ventures and associates, the proved reserves at December 31, 2019, were divided into 86% developed and 14% undeveloped on a barrel of oil equivalent basis.

Proved reserves are recognised under various forms of contractual agreements. Shell’s proved reserves volumes at December 31, 2019, present in agreements such as production-sharing contracts (“PSC”), tax/variable royalty contracts or other forms of economic entitlement contracts, where the Shell share of reserves can vary with commodity prices, were 2,170 million barrels of crude oil and natural gas liquids, and 13,433 thousand million standard cubic feet (scf) of natural gas.

Proved reserves cannot be measured exactly because estimation of reserves involves subjective judgement (see “Risk factors” on page 27 and our “Proved reserves assurance process” below). These estimates remain subject to revision and are unaudited supplementary information.

PROVED RESERVES ASSURANCE PROCESS

A central group of reserves experts, who on average have around 28 years’ experience in the oil and gas industry, undertake the primary assurance of the proved reserves bookings. This group of experts is part of the Resources Assurance and Reporting (“RAR”) organisation within Shell. A Vice President with 34 years’ experience in the oil and gas industry currently heads the RAR organisation. He is a member of the Society of Petroleum Engineers, Society of Petroleum Evaluation Engineers and holds a BA in mathematics from Oxford University and an MEng in Petroleum Engineering from Heriot Watt University. The RAR organisation reports directly to an Executive Vice President of Finance, who is a member of the Upstream Reserves Committee (“URC”). The URC is a multidisciplinary committee consisting of senior representatives from the Finance, Legal, Projects & Technology and Upstream organisations. The URC reviews and endorses all major (larger than 20 million barrels of oil equivalent) proved reserves bookings and de-bookings and endorses the total aggregated proved reserves. Final approval of all proved reserves bookings remains with Shell’s Executive Committee, and all proved reserves bookings are reviewed by Shell’s Audit Committee. The Internal Audit function also provides secondary assurance through audits of the control framework.

CRUDE OIL, NATURAL GAS LIQUIDS, SYNTHETIC CRUDE OIL AND BITUMEN

Shell subsidiaries’ proved reserves of crude oil, natural gas liquids (“NGLs”), synthetic crude oil and bitumen at the end of the year; their share of the proved reserves of joint ventures and associates at the end of the year; and the changes in such reserves during the year are set out on pages 240-242. Significant changes in these proved reserves are discussed below, where ‘revisions and reclassifications’ are changes based on new information that resulted from development drilling, production history, and changes in economic factors.

PROVED RESERVES 2019–2018

Shell subsidiaries

Europe

The net decrease of 65 million barrels in sales and purchases resulted from divestments carried out in Denmark.

Asia

The net increase of 226 million barrels in revisions and reclassifications was mainly in Oman and Kazakhstan.

USA

The increase of 86 million barrels in revisions and reclassifications mainly resulted from field performance studies and development activities in the Permian Basin and in Mars and Ursa field in the Gulf of Mexico. The increase of 74 million barrels in extensions and discoveries was in the Permian Basin and PowerNap.

South America

The increase of 72 million barrels in revisions and reclassifications mainly resulted from field performance studies and development activities in Lula and Lapa Field (Brazil). The net increase of 60 million barrels in extensions and discoveries was mainly in Mero (Brazil).

PROVED RESERVES 2018–2017

Shell subsidiaries

Europe

The net increase of 94 million barrels in revisions and reclassifications was mainly in the UK and Denmark.

Asia

The net increase of 227 million barrels in revisions and reclassifications was mainly in Oman and Kazakhstan. The sale of minerals in place of 52 million barrels occurred in Iraq (West Qurna) and Oman (Mukhaizna).

USA

The net increase of 81 million barrels in revisions and reclassifications was mainly in the Mars and Ursa fields in the Gulf of Mexico. The increase of 179 million barrels in extensions and discoveries was mainly in the Vito field in the Gulf of Mexico and in the Permian Basin.

South America

The net increase of 139 million barrels in extensions and discoveries was mainly in Mero (Brazil) and Vaca Muerta (Argentina).

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED) continued

Proved developed and undeveloped reserves 2019

	Million barrels												
					North America				South America				Total
	Europe	Asia	Oceania	Africa	USA		Canada	South America	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	
	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	All products	
Shell subsidiaries													
At January 1	368	1,502	129	420	1,017	23	661	–	1,027	4,486	661	–	5,147
Revisions and reclassifications	27	226	2	33	86	(2)	(34)	–	72	444	(34)	–	410
Improved recovery	–	–	–	–	–	–	–	–	4	4	–	–	4
Extensions and discoveries	–	7	–	6	74	11	–	–	60	158	–	–	158
Purchases of minerals in place	–	–	–	–	5	–	–	–	–	5	–	–	5
Sales of minerals in place	(65)	–	–	–	(29)	(2)	–	–	–	(96)	–	–	(96)
Production [A]	(56)	(184)	(10)	(64)	(171)	(12)	(20)	–	(130)	(627)	(20)	–	(647)
At December 31	274	1,551	121	395	982	18	607	–	1,033	4,374	607	–	4,981
Shell share of joint ventures and associates													
At January 1	9	281	–	–	–	–	–	–	290	–	–	–	290
Revisions and reclassifications	4	21	–	–	–	–	–	–	25	–	–	–	25
Improved recovery	–	4	–	–	–	–	–	–	4	–	–	–	4
Extensions and discoveries	–	2	–	–	–	–	–	–	2	–	–	–	2
Purchases of minerals in place	–	–	–	–	–	–	–	–	–	–	–	–	–
Sales of minerals in place	–	–	–	–	–	–	–	–	–	–	–	–	–
Production	(1)	(37)	–	–	–	–	–	–	–	(38)	–	–	(38)
At December 31	12	271	–	–	–	–	–	–	–	283	–	–	283
Total	286	1,822	121	395	982	18	607	–	1,033	4,657	607	–	5,264
Reserves attributable to non-controlling interest in Shell subsidiaries at December 31	–	–	–	–	–	–	304	–	–	–	304	–	304

[A] Includes 1 million barrels consumed in operations for synthetic crude oil.

Proved developed reserves 2019

	Million barrels												
					North America				South America				Total
	Europe	Asia	Oceania	Africa	USA		Canada	South America	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	
	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	All products	
Shell subsidiaries													
At January 1	243	1,318	108	335	629	21	661	–	634	3,288	661	–	3,949
At December 31	156	1,403	106	314	641	15	607	–	675	3,310	607	–	3,917
Shell share of joint ventures and associates													
At January 1	8	251	–	–	–	–	–	–	259	–	–	–	259
At December 31	11	240	–	–	–	–	–	–	251	–	–	–	251

Proved undeveloped reserves 2019

	Million barrels												
					North America				South America				Total
	Europe	Asia	Oceania	Africa	USA		Canada	South America	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	
	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	All products	
Shell subsidiaries													
At January 1	124	185	21	85	388	2	–	–	394	1,199	–	–	1,199
At December 31	118	149	15	80	341	3	–	–	358	1,064	–	–	1,064
Shell share of joint ventures and associates													
At January 1	1	30	–	–	–	–	–	–	31	–	–	–	31
At December 31	1	31	–	–	–	–	–	–	32	–	–	–	32

Proved developed and undeveloped reserves 2018

	Million barrels																		
	Europe				Asia				Oceania		Africa		USA		North America		South America		Total
	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	All products						
Shell subsidiaries																			
At January 1	356	1,482	132	463	899	22	649	-	946	4,300	649	-	4,949						
Revisions and reclassifications	94	227	14	18	81	7	32	-	48	489	32	-	521						
Improved recovery	-	27	-	-	-	-	-	-	14	41	-	-	41						
Extensions and discoveries	2	3	-	-	179	6	-	-	139	329	-	-	329						
Purchases of minerals in place	-	-	-	-	-	-	-	-	3	3	-	-	3						
Sales of minerals in place	(14)	(52)	(8)	-	(2)	-	-	-	-	-	(76)	-	(76)						
Production [A]	(70)	(185)	(9)	(61)	(140)	(13)	(20)	-	(122)	(600)	(20)	-	(620)						
At December 31	368	1,502	129	420	1,017	23	661	-	1,027	4,486	661	-	5,147						
Shell share of joint ventures and associates																			
At January 1	12	301	-	-	-	-	-	-	-	313	-	-	313						
Revisions and reclassifications	(2)	(2)	-	-	-	-	-	-	-	(4)	-	-	(4)						
Improved recovery	-	-	-	-	-	-	-	-	-	-	-	-	-						
Extensions and discoveries	-	18	-	-	-	-	-	-	-	18	-	-	18						
Purchases of minerals in place	-	-	-	-	-	-	-	-	-	-	-	-	-						
Sales of minerals in place	-	-	-	-	-	-	-	-	-	-	-	-	-						
Production	(1)	(37)	-	-	-	-	-	-	-	(38)	-	-	(38)						
At December 31	9	281	-	-	-	-	-	-	-	290	-	-	290						
Total	377	1,783	129	420	1,017	23	661	-	1,027	4,776	661	-	5,437						
Reserves attributable to non-controlling interest in Shell subsidiaries at December 31	-	-	-	-	-	-	-	331	-	-	-	331	-	331					

[A] Includes 1 million barrels consumed in operations for synthetic crude oil.

Proved developed reserves 2018

	Million barrels																		
	Europe				Asia				Oceania		Africa		USA		North America		South America		Total
	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	All products						
Shell subsidiaries																			
At January 1	250	1,364	46	373	569	21	649	-	651	3,274	649	-	3,923						
At December 31	243	1,318	108	335	629	21	661	-	634	3,288	661	-	3,949						
Shell share of joint ventures and associates																			
At January 1	11	253	-	-	-	-	-	-	-	264	-	-	264						
At December 31	8	251	-	-	-	-	-	-	-	259	-	-	259						

Proved undeveloped reserves 2018

	Million barrels																		
	Europe				Asia				Oceania		Africa		USA		North America		South America		Total
	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	All products						
Shell subsidiaries																			
At January 1	106	118	86	90	330	1	-	-	295	1,026	-	-	1,026						
At December 31	124	185	21	85	388	2	-	-	394	1,199	-	-	1,199						
Shell share of joint ventures and associates																			
At January 1	1	48	-	-	-	-	-	-	-	49	-	-	49						
At December 31	1	30	-	-	-	-	-	-	-	31	-	-	31						

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED) continued**Proved developed and undeveloped reserves 2017**

	Million barrels											
	Europe	Asia	Oceania	Africa	North America				South America			Total
					Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	
Shell subsidiaries												
At January 1	435	1,386	128	529	491	18	2,014	2	992	3,979	2,014	2 5,995
Revisions and reclassifications	61	153	13	23	235	8	(3)	2	38	531	(3)	2 530
Improved recovery	-	35	-	-	38	-	-	-	-	73	-	- 73
Extensions and discoveries	-	95	-	-	242	7	-	-	30	374	-	- 374
Purchases of minerals in place	-	-	-	-	2	-	664	-	-	2	664	- 666
Sales of minerals in place	(50)	-	-	(14)	-	-	(1,992)	(2)	-	(64)	(1,992)	(2) (2,058)
Production [A]	(90)	(187)	(9)	(75)	(109)	(11)	(34)	(2)	(114)	(595)	(34)	(2) (631)
At December 31	356	1,482	132	463	899	22	649	-	946	4,300	649	- 4,949
Shell share of joint ventures and associates												
At January 1	7	256	-	-	-	-	-	-	-	263	-	- 263
Revisions and reclassifications	6	76	-	-	-	-	-	-	-	82	-	- 82
Improved recovery	-	3	-	-	-	-	-	-	-	3	-	- 3
Extensions and discoveries	-	1	-	-	-	-	-	-	-	1	-	- 1
Purchases of minerals in place	-	-	-	-	-	-	-	-	-	-	-	-
Sales of minerals in place	-	-	-	-	-	-	-	-	-	-	-	-
Production	(1)	(35)	-	-	-	-	-	-	-	(36)	-	- (36)
At December 31	12	301	-	-	-	-	-	-	-	313	-	- 313
Total	368	1,783	132	463	899	22	649	-	946	4,613	649	- 5,262
Reserves attributable to non-controlling interest in Shell subsidiaries at December 31	-	-	-	-	-	-	325	-	-	325	-	- 325

[A] Includes 1 million barrels consumed in operations for synthetic crude oil.

Proved developed reserves 2017

	Million barrels											
	Europe	Asia	Oceania	Africa	North America				South America			Total
					Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	
Shell subsidiaries												
At January 1	257	1,184	36	461	437	14	1,387	2	543	2,932	1,387	2 4,321
At December 31	250	1,364	46	373	569	21	649	-	651	3,274	649	- 3,923
Shell share of joint ventures and associates												
At January 1	4	215	-	-	-	-	-	-	-	219	-	- 219
At December 31	11	253	-	-	-	-	-	-	-	264	-	- 264

Proved undeveloped reserves 2017

	Million barrels											
	Europe	Asia	Oceania	Africa	North America				South America			Total
					Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Oil and NGL	Synthetic crude oil	Bitumen	
Shell subsidiaries												
At January 1	178	202	92	68	54	4	627	-	449	1,047	627	- 1,674
At December 31	106	118	86	90	330	1	-	-	295	1,026	-	- 1,026
Shell share of joint ventures and associates												
At January 1	3	41	-	-	-	-	-	-	-	44	-	- 44
At December 31	1	48	-	-	-	-	-	-	-	49	-	- 49

NATURAL GAS

Shell subsidiaries' proved reserves of natural gas at the end of the year, their share of the proved reserves of joint ventures and associates at the end of the year, and the changes in such reserves during the years are set out on pages 244-246. Significant changes in these proved reserves are discussed below. Volumes are not adjusted to standard heat content. Apart from integrated projects, volumes of gas are reported on an "as-sold" basis. The price used to calculate future revenue and cash flows from proved gas reserves is the contract price or the 12-month average on "as-sold" volumes. Volumes associated with integrated projects are those measured at a designated transfer point between the upstream and downstream portions of the integrated project. Natural gas volumes are converted into oil equivalent using a factor of 5,800 scf per barrel.

PROVED RESERVES 2019–2018

Shell subsidiaries

Asia

The net increase of 859 thousand million scf in revisions and reclassifications was mainly in Qatar and Malaysia (Sabah and Sarawak).

Oceania

The net increase of 699 thousand million scf in revisions and reclassifications was mainly in Surat, Gorgon and Jansz-lo.

Africa

The net increase of 290 thousand million scf in revisions and reclassifications was mainly in Bonny and Gbaran (Nigeria).

Canada

The net increase of 317 thousand million scf in extensions and discoveries was mainly in Groundbirch.

Shell share of joint ventures and associates

Europe

The net decrease of 322 thousand million scf in revisions and reclassifications was mainly in Groningen (Netherlands).

PROVED RESERVES 2018–2017

Shell subsidiaries

Europe

The net increase of 1,183 thousand million scf in revisions and reclassifications was mainly in Norway, the UK, Denmark and Germany.

Asia

The net decrease of 483 thousand million scf in revisions and reclassifications was mainly in Qatar, Malaysia and Kazakhstan. The increase of 354 thousand million scf in extensions and discoveries was in Malaysia.

Oceania

The net increase of 1,438 thousand million scf in revisions and reclassifications was mainly in the Surat Basin, Jansz-lo and Gorgon (all Australia).

Africa

The net increase of 896 thousand million scf in revisions and reclassifications was mainly in Gbaran, Assa North, Forcados-Yokri (Nigeria) and Sapphire (Egypt).

USA

The net decrease of 296 thousand million scf in revisions and reclassifications was mainly in Tioga. The increase of 283 thousand million scf in extensions and discoveries was mainly in the Permian Basin.

Shell share of joint ventures and associates

Europe

The net decrease of 3,653 thousand million scf in revisions and reclassifications was mainly in Groningen (the Netherlands). Groningen: The decrease of 3,673 thousand million scf is as a result of the Dutch cabinet's announcement on March 29, 2018, about its aspiration to end Groningen production by 2030, and an agreement signed by Shell, ExxonMobil and the Dutch government in June 2018. The proved reserves are aligned with the new regulatory framework and the updated production outlook issued in November 2018 by the Dutch Ministry of Economic Affairs.

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED) continued

Proved developed and undeveloped reserves 2019

	Europe	Asia	Oceania	Africa	North America	South America	Thousand million standard cubic feet Total
					USA	Canada	
Shell subsidiaries							
At January 1	3,600	10,631	8,427	2,544	2,147	989	1,509 29,847
Revisions and reclassifications	(46)	859	699	290	114	235	29 2,180
Improved recovery	–	–	–	–	–	–	3 3
Extensions and discoveries	–	36	–	152	142	317	37 684
Purchases of minerals in place	–	–	–	–	5	–	– 5
Sales of minerals in place	(210)	–	–	–	(132)	(30)	– (372)
Production [A]	(346)	(908)	(766)	(378)	(408)	(230)	(319) (3,355)
At December 31	2,998	10,618	8,360	2,608	1,868	1,281	1,259 28,992
Shell share of joint ventures and associates							
At January 1	1,163	4,581	24	–	–	–	5,768
Revisions and reclassifications	(322)	64	34	–	–	–	(224)
Improved recovery	–	1	–	–	–	–	– 1
Extensions and discoveries	–	5	–	–	–	–	– 5
Purchases of minerals in place	–	–	–	–	–	–	–
Sales of minerals in place	–	–	–	–	–	–	–
Production [B]	(246)	(453)	(22)	–	–	–	– (721)
At December 31	595	4,198	36	–	–	–	– 4,829
Total	3,593	14,816	8,396	2,608	1,868	1,281	1,259 33,821
Reserves attributable to non-controlling interest in shell subsidiaries at December 31	–	–	–	–	–	–	–

[A] Includes 247 thousand million standard cubic feet consumed in operations.

[B] Includes 42 thousand million standard cubic feet consumed in operations.

Proved developed reserves 2019

	Europe	Asia	Oceania	Africa	North America	South America	Thousand million standard cubic feet Total
					USA	Canada	
Shell subsidiaries							
At January 1	2,658	10,092	5,820	1,573	1,706	721	1,238 23,808
At December 31	2,060	10,091	5,769	1,523	1,615	781	968 22,807
Shell share of joint ventures and associates							
At January 1	1,136	3,938	24	–	–	–	– 5,099
At December 31	555	3,519	36	–	–	–	– 4,110

Proved undeveloped reserves 2019

	Europe	Asia	Oceania	Africa	North America	South America	Thousand million standard cubic feet Total
					USA	Canada	
Shell subsidiaries							
At January 1	942	539	2,607	971	441	268	271 6,039
At December 31	937	528	2,591	1,085	254	499	291 6,185
Shell share of joint ventures and associates							
At January 1	27	643	–	–	–	–	– 670
At December 31	39	680	–	–	–	–	– 719

Proved developed and undeveloped reserves 2018

	Europe	Asia	Oceania	Africa	North America	South America	Thousand million standard cubic feet
					USA	Canada	Total
Shell subsidiaries							
At January 1	3,100	11,822	7,978	2,082	2,569	1,272	1,501
Revisions and reclassifications	1,183	(483)	1,438	896	(296)	(153)	181
Improved recovery	-	-	-	-	-	-	7
Extensions and discoveries	3	354	-	-	283	131	65
Purchases of minerals in place	-	-	-	-	-	-	14
Sales of minerals in place	(192)	(157)	(232)	-	(32)	-	(613)
Production [A]	(494)	(906)	(757)	(434)	(377)	(261)	(258)
At December 31	3,600	10,631	8,427	2,544	2,147	989	1,509
Shell share of joint ventures and associates							
At January 1	5,125	4,964	19	-	-	-	10,108
Revisions and reclassifications	(3,653)	62	25	-	-	-	(3,566)
Improved recovery	-	-	-	-	-	-	-
Extensions and discoveries	-	5	-	-	-	-	5
Purchases of minerals in place	-	-	-	-	-	-	-
Sales of minerals in place	(37)	-	-	-	-	-	(37)
Production [B]	(273)	(450)	(20)	-	-	-	(743)
At December 31	1,163	4,581	24	-	-	-	5,768
Total	4,763	15,212	8,451	2,544	2,147	989	1,509
Reserves attributable to non-controlling interest in Shell subsidiaries at December 31	-	-	-	-	-	-	-

[A] Includes 245 thousand million standard cubic feet consumed in operations.

[B] Includes 41 thousand million standard cubic feet consumed in operations.

Proved developed reserves 2018

	Europe	Asia	Oceania	Africa	North America	South America	Thousand million standard cubic feet
					USA	Canada	Total
Shell subsidiaries							
At January 1	2,978	11,460	5,026	1,493	1,652	859	1,225
At December 31	2,658	10,092	5,820	1,573	1,706	721	1,238
Shell share of joint ventures and associates							
At January 1	5,055	4,275	19	-	-	-	9,349
At December 31	1,136	3,938	24	-	-	-	5,099

Proved undeveloped reserves 2018

	Europe	Asia	Oceania	Africa	North America	South America	Thousand million standard cubic feet
					USA	Canada	Total
Shell subsidiaries							
At January 1	122	362	2,952	589	917	413	276
At December 31	942	539	2,607	971	441	268	271
Shell share of joint ventures and associates							
At January 1	70	689	-	-	-	-	759
At December 31	27	643	-	-	-	-	670

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED) continued

Proved developed and undeveloped reserves 2017

	Europe	Asia	Oceania	Africa	USA	Canada	North America	South America	Thousand million standard cubic feet Total
Shell subsidiaries									
At January 1	3,741	11,073	9,051	2,225	675	844	1,650	29,259	
Revisions and reclassifications	197	979	(574)	287	958	412	45	2,304	
Improved recovery	–	66	–	–	74	–	–	140	
Extensions and discoveries	2	549	–	–	1,163	205	6	1,925	
Purchases of minerals in place	–	–	204	–	3	43	27	277	
Sales of minerals in place	(224)	–	–	(7)	(11)	(6)	–	(248)	
Production [A]	(616)	(845)	(703)	(423)	(293)	(226)	(227)	(3,333)	
At December 31	3,100	11,822	7,978	2,082	2,569	1,272	1,501	30,324	
Shell share of joint ventures and associates									
At January 1	6,497	4,754	31	–	–	–	–	11,282	
Revisions and reclassifications	(1,027)	652	9	–	–	–	–	(366)	
Improved recovery	–	1	–	–	–	–	–	1	
Extensions and discoveries	–	11	–	–	–	–	–	11	
Purchases of minerals in place	–	–	–	–	–	–	–	–	
Sales of minerals in place	–	–	–	–	–	–	–	–	
Production [B]	(345)	(454)	(21)	–	–	–	–	(820)	
At December 31	5,125	4,964	19	–	–	–	–	10,108	
Total	8,225	16,786	7,997	2,082	2,569	1,272	1,501	40,432	
Reserves attributable to non-controlling interest in Shell subsidiaries at December 31	–	2	–	–	–	–	–	–	2

[A] Includes 215 thousand million standard cubic feet consumed in operations.

[B] Includes 41 thousand million standard cubic feet consumed in operations.

Proved developed reserves 2017

	Europe	Asia	Oceania	Africa	USA	Canada	North America	South America	Thousand million standard cubic feet Total
Shell subsidiaries									
At January 1	3,437	10,569	3,966	1,618	563	458	1,172	21,783	
At December 31	2,978	11,460	5,026	1,493	1,652	859	1,225	24,693	
Shell share of joint ventures and associates									
At January 1	5,240	4,110	31	–	–	–	–	9,381	
At December 31	5,055	4,275	19	–	–	–	–	9,349	

Proved undeveloped reserves 2017

	Europe	Asia	Oceania	Africa	USA	Canada	North America	South America	Thousand million standard cubic feet Total
Shell subsidiaries									
At January 1	304	504	5,085	607	112	386	478	7,476	
At December 31	122	362	2,952	589	917	413	276	5,631	
Shell share of joint ventures and associates									
At January 1	1,257	644	–	–	–	–	–	1,901	
At December 31	70	689	–	–	–	–	–	759	

STANDARDISED MEASURE OF DISCOUNTED FUTURE CASH FLOWS

The SEC Form 20-F requires the disclosure of a standardised measure of discounted future net cash flows, relating to proved reserves quantities and based on a 12-month unweighted arithmetic average sales price, calculated on a first-day-of-the-month basis, with cost factors based on those at the end of each year, currently enacted tax rates and a 10% annual discount factor. In our view, the information so calculated does not provide a reliable measure of future cash flows from proved reserves, nor does it permit a realistic comparison to be made of one entity with another because the assumptions used cannot reflect the varying circumstances within each entity. In addition, a substantial but unknown proportion of future real cash flows from oil and gas production activities is expected to derive from reserves which have already been discovered, but which cannot yet be regarded as proved.

STANDARDISED MEASURE OF DISCOUNTED FUTURE CASH FLOWS RELATING TO PROVED RESERVES AT DECEMBER 31

2019 – Shell subsidiaries

	Europe	Asia	Oceania	Africa	North America	South America	\$ million
					USA	Canada	Total
Future cash inflows	33,762	111,802	71,775	31,046	55,800	31,522	64,957 400,664
Future production costs	11,818	32,581	21,589	12,158	30,139	16,651	32,362 157,298
Future development costs	6,047	13,449	10,103	4,081	11,137	4,603	13,219 62,639
Future tax expenses	9,285	25,938	7,016	10,542	2,397	2,313	5,429 62,920
Future net cash flows	6,612	39,834	33,067	4,265	12,127	7,955	13,947 117,807
Effect of discounting cash flows at 10%	1,917	17,851	13,328	377	1,815	5,571	4,094 44,953
Standardised measure of discounted future net cash flows	4,695	21,983	19,739	3,888	10,312	2,384	9,853 72,854
Non-controlling interest included	-	-	-	-	-	1,371	- 1,371

2019 – Shell share of joint ventures and associates

	Europe	Asia	Oceania	Africa	North America	South America	\$ million
					USA	Canada	Total
Future cash inflows	3,615	38,099	122	-	-	-	- 41,836
Future production costs	2,810	18,336	81	-	-	-	- 21,227
Future development costs	935	6,946	36	-	-	-	- 7,917
Future tax expenses	718	6,160	4	-	-	-	- 6,882
Future net cash flows	(848)	6,657	1	-	-	-	- 5,812
Effect of discounting cash flows at 10%	(266)	1,190	(7)	-	-	-	- 917
Standardised measure of discounted future net cash flows	(582) [A]	5,467	8	-	-	-	- 4,893

[A] While proved reserves are economically producible at the 2019 yearly average price, the standardised measure of discounted future net cash flows was negative for those proved reserves at December 31, 2019, due to addition of overhead, tax and abandonment costs and ongoing commitments post production of proved reserves.

2018 – Shell subsidiaries

	Europe	Asia	Oceania	Africa	North America	South America	\$ million
					USA	Canada	Total
Future cash inflows	50,392	122,037	72,355	36,080	68,546	34,719	74,417 458,545
Future production costs	18,400	32,773	22,219	13,237	32,533	17,378	42,301 178,842
Future development costs	8,649	12,301	11,598	4,672	11,486	4,674	6,991 60,370
Future tax expenses	12,603	30,994	5,899	12,805	1,948	3,257	7,764 75,271
Future net cash flows	10,739	45,969	32,639	5,366	22,578	9,411	17,360 144,062
Effect of discounting cash flows at 10%	3,024	20,957	12,130	572	5,039	6,446	6,048 54,217
Standardised measure of discounted future net cash flows	7,715	25,012	20,509	4,794	17,539	2,964	11,312 89,845
Non-controlling interest included	-	1	-	-	-	1,638	- 1,639

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED) continued

2018 – Shell share of joint ventures and associates

	Europe	Asia	Oceania	Africa	North America	South America	Total	\$ million
					USA	Canada		
Future cash inflows	5,260	44,327	104	–	–	–	–	49,691
Future production costs	2,712	20,886	80	–	–	–	–	23,677
Future development costs	1,083	6,726	36	–	–	–	–	7,844
Future tax expenses	1,136	7,128	1	–	–	–	–	8,265
Future net cash flows	329	9,588	(13)	–	–	–	–	9,904
Effect of discounting cash flows at 10%	(76)	2,759	(8)	–	–	–	–	2,675
Standardised measure of discounted future net cash flows	405	6,829	(5) [A]	–	–	–	–	7,229

[A] While proved reserves are economically producible at the 2018 yearly average price, the standardised measure of discounted future net cash flows was negative for those proved reserves at December 31, 2018, due to addition of overhead, tax and abandonment costs and ongoing commitments post production of proved reserves.

2017 – Shell subsidiaries

	Europe	Asia	Oceania	Africa	North America	South America	Total	\$ million
					USA	Canada		
Future cash inflows	34,902	94,535	51,052	29,276	49,389	32,576	50,620	342,350
Future production costs	15,672	30,894	18,264	11,496	29,505	20,242	30,924	156,997
Future development costs	7,852	12,558	14,062	4,920	14,200	5,115	6,210	64,917
Future tax expenses	5,747	18,048	1,169	9,064	2,177	2,509	4,888	43,602
Future net cash flows	5,631	33,035	17,557	3,796	3,507	4,710	8,598	76,834
Effect of discounting cash flows at 10%	825	15,115	5,773	(9)	(796)	3,077	2,325	26,310
Standardised measure of discounted future net cash flows	4,806	17,920	11,784	3,805	4,303	1,633	6,273	50,524
Non-controlling interest included	–	1	–	–	–	870	–	871

2017 – Shell share of joint ventures and associates

	Europe	Asia	Oceania	Africa	North America	South America	Total	\$ million
					USA	Canada		
Future cash inflows	22,725	37,954	69	–	–	–	–	60,748
Future production costs	17,442	17,592	54	–	–	–	–	35,088
Future development costs	1,051	7,605	64	–	–	–	–	8,720
Future tax expenses	1,803	5,172	–	–	–	–	–	6,975
Future net cash flows	2,429	7,585	(49)	–	–	–	–	9,965
Effect of discounting cash flows at 10%	1,008	1,862	(14)	–	–	–	–	2,856
Standardised measure of discounted future net cash flows	1,421	5,723	(35) [A]	–	–	–	–	7,109

[A] While proved reserves are economically producible at the 2017 yearly average price, the standardised measure of discounted future net cash flows was negative for those proved reserves at December 31, 2017, due to addition of overhead, tax and abandonment costs and ongoing commitments post production of proved reserves.

CHANGE IN STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED RESERVES
2019

	\$ million		
	Shell subsidiaries	Shell share of joint ventures and associates	Total
At January 1	89,845	7,229	97,074
Net changes in prices and production costs	(18,759)	(1,017)	(19,776)
Revisions of previous reserves estimates	13,777	(293)	13,484
Extensions, discoveries and improved recovery	5,193	93	5,286
Purchases and sales of minerals in place	(2,831)	-	(2,831)
Development cost related to future production	(9,417)	(2)	(9,419)
Sales and transfers of oil and gas, net of production costs	(33,319)	(3,918)	(37,237)
Development cost incurred during the year	10,430	702	11,132
Accretion of discount	12,004	1,133	13,137
Net change in income tax	5,931	966	6,897
At December 31	72,854	4,893	77,747

2018

	\$ million		
	Shell subsidiaries	Shell share of joint ventures and associates	Total
At January 1	50,524	7,109	57,633
Net changes in prices and production costs	58,128	6,156	64,284
Revisions of previous reserves estimates	15,265	(1,447)	13,818
Extensions, discoveries and improved recovery	8,936	532	9,468
Purchases and sales of minerals in place	(3,401)	(20)	(3,421)
Development cost related to future production	(3,876)	(308)	(4,184)
Sales and transfers of oil and gas, net of production costs	(38,014)	(4,858)	(42,872)
Development cost incurred during the year	10,724	666	11,390
Accretion of discount	7,060	994	8,054
Net change in income tax	(15,501)	(1,159)	(17,096)
At December 31	89,845	7,229	97,074

2017

	\$ million		
	Shell subsidiaries	Shell share of joint ventures and associates	Total
At January 1	27,718	4,176	31,894
Net changes in prices and production costs	34,190	3,952	38,142
Revisions of previous reserves estimates	13,769	1,931	15,700
Extensions, discoveries and improved recovery	3,901	79	3,980
Purchases and sales of minerals in place	(2,068)	-	(2,068)
Development cost related to future production	(4,823)	461	(4,362)
Sales and transfers of oil and gas, net of production costs	(27,544)	(3,652)	(31,196)
Development cost incurred during the year	14,262	536	14,798
Accretion of discount	3,844	630	4,474
Net change in income tax	(12,725)	(1,004)	(13,729)
At December 31	50,524	7,109	57,633

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED) continued

OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES CAPITALISED COSTS

The aggregate amount of property, plant and equipment and intangible assets, excluding goodwill, relating to oil and gas exploration and production activities, and the aggregate amount of the related depreciation, depletion and amortisation at December 31, are shown in the tables below.

Shell subsidiaries

	\$ million	
	2019	2018
Cost		
Proved properties [A]	265,700	265,489
Unproved properties	18,669	21,256
Support equipment and facilities	11,043	6,404
	295,412	293,149
Depreciation, depletion and amortisation		
Proved properties [A]	129,809	126,641
Unproved properties	4,089	3,362
Support equipment and facilities	4,078	3,424
	137,976	133,427
Net capitalised costs	157,436	159,722

[A] Includes capitalised asset decommissioning and restoration costs and related depreciation.

Shell share of joint ventures and associates

	\$ million	
	2019	2018
Cost		
Proved properties [A]	46,895	44,331
Unproved properties	2,428	2,591
Support equipment and facilities	4,882	4,399
	54,205	51,321
Depreciation, depletion and amortisation		
Proved properties [A]	34,120	31,702
Unproved properties	–	–
Support equipment and facilities	2,817	2,586
	36,937	34,288
Net capitalised costs	17,268	17,033

[A] Includes capitalised asset decommissioning and restoration costs and related depreciation.

OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES COSTS INCURRED

Costs incurred during the year in oil and gas property acquisition, exploration and development activities, whether capitalised or charged to income currently, are shown in the tables below. As a result of the adoption of IFRS 16 Leases as of January 1, 2019, leases are included in year 2019. Development costs include capitalised asset decommissioning and restoration costs (including increases or decreases arising from changes to cost estimates or to the discount rate applied to the obligations) and exclude costs of acquiring support equipment and facilities, but include depreciation thereon.

Shell subsidiaries

	Europe	Asia	Oceania	Africa	North America		South America	Total
					USA	Other [A]		
Acquisition of properties								
Proved	3	105	–	10	–	–	–	118
Unproved	–	11	–	67	118	5	3	204
Exploration	428	165	117	253	1,723	402	500	3,588 [B]
Development	2,054	1,434	1,225	1,480	4,455	287	2,418	13,353

[A] Comprises Canada and Mexico.

[B] Includes \$1,195 million of Shales-related exploration activities. In 2019, we participated in 231 Shales productive exploratory wells with proved reserves allocated (Shell share: 117 wells).

2018

	Europe	Asia	Oceania	Africa	North America		South America	\$ million Total
					USA	Other [A]		
Acquisition of properties								
Proved	3	3	-	596	44	-	-	646
Unproved	2	6	-	76	44	310	486	924
Exploration	384	182	49	188	1,912	251	502	3,468 [B]
Development	1,452	1,102	1,632	962	4,052	505	2,095	11,800

[A] Comprises Canada, Honduras and Mexico.

[B] Includes \$1,581 million of Shales-related exploration activities. In 2018, we participated in 234 Shales productive exploratory wells with proved reserves allocated (Shell share: 118 wells).

2017

	Europe	Asia	Oceania	Africa	North America		South America	\$ million Total
					USA	Other [A]		
Acquisition of properties								
Proved	-	-	-	10	-	2,246	19	2,275
Unproved	-	12	-	18	141	320	57	548
Exploration	329	135	38	138	1,354	235	600	2,829
Development	776	840	2,493	371	4,123	722	1,671	10,996

[A] Comprises Canada, Honduras and Mexico.

SHELL SHARE OF JOINT VENTURES AND ASSOCIATES

Joint ventures and associates did not incur costs in the acquisition of oil and gas properties in 2019, 2018 or 2017.

2019

	Europe	Asia	Oceania	Africa	North America		South America	\$ million Total
					USA	Canada		
Exploration								
Exploration	1	116	12	-	-	-	-	129
Development	94	1,400	65	-	-	-	-	1,559

2018

	Europe	Asia	Oceania	Africa	North America		South America	\$ million Total
					USA	Canada		
Exploration								
Exploration	-	90	14	-	-	-	-	104
Development	229	1,026	79	-	-	-	-	1,334

2017

	Europe	Asia	Oceania	Africa	North America		South America	\$ million Total
					USA	Canada		
Exploration								
Exploration	3	82	8	-	-	-	-	93
Development	[22] [A]	660	58	-	-	-	-	696

[A] Includes a revision of decommissioning and restoration provisions.

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED) continued

OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES EARNINGS

The results of operations for oil and gas producing activities are shown in the tables below. Taxes other than income tax include cash-paid royalties to governments outside North America.

Shell subsidiaries

2019

	Europe	Asia	Oceania	Africa	North America		\$ million	
					USA	Other [A]	South America	Total
Revenue								
Third parties	1,257	3,065	931	1,936	2,638	632	844	11,303
Sales between businesses	4,911	10,526	4,719	3,289	7,786	1,936	7,647	40,814
Total	6,168	13,591	5,650	5,225	10,424	2,568	8,491	52,117
Production costs excluding taxes	1,582	2,065	1,178	1,062	2,807	983	1,135	10,812
Taxes other than income tax	94	749	136	370	103	–	2,613	4,065
Exploration	619	583	107	187	411	159	288	2,354
Depreciation, depletion and amortisation	2,604	2,130	1,957	1,354	6,932	858	3,929	19,764
Other costs/(income)	(20)	1,599	(105)	121	(575)	818	1,379	3,217
Earnings before taxation	1,289	6,465	2,377	2,131	746	(250)	(853)	11,905
Taxation charge/(credit)	848	4,013	1,094	1,431	154	(110)	(78)	7,352
Earnings after taxation	441	2,452	1,283	700	592	(140)	(775)	4,553

[A] Comprises Canada and Mexico.

2018

	Europe	Asia	Oceania	Africa	North America		\$ million	
					USA	Other [A]	South America	Total
Revenue								
Third parties	1,875	3,364	1,389	2,401	2,165	507	1,023	12,724
Sales between businesses	6,705	11,284	4,683	3,586	7,716	1,946	7,154	43,074
Total	8,580	14,648	6,072	5,987	9,881	2,453	8,177	55,798
Production costs excluding taxes	2,262	2,143	1,073	1,093	2,573	1,069	1,401	11,614
Taxes other than income tax	122	841	199	328	83	–	2,767	4,340
Exploration	277	149	78	144	341	114	237	1,340
Depreciation, depletion and amortisation	2,684	2,301	1,571	1,394	4,543	(346)	3,271	15,418
Other costs/(income)	947	(180)	(514)	609	447	667	849	2,825
Earnings before taxation	2,288	9,394	3,665	2,419	1,894	949	(348)	20,261
Taxation (credit)/charge	2,047	4,851	893	902	550	236	1,162	10,641
Earnings after taxation	241	4,543	2,772	1,517	1,344	713	(1,510)	9,620

[A] Comprises Canada, Honduras and Mexico.

2017

	Europe	Asia	Oceania	Africa	North America		\$ million	
					USA	Other [A]	South America	Total
Revenue								
Third parties	1,193	2,708	1,414	1,872	1,080	339	689	9,295
Sales between businesses	7,120	9,061	2,400	3,218	5,119	2,938	5,245	35,101
Total	8,313	11,769	3,814	5,090	6,199	3,277	5,934	44,396
Production costs excluding taxes	2,509	2,469	1,110	1,365	2,558	1,571	1,218	12,800
Taxes other than income tax	89	556	119	287	98	1	1,691	2,841
Exploration	243	245	42	129	868	142	276	1,945
Depreciation, depletion and amortisation	2,560	2,892	1,777	1,863	3,410	3,886	3,374	19,762
Other costs/(income)	(157)	1,073	(382)	145	114	1,050	469	2,312
Earnings before taxation	3,069	4,534	1,148	1,301	(849)	(3,373)	(1,094)	4,736
Taxation charge/(credit)	1,689	2,969	(202)	(361)	363	(1,486)	(294)	2,678
Earnings after taxation	1,380	1,565	1,350	1,662	(1,212)	(1,887)	(800)	2,058

[A] Comprises Canada, Honduras and Mexico.

SHELL SHARE OF JOINT VENTURES AND ASSOCIATES

	Europe	Asia	Oceania	Africa	North America	South America	\$ million
					USA	Canada	Total
Third-party revenue	1,233	5,475	81	-	-	-	-
Total	1,233	5,475	81	-	-	-	6,789
Production costs excluding taxes	249	669	88	-	-	-	1,006
Taxes other than income tax	75	1,037	6	-	-	-	1,118
Exploration	4	51	-	-	-	-	55
Depreciation, depletion and amortisation	217	949	415	-	-	-	1,581
Other costs/(income)	547	622	(18)	-	1	1	-
Earnings before taxation	141	2,147	(410)	-	(1)	(1)	-
Taxation charge	39	957	-	-	-	-	996
Earnings after taxation	102	1,190	(410)	-	(1)	(1)	-
							880

2018

	Europe	Asia	Oceania	Africa	North America	South America	\$ million
					USA	Canada	Total
Third-party revenue	1,395	5,884	79	-	-	-	-
Total	1,395	5,884	79	-	-	-	7,358
Production costs excluding taxes	307	674	105	-	-	-	1,086
Taxes other than income tax	82	1,259	4	-	-	-	1,345
Exploration	5	45	-	-	-	-	50
Depreciation, depletion and amortisation	318	1,016	163	-	-	-	1,497
Other costs/(income)	595	615	(26)	-	-	-	1,184
Earnings before taxation	88	2,275	(167)	-	-	-	2,196
Taxation charge	7	975	-	-	-	-	982
Earnings after taxation	81	1,300	(167)	-	-	-	1,214

2017

	Europe	Asia	Oceania	Africa	North America	South America	\$ million
					USA	Canada	Total
Third-party revenue	1,646	4,503	58	-	-	-	-
Total	1,646	4,503	58	-	-	-	6,207
Production costs excluding taxes	337	729	93	-	-	-	1,159
Taxes other than income tax	631	705	4	-	-	-	1,340
Exploration	7	57	4	-	-	-	68
Depreciation, depletion and amortisation	188	1,654	40	-	-	-	1,882
Other costs/(income)	(83)	511	(60)	-	-	-	368
Earnings before taxation	566	847	(23)	-	-	-	1,390
Taxation charge	173	197	-	-	-	-	370
Earnings after taxation	393	650	(23)	-	-	-	1,020

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED) continued

ACREAGE AND WELLS

The tables below reflect acreage and wells of Shell subsidiaries, joint ventures and associates. The term "gross" refers to the total activity in which Shell subsidiaries, joint ventures and associates have an interest. The term "net" refers to the sum of the fractional interests owned by Shell subsidiaries plus the Shell share of joint ventures and associates' fractional interests. Data below are rounded to the nearest whole number.

Oil and gas acreage (at December 31)

	Thousand acres											
	2019				2018				2017			
	Developed		Undeveloped		Developed		Undeveloped		Developed		Undeveloped	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Europe [A]	6,289	1,915	13,864	6,082	6,022 [B]	1,954 [B]	14,385 [C]	6,540 [C]	6,214 [D]	2,051 [D]	13,079 [E]	5,823 [E]
Asia	21,387	7,672	31,486	14,880	22,087	7,885	31,676	15,433	25,975	9,139	35,305	18,730
Oceania	3,025	1,215	11,720	6,260	3,202	1,220	15,319 [F]	10,095 [F]	3,296	1,255	22,295 [G]	13,985
Africa	4,663	1,938	62,965	32,564	4,666	1,940	38,874	22,732	4,663	1,938	33,453	20,811
North America - USA	1,333	877	2,489	1,917	1,541	952	2,133	1,635	1,936	1,134	2,718	1,937
North America - Mexico	-	-	5,178	3,291	-	-	5,178	3,885	-	-	-	-
North America - Canada	483	329	1,783	1,265	1,108	752	1,681	1,193	953	651	15,818	14,468
South America	1,393	595	16,446	10,214	1,490	710	10,352	6,725	1,302	606	9,338	6,196
Total	38,573	14,541	145,931	76,473	40,116	15,413	119,598	68,238	44,339	16,774	132,006	81,950

[A] Includes Greenland for 2018 and 2017.

[B] Corrected from 6,228 (1,958 net).

[C] Corrected from 15,443 (6,913 net).

[D] Corrected from 6,463 (2,071 net).

[E] Corrected from 14,119 (6,187 net).

[F] Corrected from 15,662 (10,298 net).

[G] Corrected from 22,406.

Number of productive wells [A] (at December 31)

	2019											
	2019				2018				2017			
	Oil		Gas		Oil		Gas		Oil		Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Europe	893	217	1,091	345	1,077	277	1,201	379	1,138 [B]	299 [B]	1,255 [C]	396 [C]
Asia	7,767	2,841	336	193	7,455 [D]	2,728 [D]	331	189	9,279	3,067	682	269
Oceania	-	-	3,352	1,896	-	-	3,411	1,924	-	-	3,499	1,926
Africa	514	206	202	139	478	189	195	132	380	155	180	122
North America - USA	14,935	7,638	822	516	15,224	7,745	1,479	672	15,408	7,817	1,636	717
North America - Canada	-	-	748	676	1	1	936	846	-	-	892	794
South America	137	63	58	36	117 [E]	52 [E]	63 [F]	41	111	47	55	32
Total	24,246	10,965	6,609	3,801	24,352	10,992	7,616	4,183	26,316	11,385	8,199	4,256

[A] The number of productive wells with multiple completions at December 31, 2019, was 955 gross (418 net); December 31, 2018: 1,061 gross (454 net), corrected from 1,132 Gross (489 Net); December 31, 2017: 1,696 gross (636 net).

[B] Corrected from 1,156 (303 net).

[C] Corrected from 1,235 (392 net).

[D] Corrected from 7,498 (2,750 net).

[E] Corrected from 119 (53 net).

[F] Corrected from 62.

Number of net productive wells and dry holes drilled

	2019		2018		2017	
	Productive	Dry	Productive	Dry	Productive	Dry
Exploratory [A]						
Europe	-	4	1	2	-	1
Asia	25	17	22 [B]	11 [C]	18 [D]	5
Oceania	-	2	-	-	2	-
Africa	8	8	6	6	2	3
North America - USA	89	9	104	4	9	6
North America - Canada	24	-	14	-	30	5
South America	8	1	6	7	6	-
Total	154	41	153	30	67	20
Development						
Europe	4	1	4	-	5	-
Asia	182	-	198 [E]	-	291 [F]	4
Oceania	16	-	54 [G]	-	63	-
Africa	34	-	24	1	24	3
North America - USA	280	5	276	-	237	-
North America - Canada	6	-	53	-	56	1
South America	10	1	5	-	1	-
Total	532	7	614	1	677	8

[A] Productive wells are wells with proved reserves allocated. Wells in the process of drilling are excluded and presented separately below.

[B] Corrected from 9.

[C] Corrected from 10.

[D] Corrected from 3.

[E] Corrected from 222.

[F] Corrected from 312.

[G] Corrected from 41.

Number of wells in the process of exploratory drilling [A]

	Wells in the process of drilling at January 1 and allocated proved reserves during the year				Wells in the process of drilling at January 1 and determined as dry during the year				New wells in the process of drilling at December 31		At December 31	
	At January 1		Wells in the process of drilling at January 1 and allocated proved reserves during the year		Wells in the process of drilling at January 1 and determined as dry during the year		New wells in the process of drilling at December 31		At December 31		At December 31	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Europe	19	10	(1)	-	(5)	(3)	2	1	15	8		
Asia	75 [B]	28 [B]	(21)	(8)	(21)	(8)	20	8	53	20		
Oceania	42 [C]	15	-	-	(3)	(1)	1	1	40	15		
Africa	47	31	(3)	(3)	(6)	(6)	7	6	45	28		
North America - USA	239 [D]	158 [D]	(126)	(60)	(13)	(9)	97	37	197	126		
North America - Canada	5 [E]	5 [E]	(5)	(5)	-	-	21	21	21	21		
South America	37 [F]	19	(10)	(7)	(1)	-	7	4	33	16		
Total	464	266	(166)	(83)	(49)	(27)	155	78	404	234		

[A] Wells in the process of exploratory drilling includes wells pending further evaluation.

[B] Corrected from 68 (25 net).

[C] Corrected from 45.

[D] Corrected from 151 (96 net).

[E] Corrected from 0 (0 net).

[F] Corrected from 36.

SUPPLEMENTARY INFORMATION – OIL AND GAS (UNAUDITED) continued

Number of wells in the process of development drilling

	2019			
	At January 1		At December 31	
	Gross	Net	Gross	Net
Europe	5	2	11	3
Asia	41 [A]	16 [A]	53	21
Oceania	19 [B]	8 [B]	123	71
Africa	5	5	5	2
North America – USA	40 [C]	20 [C]	41	34
North America – Canada	12 [D]	12 [D]	-	-
South America	9	4	12	8
Total	131	67	245	139

[A] Corrected from 36 (14 net).

[B] Corrected from 3 (1 net).

[C] Corrected from 64 (33 net).

[D] Corrected from 17 (17 net).

In addition to the present activities mentioned above, the following recovery methods are operational in the following countries: water flooding (Brazil (including water alternating gas), Brunei, Egypt, Malaysia, Nigeria, Norway, Oman, Russia, the UK and the USA); gas injection (Brunei, Kazakhstan, Malaysia, Nigeria and Oman); steam injection (the Netherlands, Oman and the USA), and polymer flooding (Oman).

PARENT COMPANY FINANCIAL STATEMENTS

- 258** Statement of Income
- 258** Statement of Comprehensive Income
- 258** Balance Sheet
- 259** Statement of Changes in Equity
- 259** Statement of Cash Flows
- 260** Notes to the Parent Company Financial Statements
- 260** Note 1 Basis of preparation
- 260** Note 2 Significant accounting policies
- 261** Note 3 Interest and other income/expense
- 261** Note 4 Investments in subsidiaries
- 261** Note 5 Accounts payable and accrued liabilities
- 261** Note 6 Taxation
- 262** Note 7 Financial instruments
- 262** Note 8 Share capital
- 264** Note 9 Other reserves
- 264** Note 10 Dividends
- 265** Note 11 Legal proceedings and other contingencies
- 265** Note 12 Directors and Senior Management
- 265** Note 13 Related parties
- 265** Note 14 Auditor's remuneration

PARENT COMPANY FINANCIAL STATEMENTS

continued

STATEMENT OF INCOME

	Notes	2019	2018	\$ million
Dividend income		21,051	23,278	
Interest and other income	3	101	141	
Administrative expenses		(54)	(43)	
Interest and other expense	3	(146)	(222)	
Income before taxation		20,952	23,154	
Taxation charge	6	567	44	
Income for the period		20,385	23,110	

STATEMENT OF COMPREHENSIVE INCOME

		2019	2018	\$ million
Income for the period		20,385	23,110	
Comprehensive income for the period		20,385	23,110	

BALANCE SHEET

	Notes	Dec 31, 2019	Dec 31, 2018	\$ million
Assets				
Non-current assets				
Investments in subsidiaries	4	256,654	256,920	
Deferred tax	6	–	355	
		256,654	257,275	
Current assets				
Amounts due from subsidiaries	13	1,864	9,263	
Cash and cash equivalents		4	3	
		1,868	9,266	
Total assets		258,522	266,541	
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	5	1,775	4,862	
Total liabilities		1,775	4,862	
Equity				
Share capital	8	657	685	
Other reserves	9	235,561	235,536	
Retained earnings		20,529	25,458	
Total equity		256,747	261,679	
Total liabilities and equity		258,522	266,541	

Signed on behalf of the Board

/s/ Jessica Uhl

JESSICA UHL

Chief Financial Officer
March 11, 2020

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Other reserves	Retained earnings	Total equity
At January 1, 2019		685	235,536	25,458	261,679
Comprehensive income for the period		-	-	20,385	20,385
Dividends	10	-	-	(15,199)	(15,199)
Repurchases of shares	8	(28)	28	(10,286)	(10,286)
Share-based compensation	9	-	(3)	171	168
At December 31, 2019		657	235,561	20,529	256,747
At January 1, 2018		696	235,366	21,778	257,840
Comprehensive income for the period		-	-	23,110	23,110
Dividends	10	-	-	(15,675)	(15,675)
Repurchases of shares	8	(11)	11	(4,519)	(4,519)
Share-based compensation [A]	9	-	159	764	923
At December 31, 2018		685	235,536	25,458	261,679

[A] The amendments to IFRS 2 Share-based payment became effective January 1, 2018. Following adoption of the amendments, components of share-based payments (related to tax) that were previously classified as cash-settled are classified as equity-settled from 2018 onwards.

STATEMENT OF CASH FLOWS

	Notes	2019	2018
Income for the period		20,385	23,110
Adjustment for:			
Dividend income		(21,051)	(23,278)
Taxation charge		567	44
Interest income		(101)	(141)
Interest expense		111	156
Share-based compensation		19	16
Decrease/(Increase) in working capital		4,008	(3,796)
Cash flow from operating activities		3,938	(3,889)
Dividends received		21,051	23,278
Interest received		101	141
Share-based compensation		408	248
Cash flow from investing activities		21,560	23,667
Cash dividends paid	10	(15,198)	(15,675)
Shares repurchased	8	(10,188)	(3,947)
Interest and other expenses paid		(111)	(156)
Cash flow from financing activities		(25,497)	(19,778)
Change in cash and cash equivalents		1	-
Cash and cash equivalents at beginning of the year		3	3
Cash and cash equivalents at end of the year		4	3

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The Financial Statements of Royal Dutch Shell plc (the "Company") have been prepared in accordance with the provisions of the Companies Act 2006 (the "Act") and with International Financial Reporting Standards ("IFRS") as adopted by the European Union. As applied to the Company, there are no material differences from IFRS as issued by the International Accounting Standards Board ("IASB"); therefore, the Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

As described in the accounting policies in Note 2, the Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. Those accounting policies have been applied consistently in all periods.

The Financial Statements were approved and authorised for issue by the Board of Directors on March 11, 2020.

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Actual results may differ from those estimates.

The financial results of the Company are included in the Consolidated Financial Statements on pages 190-238. The financial results of the Company incorporate the results of the Dividend Access Trust (the "Trust"), the financial statements of which are presented on pages 268-271.

The Company's principal activity is being the parent company for Shell, as described in Note 1 of the Consolidated Financial Statements (see page 195).

2 SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies follow those of Shell as set out in Note 2A of the Consolidated Financial Statements (see pages 195-203). The following are Company-specific policies.

PRESENTATION AND FUNCTIONAL CURRENCY

The Company's presentation and functional currency is US dollars (dollars).

INVESTMENTS

Investments in subsidiaries are stated at cost, net of any impairment. Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts for those investments may not be recoverable. For the purposes of determining whether impairment of investments in subsidiaries has occurred, and the extent of any impairment loss or its reversal, the key assumptions management uses in estimating risk-adjusted future cash flows for value-in-use measures include future oil and gas prices, expected production volumes and refining margins appropriate to the local circumstances and environment. These assumptions and the judgements of management that are based on them are subject to change as new information becomes available. Cash flow estimates are risk-adjusted to reflect local conditions as appropriate and discounted at a rate based on Shell's marginal cost of debt. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Future price assumptions are presented in Note 8 of the Consolidated Financial Statements (see pages 210-213).

The original cost of the Company's investment in Royal Dutch Petroleum Company ("Royal Dutch") was based on the fair value of the shares transferred to the Company by the former shareholders of Royal Dutch in exchange for A shares in the Company during the public exchange offer in 2005. The original cost of the Company's investment in The "Shell" Transport and Trading Company, plc, now The Shell Transport and Trading Company Limited ("Shell Transport"), was the fair value of the shares held by the former shareholders of The "Shell" Transport and Trading Company plc transferred in consideration for the issuance of B shares as part of the Scheme of Arrangement in 2005. The Company's investments in Royal Dutch and Shell Transport now represent an investment in Shell Petroleum N.V. ("Shell Petroleum"); this change had no impact on the cost of investments in subsidiaries. On February 15, 2016 the Company acquired all the voting rights in BG Group plc via the issuance of shares and cash payments of total fair value \$53,086 million. In September 2016, the Company's shares in BG Group Limited ("BG"), formerly BG Group plc, were exchanged for an increased investment in Shell Petroleum.

DIVIDEND INCOME

Dividends are recognised on a paid basis unless the dividend has been confirmed by a general meeting of Shell Petroleum, in which case income is recognised on the date at which receipt is deemed virtually certain.

SHARE-BASED COMPENSATION PLANS

The fair value of share-based compensation for equity-settled plans granted to employees of subsidiaries under the Company's plans is recognised as an investment in subsidiaries from the date of grant over the vesting period with a corresponding increase in equity.

In the year of vesting of a plan, the costs for the actual deliveries are charged to the relevant employing subsidiaries. This is recognised as a realisation of the investment originally booked. If the actual vesting costs are higher than the cumulatively recognised share-based compensation charge, the difference is recognised in income.

Note 21 of the Consolidated Financial Statements (see page 232-233) for information on the Company's principal plan.

TAXATION

The Company is tax-resident in the Netherlands. For the assessment of corporate income tax in the Netherlands, the Company and certain of its subsidiaries form a fiscal unit, in respect of which the Company recognises any current tax receivable or payable (and deferred tax asset or liability) for the fiscal unit as a whole to the extent such balances have been settled between the Company and other members of the fiscal unit at the balance sheet date. Balances not settled with the Company at the balance sheet date are recognised in the member's financial statements and, to the extent they are material, are disclosed in the notes to the Company's financial statements.

The Company's tax charge or credit recognised in income is calculated at the statutory tax rate prevailing in the Netherlands for current tax and statutory tax rate substantively enacted in the Netherlands for deferred tax.

3 INTEREST AND OTHER INCOME/EXPENSE

	\$ million	
	2019	2018
Interest and other income:		
Interest income	101	141
Total	101	141
Interest and other expenses:		
Interest expense	(111)	(156)
Foreign exchange losses	(35)	(66)
Total	(146)	(222)

4 INVESTMENTS IN SUBSIDIARIES

	\$ million	
	2019	2018
At January 1	256,920	256,882
Share-based compensation	506	512
Recovery of vested share-based compensation	(772)	(474)
At December 31	256,654	256,920

5 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Dec 31, 2019		Dec 31, 2018	
	Current	Non-current	Current	Non-current
Amounts due to subsidiaries (see Note 13)	750	-	3,934	-
Accruals and other liabilities	730	-	614	-
Withholding tax payable	291	-	311	-
Unclaimed dividends	4	-	3	-
Total	1,775	-	4,862	-

Accruals and other liabilities at December 31, 2019, and at December 31, 2018, principally comprise commitments for share repurchases undertaken on the Company's behalf under irrevocable, non-discretionary arrangements.

6 TAXATION**Taxation charge**

	\$ million	
	2019	2018
Current tax:		
Charge in respect of current period	9	-
Total	9	-
Deferred tax:		
Relating to the origination and reversal of tax losses and credits	539	33
Relating to changes in tax rates and legislation	19	11
Total	558	44
Taxation charge	567	44

In 2019, the deferred tax charge related to derecognition of deferred tax assets on unused tax losses and tax credits carried forward.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

continued

6 TAXATION continued

Reconciliation of applicable tax charge at statutory tax rate to taxation charge

	\$ million	
	2019	2018
Income before taxation	20,952	23,154
Applicable tax charge at the statutory tax rate of 25.0% (2018: 25.0%)	5,238	5,789
Derecognition of deferred tax assets	539	-
Tax effects of:		
Income not subject to tax at statutory rates	(5,253)	(5,820)
Expenses not deductible for tax purposes	24	20
Other	19	55
Taxation charge	567	44

Taxes payable are reported within accounts payable and accrued liabilities (see Note 5).

Deferred tax assets

	\$ million	
	2019	2018
At January 1	355	598
Recognised in income	(558)	(44)
Other movements	203	(199)
At December 31	-	355

In the Company's capacity as head of the fiscal unity, no deferred tax assets have been recognised at December 31, 2019. Deferred tax assets recognised in this capacity at December 31, 2018 amounted to \$355 million and were in respect of credits carried forward and unused tax losses. At December 31, 2019, unrecognised unused tax losses amounted to \$1,683 million (2018: \$nil) and unrecognised credits carried forward amounted to \$273 million (2018: \$99 million). Unused tax losses are available for relief against future taxable profits for up to a period of six to nine years, dependent upon the year in which the losses were incurred. Unused tax credits are available indefinitely.

7 FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at amortised cost in the Company's Balance Sheet comprise amounts due from subsidiaries (see Note 13) and certain amounts reported within accounts payable and accrued liabilities (see Note 5). The fair value of financial assets and liabilities at December 31, 2019, and 2018, approximates their carrying amount.

Information on financial risk management is presented in Note 19 of the Consolidated Financial Statements (see pages 227-231). Foreign currency derivatives are used by the Company to manage foreign exchange risk, which arises when certain transactions are denominated in a currency that is not the Company's functional currency. There were no derivative financial instruments held at December 31, 2019, or 2018.

8 SHARE CAPITAL

Issued and fully paid ordinary shares of €0.07 each [A]

	Number of shares		Nominal value (\$ million)		
	A	B	A	B	Total
At January 1, 2019	4,471,889,296	3,745,486,731	376	309	685
Repurchases of shares	(320,101,779)	(16,079,624)	(27)	(1)	(28)
At December 31, 2019	4,151,787,517	3,729,407,107	349	308	657
At January 1, 2018	4,597,136,050	3,745,486,731	387	309	696
Repurchases of shares	(125,246,754)	-	(11)	-	(11)
At December 31, 2018	4,471,889,296	3,745,486,731	376	309	685

[A] Share capital at December 31, 2019, and 2018, also included 50,000 issued and fully paid sterling deferred shares of £1 each.

At the Company's Annual General Meeting ("AGM") on May 21, 2019, the Board was authorised to allot ordinary shares in the Company, and to grant rights to subscribe for or to convert any security into ordinary shares in the Company, up to an aggregate nominal amount of €190.3 million (representing 2,720 million ordinary shares of €0.07 each), and to list such shares or rights on any stock exchange. This authority expires at the earlier of the close of business on August 21, 2020, and the end of the AGM to be held in 2020, unless previously renewed, revoked or varied by the Company in a general meeting.

At the May 21, 2019 AGM, shareholders granted the Company the authority to repurchase up to 815 million ordinary shares (excluding any treasury shares), renewing the authority granted by the shareholders at previous AGMs. The authority will expire at the earlier of the close of business on August 21, 2020, and the end of the AGM of the Company to be held in 2020. Ordinary shares purchased by the Company pursuant to this authority will either be cancelled or held in treasury. Treasury shares are shares in the Company which are owned by the Company itself. The minimum price, exclusive of expenses, which may be paid for an ordinary share is €0.07. The maximum price, exclusive of expenses, which may be paid for an ordinary share is the higher of: (i) an amount equal to 5% above the average market value for an ordinary share for the five business days immediately preceding the date of the purchase; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

A and B shares repurchased in 2019 under the Company's share buyback programme were all cancelled.

B shares rank equally in all respects with A shares except for the dividend access mechanism described below. The Company, Shell Transport and BG, can procure the termination of the dividend access mechanism at any time. Upon such termination, B shares will form one class with A shares ranking equally in all respects and A and B shares will be known as ordinary shares without further distinction.

The sterling deferred shares are redeemable only at the discretion of the Company for £1 each and carry no voting rights. There are no further rights to participate in profits or assets, including the right to receive dividends. Upon winding up or liquidation, the shares carry a right to repayment of paid-up nominal value, ranking ahead of A and B shares.

For information on the number of shares in the Company held by Shell employee share ownership trusts and trust-like entities to meet delivery commitments under employee share plans, see Note 21 of the Consolidated Financial Statements (see pages 232-233).

DIVIDEND ACCESS MECHANISM FOR B SHARES

General

Dividends paid on A shares have a Dutch source for tax purposes and are subject to Dutch withholding tax.

It is the expectation and the intention, although there can be no certainty, that holders of B shares will receive dividends through the dividend access mechanism. Any dividends paid on the dividend access shares will have a UK source for UK and Dutch tax purposes. There will be no Dutch withholding tax on such dividends. From April 2016, there were changes to the taxation of dividends for individual shareholders resident in the UK. The dividend tax credit was abolished, and a tax-free dividend allowance introduced.

Description of dividend access mechanism

Shell Transport and BG have each issued a dividend access share to Computershare Trustees (Jersey) Limited as Trustee. Pursuant to a declaration of trust, the Trustee will hold any dividends paid in respect of the dividend access shares on trust for the holders of B shares and will arrange for prompt disbursement of such dividends to holders of B shares. Interest and other income earned on unclaimed dividends will be for the account of Shell Transport and BG and any dividends which are unclaimed after 12 years will revert to Shell Transport and BG once forfeited. Holders of B shares will not have any interest in either dividend access share and will not have any rights against Shell Transport and BG as issuers of the dividend access shares. The only assets held on trust for the benefit of the holders of B shares will be dividends paid to the Trustee in respect of the dividend access shares.

The declaration and payment of dividends on the dividend access shares will require board action by Shell Transport and BG (as applicable) and will be subject to any applicable limitations in law or in the Shell Transport or BG (as appropriate) articles of association in effect. In no event will the aggregate amount of the dividend paid by Shell Transport and BG under the dividend access mechanism for a particular period exceed the aggregate of the dividend announced by the Board of the Company on B shares in respect of the same period (after giving effect to currency conversions).

In particular, under their respective articles of association, Shell Transport and BG are each only able to pay a dividend on their respective dividend access shares which represents a proportional amount of the aggregate of any dividend announced by the Company on the B shares in respect of the relevant period, where such proportions are calculated by reference to, in the case of Shell Transport, the number of B shares in existence prior to completion of the Company's acquisition of BG and, in the case of BG, the number of B shares issued as part of the acquisition, in each case as against the total number of B shares in issue immediately following completion of the acquisition of BG.

Operation of the dividend access mechanism

If, in connection with the announcement of a dividend by the Company on B shares, the Board of Shell Transport and/or the Board of BG elects to declare and pay a dividend on their respective dividend access shares to the Trustee, the holders of B shares will be beneficially entitled to receive their share of those dividends pursuant to the declaration of trust (and arrangements will be made to ensure that the dividend is paid in the same currency in which they would have received a dividend from the Company).

If any amount is paid by Shell Transport or BG by way of a dividend on the dividend access shares and paid by the Trustee to any holder of B shares, the dividend which the Company would otherwise pay on B shares will be reduced by an amount equal to the amount paid to such holders of B shares by the Trustee.

The Company will have a full and unconditional obligation, in the event that the Trustee does not pay an amount to holders of B shares on a cash dividend payment date (even if that amount has been paid to the Trustee), to pay immediately the dividend announced on B shares. The right of holders of B shares to receive distributions from the Trustee will be reduced by an amount equal to the amount of any payment actually made by the Company on account of any dividend on B shares.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS continued

8 SHARE CAPITAL continued

If for any reason no dividend is paid on the dividend access shares, holders of B shares will only receive dividends from the Company directly. Any payment by the Company will be subject to Dutch withholding tax (unless an exemption is obtained under Dutch law or under the provisions of an applicable tax treaty).

The Dutch tax treatment of dividends paid under the dividend access mechanism has been confirmed by the Dutch Revenue Service in an agreement ("vaststellingsovereenkomst") with the Company and N.V. Koninklijke Nederlandse Petroleum Maatschappij (Royal Dutch Petroleum Company) dated October 26, 2004, as supplemented and amended by an agreement between the same parties dated April 25, 2005, and a final settlement agreement in connection with the acquisition of BG dated November 9, 2015. The agreements state, among other things, that dividend distributions on the dividend access shares by Shell Transport and/or BG will not be subject to Dutch withholding tax provided that the dividend access mechanism is structured and operated substantially as set out above.

The Company may not extend the dividend access mechanism to any future issuances of B shares without prior consultation with the Dutch Revenue Service.

Accordingly, the Company would not expect to issue additional B shares unless confirmation from the Dutch Revenue Service was obtained or the Company were to determine that the continued operation of the dividend access mechanism was unnecessary. Any further issue of B shares is subject to advance consultation with the Dutch Revenue Service.

The dividend access mechanism may be suspended or terminated at any time by the Company's Directors or the Directors of Shell Transport or BG, for any reason and without financial recompense. This might, for instance, occur in response to changes in relevant tax legislation.

9 OTHER RESERVES

					\$ million
	Merger reserve	Share premium reserve	Capital redemption reserve	Share plan reserve	Total
At January 1, 2019	234,231	154	95	1,056	235,536
Repurchases of shares	-	-	28	-	28
Share-based compensation	-	-	-	(3)	(3)
At December 31, 2019	234,231	154	123	1,053	235,561
At January 1, 2018	234,231	154	84	897	235,366
Repurchases of shares	-	-	11	-	11
Share-based compensation	-	-	-	159	159
At December 31, 2018	234,231	154	95	1,056	235,536

The merger reserve was established as a consequence of the Company becoming the single parent company of Royal Dutch and Shell Transport and represented the difference between the cost of the investment in those companies and the nominal value of shares issued in exchange for those investments as required by the prevailing legislation at that time, section 131 of the Companies Act 1985. On February 15, 2016, the Company acquired all shares in BG Group plc by means of a Scheme of Arrangement under Part 26 of the Act, via the issuance of 218.7 million A shares and 1,305.1 million B shares and cash payments. This resulted in an increase in the merger reserve, representing the difference between the fair value and the nominal value of the shares issued by the Company.

On January 6, 2006, loan notes were converted into 4,827,974 A shares. The difference between the carrying value of the loan notes and the nominal value of the new shares issued was credited to the share premium reserve. The capital redemption reserve was established in connection with repurchases of shares of the Company. The share plan reserve is in respect of equity-settled share-based compensation plans (see Note 21 to the Consolidated Financial Statements) and movement in share-based compensation for the year is the net of the charge to equity and the release as a result of vested awards.

10 DIVIDENDS

See Note 23 of the Consolidated Financial Statements (see page 235).

11 LEGAL PROCEEDINGS AND OTHER CONTINGENCIES

See Note 25 of the Consolidated Financial Statements (see pages 235-237).

12 DIRECTORS AND SENIOR MANAGEMENT

See Note 27 of the Consolidated Financial Statements (see page 237) for the remuneration of Directors of the Company. In 2019, the Company recognised \$25 million (2018: \$24 million) in administrative expenses for the compensation of Directors and Senior Management.

13 RELATED PARTIES

Information about the Company's subsidiaries, and whether these are held directly or indirectly, and other related undertakings (all of which are held indirectly), at December 31, 2019, is set out in 'Appendix 1: Significant Subsidiaries and Other Related Undertakings'.

	\$ million			
	Amounts due from subsidiaries		Amounts due to subsidiaries (see Note 5)	
	2019	2018	2019	2018
Shell Petroleum	-	-	748	550
Shell Treasury Centre Limited	1,862	9,260	-	-
Shell Corporate Services Switzerland AG	-	-	-	3,384
Other	2	3	2	-
Total	1,864	9,263	750	3,934

The Company received interest income from Shell Petroleum in 2019 of \$60 million (2018: \$134 million). Interest was calculated at US LIBOR less 0.21% (December 31, 2018: US LIBOR less 0.21%). At both December 31, 2019 and 2018 the closing amount due from Shell Petroleum was \$nil.

The amount due from Shell Treasury Centre Limited ("STCL") comprises call deposits in dollars, sterling and euros. Interest is calculated at US LIBOR less 0.21% (2018: US LIBOR less 0.21%) on dollar balances, at GBP LIBOR less 0.19% (2018: GBP LIBOR less 0.19%) on sterling balances and at Euro Overnight Index Average ("EONIA") (2018: EONIA) on euro balances, unless this results in a negative interest rate in which case no interest is earned. Net interest income in 2019 from STCL was \$41 million (2018: \$7 million).

In 2019, the Company settled an interest-bearing receivable and an interest-bearing payable at fair value, equal to the carrying amount of the balances at transfer date, with Shell Corporate Services Switzerland AG ("SCSS"). The net amount due to SCSS at December 31, 2019, is \$nil (2018: interest-bearing receivable of €4,690 million and an interest-bearing payable of \$8,746 million). Interest on euro balances was calculated at EONIA (2018: EONIA) unless this resulted in a negative interest rate in which case no interest was earned. Interest on dollar balances was calculated at US LIBOR (2018: US LIBOR). Net interest expense on these balances in 2019 was \$111 million (2018: \$67 million).

OTHER TRANSACTIONS AND BALANCES

The Company periodically enters into forward and spot foreign currency contracts with Treasury companies, which are subsidiaries. There were no open foreign currency contracts at December 31, 2019, or 2018.

The Company settles general and administrative expenses of the Trust, including the auditor's remuneration.

The Company has guaranteed contractual payments totalling \$52,974 million at December 31, 2019 (2018: \$53,357 million), and related interest, in respect of listed debt issued by Shell International Finance B.V.

14 AUDITOR'S REMUNERATION

See Note 28 of the Consolidated Financial Statements (see pages 238).

INDEPENDENT AUDITOR'S REPORT TO COMPUTERSHARE TRUSTEES (JERSEY) LIMITED AS TRUSTEE OF THE ROYAL DUTCH SHELL DIVIDEND ACCESS TRUST AND THE BOARD OF DIRECTORS OF ROYAL DUTCH SHELL PLC

TO COMPUTERSHARE TRUSTEES (JERSEY) LIMITED AS TRUSTEE OF THE ROYAL DUTCH SHELL DIVIDEND ACCESS TRUST AND THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ROYAL DUTCH SHELL PLC

Opinion on the Financial Statements

We have audited the non-statutory financial statements of the Royal Dutch Shell Dividend Access Trust (the Financial Statements) for the year ended December 31, 2019 which comprise the Statement of Income, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 8. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and IFRS as issued by the International Accounting Standards Board (IASB).

In our opinion the Financial Statements:

- give a true and fair view of the Royal Dutch Shell Dividend Access Trust's (the Trust) affairs as at December 31, 2019 and of its income for the year then ended; and
- have been properly prepared both in accordance with IFRS as adopted by the EU and IFRS as issued by the IASB.

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 below. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council'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 material to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee of Royal Dutch Shell Dividend Access Trust's (the Trustee) use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the Trustee has not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Trust's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date of approval of the Financial Statements.

Other information

The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon. The Board of Directors of Royal Dutch Shell plc (the Directors) are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

The Trustee is 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 Trustee determines 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 Trustee is responsible for assessing the Trust'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 Trustee either intends to liquidate the Trust or to cease operations, or have no realistic alternative but to do so. The Trustee is also required to: present fairly the financial position, financial performance and cash flows of the Trust; select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; make judgements that are reasonable; provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the EU and as issued by the IASB is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Trust's financial position and financial performance; and state whether the Financial Statements have been prepared in accordance with IFRS as adopted by the EU and as issued by the IASB.

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 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 Trustee and the Directors as a body, in accordance with our engagement letter. Our audit work has been undertaken so that we might state to the Trustee and the Directors 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 Trust and the Trustee and the Directors as a body, for our audit work, for this report, or for the opinions we have formed.

/s/ Ernst & Young LLP

London
March 11, 2019

[A] The maintenance and integrity of the Shell website are the responsibility of the Directors of Royal Dutch Shell plc; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

[B] Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ROYAL DUTCH SHELL DIVIDEND ACCESS TRUST FINANCIAL STATEMENTS

- 269** Statement of Income
- 269** Statement of Comprehensive Income
- 269** Balance Sheet
- 270** Statement of Changes in Equity
- 270** Statement of Cash Flows
- 271** Notes to the Royal Dutch Shell Dividend Access Trust Financial Statements
- 271** Note 1 The Trust
- 271** Note 2 Basis of preparation
- 271** Note 3 Significant accounting policies
- 271** Note 4 Unclaimed dividends
- 271** Note 5 Capital account
- 271** Note 6 Distributions made
- 271** Note 7 Related parties
- 271** Note 8 Auditor's remuneration

STATEMENT OF INCOME

	£ million		
	2019	2018	2017
Dividend income	5,484	5,328	4,567
Income before taxation and for the period	5,484	5,328	4,567

STATEMENT OF COMPREHENSIVE INCOME

	£ million		
	2019	2018	2017
Income for the period	5,484	5,328	4,567
Comprehensive income for the period	5,484	5,328	4,567

BALANCE SHEET

	Notes	Dec 31, 2019	Dec 31, 2018
Assets			
Current assets		-	-
Cash and cash equivalents		3	3
Total assets		3	3
Liabilities			
Current liabilities		-	-
Unclaimed dividends	4	3	3
Total liabilities		3	3
Equity			
Capital account	5	-	-
Revenue account		-	-
Total equity		-	-
Total liabilities and equity		3	3

Signed on behalf of Computershare Trustees (Jersey) Limited
as Trustee of the Royal Dutch Shell Dividend Access Trust

/s/ Karen Kury

KAREN KURYS
March 11, 2020

/s/ Martin Fish

MARTIN FISH

ROYAL DUTCH SHELL DIVIDEND ACCESS TRUST FINANCIAL STATEMENTS continued**STATEMENT OF CHANGES IN EQUITY**

	Notes	Capital account	Revenue account	£ million Total equity
At January 1, 2019		—	—	—
Comprehensive income for the period		—	5,484	5,484
Distributions made	6	—	(5,484)	(5,484)
At December 31, 2019		—	—	—
At January 1, 2018		—	—	—
Comprehensive income for the period		—	5,328	5,328
Distributions made	6	—	(5,328)	(5,328)
At December 31, 2018		—	—	—
At January 1, 2017		—	—	—
Comprehensive income for the period		—	4,567	4,567
Distributions made	6	—	(4,567)	(4,567)
At December 31, 2017		—	—	—

STATEMENT OF CASH FLOWS

	2019	2018	2017	£ million
Income for the period	5,484	5,328	4,567	
Adjustment for:				
Dividends received	(5,484)	(5,328)	(4,567)	
Cash flow from operating activities	—	—	—	
Dividends received	5,484	5,328	4,567	
Cash flow from investing activities	5,484	5,328	4,567	
Cash distributions made	(5,484)	(5,327)	(4,567)	
Cash flow from financing activities	(5,484)	(5,327)	(4,567)	
Change in cash and cash equivalents	—	1	—	
Cash and cash equivalents at January 1	3	2	2	
Cash and cash equivalents at December 31	3	3	2	

NOTES TO THE ROYAL DUTCH SHELL DIVIDEND ACCESS TRUST FINANCIAL STATEMENTS

1 THE TRUST

The Royal Dutch Shell Dividend Access Trust (the "Trust") was established on May 19, 2005, by The "Shell" Transport and Trading Company plc, now The Shell Transport and Trading Company Limited ("Shell Transport"), and Royal Dutch Shell plc (the "Company"). The Trust is governed by the applicable laws of England and Wales and is resident and domiciled in Jersey. The Trust is not subject to taxation. The Trustee of the Trust is Computershare Trustees (Jersey) Limited, registration number 92182 (the "Trustee"), Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES. The Trust was established as part of a dividend access mechanism.

Shell Transport and BG Group Limited ("BG"), have each issued a dividend access share to the Trustee. Following the announcement of a dividend by the Company on the B shares, Shell Transport and BG may declare a dividend on their dividend access shares.

The primary purposes of the Trust are to receive, on behalf of the B shareholders of the Company and in accordance with their respective holdings of B shares in the Company, any amounts paid by way of dividend on the dividend access shares and to pay such amounts to the B shareholders on the same pro rata basis. The Trust is not subject to significant market risk, credit risk or liquidity risk.

The Trust shall not endure for a period in excess of 80 years from May 19, 2005, being the date on which the Trust Deed was executed.

2 THE BASIS OF PREPARATION

The Financial Statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. As applied to the Trust, there are no material differences from IFRS as issued by the International Accounting Standards Board ("IASB"); therefore, the Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

The Financial Statements have been prepared under the historical cost convention. The accounting policies described in Note 3 have been applied consistently in all periods presented.

The Financial Statements were approved and authorised for issue by the Trustee on March 11, 2020.

The financial results of the Trust are included in the Consolidated and Parent Company Financial Statements on pages 190-238 and pages 257-265 respectively.

3 SIGNIFICANT ACCOUNTING POLICIES

The Trust's accounting policies follow those of Shell as set out in Note 2A of the Consolidated Financial Statements (see pages 195-203). The following are Trust-specific policies.

Presentation and functional currency

The Trust's presentation and functional currency is sterling. The Trust's dividend income and dividends paid are principally in sterling.

Dividend income

Dividends on the dividend access shares are recognised on a paid basis unless the dividend has been confirmed by a general meeting of Shell Transport or BG, in which case income is recognised on the date on which receipt is deemed virtually certain.

Distributions made

Amounts are recorded as distributed once a wire transfer or cheque is issued. To the extent that cheques expire or are returned unpresented, the Trust records a liability for unclaimed dividends and a corresponding amount of cash.

4 UNCLAIMED DIVIDENDS

Unclaimed dividends of £3,456,974 (2018: £2,816,655) include any dividend cheque payments that have not been presented within 12 months, have expired or have been returned unpresented. Dividends which are unclaimed after 12 years will revert to Shell Transport and BG once forfeited.

5 CAPITAL ACCOUNT

The capital account is represented by the dividend access share of 25 pence settled in the Trust by Shell Transport and the dividend access share of 10 pence settled in the Trust by BG. There have been no changes in the capital account in the current or prior year.

6 DISTRIBUTIONS MADE

Distributions are made to the B shareholders of the Company in accordance with the Trust Deed. See Note 23 of the Consolidated Financial Statements (see pages 235) for information about dividends per share. Any wire transfers that are not completed are replaced by cheques.

7 RELATED PARTIES

The Trust received dividend income of £3,573 million (2018: £3,470 million; 2017: £2,970 million) in respect of the dividend access share from Shell Transport and £1,911 million (2018: £1,858 million; 2017: £1,597 million) in respect of the dividend access share from BG. The Trust made distributions of £5,484 million (2018: £5,328 million; 2017: £4,567 million) to the B shareholders of the Company.

The Company pays the general and administrative expenses of the Trust, including the auditor's remuneration.

8 AUDITOR'S REMUNERATION

Auditor's remuneration for 2019 audit services was £33,750 (2018: £33,750; 2017: £33,750).