Registration number: 02650009

Enterprise Oil Middle East Limited

Annual Report

and

Financial Statements

For the year ended 31 December 2017

Enterprise Oil Middle East Limited

Contents

Enterprise Oil Middle East Limited

Strategic report for the year ended 31 December 2017

The Directors present their strategic report on Enterprise Oil Middle East Limited (also referred to as the "Company") for the year ended 31 December 2017.

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

Business review

The principal activity of Enterprise Oil Middle East Limited is oil and gas exploration and production. The Company will continue with these activities for the foreseeable future.

The Company's pre-tax loss for the financial year decreased to £6.3 million (2016: £9.8 million). This was majorly driven by the release of an onerous PBLJ rig provision, initially recognised in 2016. The Company made post tax profits of £7.8 million (2016: £2.6 million) primarily due to previous tax losses and ring-fenced expenditure supplements.

Principal risks and uncertainties

The Shell Group has a single risk based control framework - The Shell Control Framework - to identify and manage risks. The Shell Control Framework applies to all wholly owned Shell companies and to those ventures and other companies in which Royal Dutch Shell has directly or indirectly a controlling interest. From the perspective of the Company, the principal risks and uncertainties affecting the Company are considered to be those that affect the Shell Group. Accordingly, the principal risks and uncertainties of the Shell Group, which are discussed on pages 12 to 16 of Royal Dutch Shell's Annual Report and Form 20-F for the year ended 31 December 2017 (the "Group Report"), include those of the Company. (The Group Report does not form part of this report).

Key Performance Indicators

Companies of the Shell Group comprise the Upstream businesses of Exploration and Production, Integrated Gas and Oil Sands and the Downstream businesses of Oil Products and Chemicals. The Company's key performance indicators, that give an understanding of the development, performance and position of the business, are aligned with those of the Shell Group. The development, performance and position of the various businesses is discussed on pages 24 to 53 of the Group Report and the key performance indicators through which the Group's performance is measured are as set out on pages 22 to 23 of the Group Report.

Approved by the Board on 20 September 2018 and signed on its behalf by:

C Bushay

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C. Bushay
Authorised signatory for
Shell Corporate Secretary Limited
Company secretary

Enterprise Oil Middle East Limited

Directors' report for the year ended 31 December 2017

The Directors present their report and the financial statements for the year ended 31 December 2017.

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

Dividends

No dividends were paid during the year (2016: £nil).

Future Outlook

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

Directors of the company

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

M.W. Eide

J.P.S. Hadfield (resigned 9 January 2017)

F.M.A. Klap (resigned 31 December 2017)

J.S.M. Van Bunnik (appointed 1 March 2017 and resigned 16 April 2018)

The following Directors were appointed after the year end:

S.L. Ouellette (appointed 12 February 2018)

H.E.L. Jones (appointed 28 May 2018)

Financial risk management

The Company's Directors are required to follow the requirements of Shell Group risk management policies, which include specific guidelines on the management of market, credit and liquidity risk, and advice on the use of financial instruments to manage them. Shell Group risk management policies can be found in the Group Report (see pages 82 to 83 and note 19).

Statement of Directors' responsibilities

The Directors acknowledge their responsibilities for preparing the Strategic Report, Directors' Report and the Company's accounts in accordance with applicable law and regulations.

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

Statement of Directors' responsibilities (continued)

- Select suitable accounting policies and apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Disclosure of information to the auditors

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

Approved by the Board on 20 September 2018 and signed on its behalf by:

C Bushay

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C. Bushay
Authorised signatory for
Shell Corporate Secretary Limited
Company secretary

Independent Auditor's Report to the Member of Enterprise Oil Middle East Limited

Opinion

We have audited the financial statements of Enterprise Oil Middle East Limited (the "Company") for the year ended 31 December 2017, which comprise the Profit and Loss Account, Balance Sheet, Statement of changes in equity, and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Independent Auditor's Report to the Member of Enterprise Oil Middle East Limited (continued)

Other information

The other information comprises the information included in the annual report set out on pages 1 to 4, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Independent Auditor's Report to the Member of Enterprise Oil Middle East Limited (continued)

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on pages 3-4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

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Clarke Cooper (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen

Date: 20 September 2018

Enterprise Oil Middle East Limited

Profit and Loss Account for the year ended 31 December 2017

Continuing operations	**Note**	**2017 £ 000**	**Restated * 2016 £ 000**
Cost of sales		(2,075)	(5,574)
OPERATING LOSS	6	**(2,075)**	**(5,574)**
LOSS BEFORE INTEREST AND TAXATION		**(2,075)**	**(5,574)**
Interest receivable and similar income	4	18	-
Interest payable and similar charges	5	(4,245)	(4,214)
LOSS BEFORE TAXATION		**(6,302)**	**(9,788)**
Tax on loss	8	14,127	12,371
PROFIT FOR THE YEAR		**7,825**	**2,583**

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

* Refer to note 3 on prior year restatements.

Enterprise Oil Middle East Limited

(Registration number: 02650009)
Balance Sheet as at 31 December 2017

	Note	2017 £ 000	Restated* 2016 £ 000
Fixed assets			
Tangible assets	9	302,042	282,532
Investments	10	966,290	966,290
Deferred tax	8	397	9,484
		1,268,729	**1,258,306**
Current assets			
Debtors	11	105,690	78,605
		105,690	78,605
Creditors: Amounts falling due within one year	12	(221,611)	(191,592)
Net current liabilities		**(115,921)**	**(112,987)**
Total assets less current liabilities		**1,152,808**	**1,145,319**
Creditors: Amounts falling due after more than one year	13	(130,000)	(130,000)
Provisions	14	(29,975)	(30,311)
Net assets		**992,833**	**985,008**
Equity			
Called up share capital	15	995,688	995,688
Share premium reserve		26,638	26,638
Profit and loss account		(29,493)	(37,318)
Total equity		**992,833**	**985,008**

*Refer to note 3 on prior year restatements.

The accounts on pages 8 to 29 were authorised for issue by the Board of Directors on 20 September 2018 and signed on its behalf by:

Howard Lotgering Jones

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H.E.L. Jones
Director

Enterprise Oil Middle East Limited

Statement of changes in equity for the year ended 31 December 2017

	Called up share capital £ 000	Share premium £ 000	Restated * Profit and loss account £ 000	Total £ 000
Balance as at 01 January 2016 (as previously reported)	**974,242**	**26,638**	**(39,901)**	**960,979**
Profit for the year (as restated*)	-	-	2,583	2,583
Total comprehensive income for the year (as restated*)	**-**	**-**	**2,583**	**2,583**
Proceeds from shares issued	21,446	-	-	21,446
Balance as at 31 December 2016 (as restated*)	**995,688**	**26,638**	**(37,318)**	**985,008**
Balance as at 01 January 2017	995,688	26,638	(37,318)	985,008
Profit for the year	-	-	7,825	7,825
Total comprehensive income for the year	**-**	**-**	**7,825**	**7,825**
Balance as at 31 December 2017	**995,688**	**26,638**	**(29,493)**	**992,833**

*Refer to note 3 on prior year restatements.

General information

The Company is a private company limited by share capital incorporated in England and Wales.
The address of its registered office is: Shell Centre, SE1 7NA, London, United Kingdom (UK).

1 Accounting policies

Basis of preparation

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

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

The accounting policies have been consistently applied.

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

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

- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  (i) paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements';
  (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment';

1 Accounting policies (continued)

- The following paragraphs of IAS 1, 'Presentation of financial statements':
  (i) 10(d), (statement of cash flows);
  (ii) 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
  (iii) 16 (statement of compliance with all IFRS);
  (iv) 38A (requirement to present a minimum of two statements for each of the primary financial statements, including cash flow statements and related notes);
  (v) 38B-D (additional comparative information);
  (vi) 40A-D (requirements for a third balance sheet);
  (vii) 111 (cash flow statement information); and
  (viii) 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.

Consolidation

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

The immediate parent company is Enterprise Oil Limited.

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

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

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

1 Accounting policies (continued)

Fundamental accounting concept

The balance sheet at 31 December 2017 reports a net current liability of £115.9 million (2016: £113.0 million restated). The accounts have been prepared under the going concern concept, based on a detailed review by the Directors of the Company's cash-flow forecasts in comparison with committed facilities.

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Amounts relating to deferred tax are undiscounted.

1 Accounting policies (continued)

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transaction and balances

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

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

Tangible fixed assets and depreciation

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

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

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

1 Accounting policies (continued)

The cost of licences is carried forward either until a licence is relinquished or the associated costs written off, or until production of oil or gas starts, when the cost is depleted on a unit-of-production basis related to total proved reserves.

Platforms and infield pipelines are depleted from the date field production commences on a unit-of-production basis over the proved developed reserves of the field concerned. Successful exploration, appraisal, production and injection wells are depleted on a unit-of-production basis over the proved developed reserves of the field concerned. However, for certain Upstream assets, 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 the yearly average prices, to provide a phasing of periodic depreciation charges that more appropriately reflects the expected utilisation of the assets concerned.

Changes in estimates are accounted for prospectively over the remaining reserves of the field.

Other exploration and production fixed assets are depreciated on a straight-line basis over their estimated useful lives, which generally range from 4 to 20 years.

Exploration, appraisal and development costs

Exploration and appraisal costs are accounted for under the successful efforts method.

Exploration costs are charged to income when incurred, except that exploratory drilling costs are included in tangible fixed assets, pending determination of proved reserves. Exploration wells that are more than 12 months old are expensed unless (a) (i) they are in an area requiring major capital expenditure before production can begin and (ii) they have found commercially producible quantities of reserves and (iii) they are subject to further exploratory or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future, or (b) proved reserves are booked within 12 months following the completion of exploratory drilling.

Decommissioning and restoration costs

The Company follows the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The total estimated cost of decommissioning and restoration, discounted to its net present value, is provided for and also recognised as a cost of each field, onshore terminal or main trunkline and capitalised within tangible fixed assets. The capitalised cost is amortised over the life of the field on a unit-of-production basis for offshore facilities and on a straight-line basis for onshore terminals and main trunklines. The unwinding of the discount in the net present value of the total expected cost is treated as an interest expense. Changes in estimates result in an equal and opposite movement in the provision and the associated asset. If a decrease in the provision exceeds the asset's carrying amount, the excess is recognised in the profit and loss account. Changes in estimates of assets are depreciated prospectively over the remaining reserves of the field or the remaining life of the onshore terminal or pipeline as appropriate.

1 Accounting policies (continued)

Environmental expenditure

Environmental expenditure relating to current operations is expensed, or capitalised where such expenditure provides future economic benefits. Liabilities for environmental remediation resulting from past operations or events are recognised in the period in which an obligation to a third party arises and when the amount can be reasonably estimated. Measurement of liabilities is based on current legal requirements and existing technology. Liabilities are determined independently of expected recoveries from third parties. Such recoveries are recognised and reported as separate events and brought to account when reasonably certain of realisation. The carrying amount of liabilities is regularly reviewed and adjusted as appropriate for new facts or changes in law or technology.

Significant estimation techniques

Future development costs are estimated using standard techniques applied throughout the oil and gas industry. The estimation method used and the uncertainty range of the estimate depends upon the maturity and extent of the underlying technical work. At the early stages of project feasibility, cost estimating software and benchmarking studies will usually be used as the basis of estimates, while at the later stages of project development, supplier quoted costs will be used along with detailed quantities of materials. Statistical methods are also used to establish uncertainty ranges for the estimates. These methods are used for new capital projects as well as decommissioning of existing facilities.

Production forecasts and reserves are estimated using standard techniques of petroleum engineering. These techniques combine geophysical and geological knowledge with detailed information concerning reservoir porosity and permeability distributions and fluid characteristics with estimates of recovery efficiencies from studies or field analogues. There is uncertainty inherent in the measurement and interpretation of the basic data. These uncertainties are accounted for by using a combination of deterministic and statistical methods to calculate the range of recoverable reserves and to estimate future production profiles. Changes in estimates affecting unit-of-production calculations for depreciation and petroleum revenue tax are accounted for prospectively over the estimated remaining commercial reserves of each field.

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

1 Accounting policies (continued)

Loans and trade and other receivables

Loans and trade and other receivables are initially recognised at fair value based on the amounts exchanged and are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment.

Financial liabilities

The Company classifies its financial liabilities in the following categories: at fair value through profit or loss; and amortised cost. The classification depends on the nature of the underlying liabilities, with management determining the classification of financial liabilities at initial recognition.

Loans and trade and other creditors

Loans and trade and other creditors are initially recognised at fair value based on amounts exchanged, net of transaction costs, and subsequently at amortised cost. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Investment in subsidiaries and participating undertakings

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

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

Underlift and overlift of oil

Underlift and overlift of crude oil is valued at market prices. The resulting impact is recognised within cost of sales in the profit and loss account.

1 Accounting policies (continued)

Provisions

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

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

Netting off policy

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

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

Joint arrangements

The Company's exploration, development and production activities are generally conducted in joint arrangements with other companies. The Company 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 parties. 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 the post acquisition income less dividends received.

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Useful economic life of tangible fixed assets

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

Impairment of tangible fixed assets

For the purposes of determining whether impairment of tangible fixed assets has occurred, and the extent of any impairment 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, 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 also affect the rate used to discount future cash flow estimates.

Future price assumptions 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 "Estimation of proved oil and gas reserves", 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. The discount rate applied is reviewed annually.

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

Impairment of investments

For the purposes of determining whether impairment of investments has occurred, and the extent of any impairment or its reversal, management review a range of measures relating to the underlying entity's performance, including the net present value of future cash flows. In assessing these measures, management make a number of assumptions relating (but not restricted) to 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. Changes in economic conditions can also affect the rate used to discount future cash flow estimates.

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

Estimation of 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 reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. 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 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.

Decommissioning and restoration provisions

Provisions are recognised for the future decommissioning and restoration of hydrocarbon production facilities and pipelines at the end of their economic lives. The estimated cost is recognised in income over the life of the proved developed reserves on a unit-of-production basis or on a straight-line basis, as applicable. Changes in the estimates of costs to be incurred, proved developed reserves, or in the rate of production will therefore impact income, generally over the remaining economic life of the related assets.

Estimates of the amounts of provisions recognised are 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.

3 Prior period adjustments

Comparative figures of the prior year have been restated to correct a misallocation of realised differences in foreign currency translation on a joint venture with other group companies. Cost of sales and intergroup positions are now restated including tax consequences.

3 Prior period adjustments (continued)

	Balance as at 31 December 2016	Restatement for 2016	Restated balance as at 31 December 2016
	£ 000	**£ 000**	**£ 000**
Balance Sheet			
Fixed assets			
Deferred Tax	19,230	(9,746)	9,484
Current assets			
Debtors			
Amount owed by Parent undertakings	38,118	22,150	60,268
Profit and Loss Account			
Cost of sales	(27,724)	22,150	(5,574)
Tax on profit	22,117	(9,746)	12,371

4 Interest receivable and similar income

	2017 £ 000	2016 £ 000
Other interest income	18	-
	18	-

5 Interest payable and similar charges

	2017 £ 000	2016 £ 000
Interest on loans from Group undertakings:		
Parent undertakings	3,303	3,555
Unwinding of discount on long term provisions (note 14)	942	645
Other interest payable	-	14
	4,245	**4,214**

6 Operating loss

The Company had no employees during 2017 (2016: none).

None of the Directors received any emoluments (2016: none) in respect of their services to the Company.

7 Auditor's remuneration

The Auditor's remuneration of £5,859 (2016: £6,903) in respect of the statutory audit was borne by the immediate parent company for both the current and preceding years.

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

8 Tax on loss

Tax credit in the profit and loss account

The tax credit for the year of £14.1 million (2016: £12.4 million) is made up as follows:

	2017 £ 000	Restated* 2016 £ 000
Current taxation		
UK corporation tax	(6,156)	(343)
UK corporation tax adjustment to prior periods	(17,058)	(359)
Total current tax credit	**(23,214)**	**(702)**
Deferred taxation		
Arising from origination and reversal of temporary differences	(5,930)	(10,358)
Arising from adjustment in respect of prior periods	15,017	(251)
Arising from changes in tax rates and laws	-	(1,060)
Total deferred tax charge/(credit)	**9,087**	**(11,669)**
Tax credit in the profit and loss account	**(14,127)**	**(12,371)**

*Refer to note 3 on prior year restatements.

8 Tax on loss (continued)

Reconciliation of total tax credit

The tax on loss before tax for the year differs from the standard rate of corporation tax in the UK of 40% (2016 - 40%). The tax on loss before tax for the year applicable to oil and gas exploration and production companies differs from the standard rate of corporation tax in the UK of 40% (ring fence corporation tax of 30% and supplementary charge of 10%) (2016: 40%).

The differences are reconciled below:

	2017 £ 000	Restated* 2016 £ 000
Loss before tax	**6,302**	**9,788**
Tax on loss calculated at standard rate (2017- 40%) (2016- 40%)	(2,521)	(3,915)
Effects of:		
Expenses not deductible	-	70
Adjustments in respect of prior periods	(2,041)	(611)
Higher tax rates on overseas earnings	-	1,574
Tax decrease from utilisation of tax losses	(9,917)	(9,894)
Ring fence/non-ring fence tax rate differentials	330	374
Tax on imputed interest	22	31
Total tax credit	**(14,127)**	**(12,371)**

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

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

*Refer to note 3 on prior year restatements.

8 Tax on loss (continued)

Deferred tax assets as at:

2017	Asset £ 000	Liability £ 000	Net deferred tax £ 000
Tax losses carried forward	107,963	-	107,963
Provision for decommissioning and restoration not yet allowed for tax	11,990	-	11,990
Accelerated tax depreciation	-	(119,556)	(119,556)
	119,953	**(119,556)**	**397**

2016	Asset £ 000	Liability £ 000	Restated* Net deferred tax £ 000
Tax losses carried forward	109,039	-	109,039
Provision for decommissioning and restoration not yet allowed for tax	8,164	-	8,164
Accelerated tax depreciation	-	(107,719)	(107,719)
	117,203	**(107,719)**	**9,484**

Deferred tax movement during the year:

	At 1 January 2017 £ 000	Recognised in profit and loss account £ 000	Recognised in other balance sheet items £ 000	At 31 December 2017 £ 000
Tax losses carried forward	109,039	(1,076)	-	107,963
Provision for decommissioning and restoration not yet allowed for tax	8,164	380	3,446	11,990
Accelerated tax depreciation	(107,719)	(8,391)	(3,446)	(119,556)
Net tax assets	**9,484**	**(9,087)**	**-**	**397**

*Refer to note 3 on prior year restatements.

8 Tax on loss (continued)

Deferred tax movement during the prior year:

	At 1 January 2016 £ 000	Recognised in profit and loss account £ 000	Restated* At 31 December 2016 £ 000
Tax losses carried forward	107,715	1,324	109,039
Provision for decommissioning and restoration not yet allowed for tax	8,058	106	8,164
Accelerated tax depreciation	(117,958)	10,239	(107,719)
Net tax assets	**(2,185)**	**11,669**	**9,484**

The provision for deferred tax consists of the following deferred tax (liabilities) / assets:

	2017 £ 000	Restated* 2016 £ 000
Deferred tax assets due more than 12 months	119,953	117,203
Deferred tax liabilities due more than 12 months	(119,556)	(107,719)
Total deferred tax	**397**	**9,484**

*Refer to note 3 on prior year restatements.

9 Tangible Assets

	Oil and gas properties £ 000	Assets under construction £ 000	Total £ 000
Cost or valuation			
Balance at 1 January 2017	37,295	263,891	301,186
Additions	2,258	10,894	13,152
Change in estimates (note 14)	6,358	-	6,358
Balance at 31 December 2017	**45,911**	**274,785**	**320,696**
Accumulated Depreciation			
Balance at 1 January 2017	(18,654)	-	(18,654)
Balance at 31 December 2017	**(18,654)**	**-**	**(18,654)**
Net book amount			
At 31 December 2017	**27,257**	**274,785**	**302,042**
At 31 December 2016	**18,641**	**263,891**	**282,532**

Aggregate net decommissioning costs included in tangible fixed assets of the Company as at 31 December 2017 were £27.3 million (2016: £18.7 million).

The additions of £10.9 million to Assets under constructions are related to the Glen Lyon FPSO which serves the Loyal field.

10 Investments

	Subsidiary undertakings shares £ 000	Total £ 000
Cost		
Balance at 1 January 2017	966,290	966,290
Balance at 31 December 2017	**966,290**	**966,290**
Amounts provided		
Balance at 31 December 2017	**-**	**-**
Carrying amount		
At 31 December 2017	**966,290**	**966,290**
At 31 December 2016	**966,290**	**966,290**

10 Investments (continued)

Details of the subsidiaries as at 31 December 2017 are as follows:

Name of subsidiary	Registered office and County of incorporation	Class of shares	% of ownership
Shell Upstream Overseas Services (I) Limited	Shell Centre,London, SE1 7NA England and Wales	ordinary	100%

11 Debtors

Debtors: amounts due within one year

	2017 £ 000	Restated* 2016 £ 000
Amounts owed by Group undertakings:		
Parent undertakings	58,321	60,268
Fellow subsidiary undertakings	11,281	3,707
Prepayments and accrued income	655	3,989
Other Debtors	11,915	10,365
Tax receivable	23,518	276
	105,690	78,605

Included within Other debtors is underlift of £11.9 million (2016: £10.4 million).

Amounts owed by Group undertakings are unsecured, interest free, repayable upon demand.

*Refer to note 3 on prior year restatements.

12 Creditors: amounts falling due within one year

	2017 £ 000	2016 £ 000
Amounts owed to Group undertakings		
Parent undertakings	175,099	141,905
Fellow subsidiary undertakings	44,444	42,623
Accrued expenses	1,334	2,828
Other payables	734	4,236
	221,611	**191,592**

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

13 Creditors: amounts falling due after more than one year

	2017 £ 000	2016 £ 000
Amounts due to Group undertaking		
Parent undertakings	**130,000**	**130,000**

Amounts owed to Group undertakings are loan from parent undertaking which is denominated in GBP, this loan is chargeable to interest rate of LIBOR + 220 basis points, and with the final instalment due on 1 October 2021. The carrying amount at year end is £130 million (2016 - £130 million).

14 Provisions

	Decommissioning and restoration £ 000	Other provisions £ 000	Total £ 000
Balance as at 1 January 2017	20,410	9,901	30,311
Increase in existing provisions	2,258	-	2,258
Provisions used	7	-	7
Released to the profit and loss account	-	(9,901)	(9,901)
Increase due to unwinding of discount (note 3)	942	-	942
Increase due to change in estimates (note 9)	6,358	-	6,358
Balance as at 31 December 2017	**29,975**	**-**	**29,975**

At 31 December 2017, the Company has provided £30.0 million (2016: £20.4 million) in respect of the decommissioning of its oil and gas fields and related infrastructure and the restoration of the sites. It is anticipated that decommissioning and restoration costs will be incurred over the next 21 years. The exact timing of these costs is dependent upon a number of factors such as reservoir performance, new near field developments and the oil price. The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 4% (2016: 4%).

The other provision related to the onerous contract for the PBLJ rig share agreement committed against the Loyal field partners, has been released to the P&L during the year on account of expiry of contract.

15 Called up share capital

Allotted, called up and fully paid shares

	No.	2017 £ 000	No.	2016 £ 000
Ordinary shares of £1 each	995,687,987	995,688	995,687,987	995,688

16 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £43.1 million (2016 - £60.3 million).