

THE SHELL PETROLEUM COMPANY LIMITED



DIRECTORS REPORT AND ACCOUNTS

31st DECEMBER 1988

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THE SHELL PETROLEUM COMPANY LIMITED

DIRECTORS' REPORT AND ACCOUNTS

1988

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THE SHELL PETROLEUM COMPANY LIMITED

REPORT OF THE DIRECTORS

The Directors submit their Annual Report and audited accounts for the year ended 31st December, 1988

DIRECTORS

The present Directors of the Company, who were Directors during all or part of 1988 are:-

P.F. Holmes	(Chairman & Managing)	Sir P. Baxendell
J.M.H. van Engelshoven	(Managing)	A.P.J. Benard
J.S. Jennings	(Managing)	D. de Bruyne
H. de Ruiter	(Managing)	J.H. Choufoer
L.C. van Wachem	(Managing)	S. Jennings
		K. Swart
		M.C. Thomson
		E.G.G. Wexner

The late D.R. Welham was a Managing Director for all of 1988.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Company is a subsidiary of N.V. Koninklijke Nederlandsche Petroleum Maatschappij (Royal Dutch) which owns 60% of its share capital, the remaining 40% being owned by The "Shell" Transport and Trading Company, p.l.c. (Shell Transport). These companies are the two Parent Companies of the companies known collectively as the Royal Dutch/Shell Group of Companies. Royal Dutch and Shell Transport also own the share capital of Shell Petroleum N.V. (SPNV), a company incorporated in the Netherlands, in the same proportions and have direct shareholdings in and voting control of Shell Petroleum Inc. (SPI), a company incorporated in the United States which holds all the outstanding equity shares in Shell Oil Company; SPNV continues to hold equity shares in SPI which are non controlling but entitle it to the dividend flow from that company. The Company, SPNV and SPI are known as the Group Holding Companies and between them own, directly or indirectly, all the Group investments in a number of companies engaged in the various branches of the oil and gas, chemicals, metals and coal businesses.

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

The Company's profit before taxation and extraordinary items increased during the year from £823 million to £1,218 million. This was due to a substantial reduction in currency translation losses, down by £847.5 million to £74.9 million, partly offset by reduced dividend income principally from U.K. companies.

The Company has continued to invest surplus funds in current investments, mainly short term deposits and securities, pending suitable opportunities for further investments in the businesses outlined above. During 1988 in line with this policy a major investment was made by a subsidiary company who purchased from Tenneco Incorporated their exploration and production interests in Colombia.

RESEARCH AND DEVELOPMENT

The Company's subsidiaries have available the services of Shell Research Limited, a subsidiary of the Company, and other research companies of the Royal Dutch/Shell Group to carry out research and development where it is applicable in their businesses.

SUBSEQUENT EVENT

The shareholders of the Company have each requested that the Company make subvention payments in 1989 to SPNV of amounts which in total do not exceed the sterling equivalent of Netherlands Florins 1,500 million. This is to facilitate the payment of SPNV's dividends in that year. The Directors have considered the position of the Company's creditors and shareholders, and determined that they would not be prejudiced by such payments; the Company has no employees. Accordingly, the Directors have resolved that it would be in the best interests of the Company to accede to the requests of the shareholders.

<u>PROFIT AND LOSS ACCOUNT AND DIVIDENDS</u>	<u>£ million</u>
The profit for the year amounts to	1,076.3
balance brought forward from 1987 of	<u>5,705.0</u>
making a total of	6,781.3
less dividends	<u>544.5</u>
leaving to be carried forward the balance of this includes £70.4 million not available for distribution (see Note 19 to the Accounts)	<u>6,236.8</u>

DIRECTORS' INTERESTS

Statement pursuant to the Companies Act 1985. The Directors' shareholding and debenture-holding interests in Royal Dutch and subsidiaries of Royal Dutch as recorded in the Register of such interests are:-

	<u>Royal Dutch Ordinary Shares N.Fl.10 each</u>		<u>Royal Dutch 4% priority Share N.Fl.1,000 each</u>	
	<u>31st December 1988</u>	<u>1st January 1988</u>	<u>31st December 1988</u>	<u>1st January 1988</u>
A.P.J. Benard	-	-	6	6
D. de Bruyne	828	828	6	6
L.C. van Wachem	26,600	18,100	6	6
J.H. Choufoer	1,000	1,000	6	6
K. Swart	1,412	1,412	6	6
E.G.G. Werner	2,600	2,600	6	6
J.M.H. van Engelshoven	18,000	12,000	6	6
H. de Ruiter	12,000	6,000	6	6

The increase in opening balances over that reported last year is due to Directors accepting their share options retrospectively.

According to the Register recording such interests, no other Directors had any such interests in any of the above-mentioned companies and no Directors had any such interests in any other companies to which the Act applies.

SHARE OPTIONS

The Company has share option arrangements for executives (including Directors) of the Company and of its subsidiary and associated companies. Options are granted for not more than five years in the case of a plan established by the Company in 1967 and ten years in the case of a scheme established by the Company in 1985 and approved under the Finance Act 1984, at prices not less than the fair market value of the shares at the time of the grant of the option. Under these arrangements options are granted over shares of Shell Transport or Royal Dutch. Shell Petroleum N.V. has similar arrangements, for options for its own executives (including Directors) and those of its subsidiary and associated companies.

The Company also has a savings related share option scheme, The Shell Sharesave Scheme, which was approved by the Inland Revenue under the Finance Act 1980 and involves the grant of options for a period of five years over the shares of Shell Transport. Seven of the Company's subsidiaries operating in the United Kingdom are also Participating Companies in the Scheme. On 16th December 1988, the Company granted options over 1,035,297 shares to a total of 1,340 employees of Participating Companies at an option price of 328p per share. At 31st December 1988 the number of shares held to back options granted by the Company under the scheme was 10,260,209 and the number of options outstanding was 10,425,170.

The interests of the Directors of the Company under all share option schemes of Group Companies (in terms of options exercised by or granted to them during the year or outstanding in their favour at the end of year) were as follows:

<u>Executive Schemes</u>	<u>Options Exercised</u>	<u>Options Granted</u>	<u>Options Outstanding</u>
Ordinary shares of Shell Transport	393,000	366,000	1,416,600
Ordinary shares of Royal Dutch	-	20,500	55,500
<u>Sharesave Scheme</u>			
Ordinary shares of Shell Transport	-	-	4,548

Shell Transport shares have been adjusted to reflect the two for one capitalisation issue in December 1988.

DONATIONS AND SUBSCRIPTIONS

Charitable Purposes

Contributions made in the United Kingdom by the Company and its subsidiaries for charitable purposes amounted to £1.5 million.

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AUDITORS

Price Waterhouse have expressed their willingness to continue in office as Auditors of the Company and a resolution proposing their re-appointment will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD

Susan Riple

Company Secretary

THE SHELL PETROLEUM COMPANY LIMITED

ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 1988

THE SHELL PETROLEUM COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

	<u>Note</u>	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u>
Income from shares in:-			
Group companies		915.3	1,413.5
Associated companies		13.0	15.4
Interest receivable and similar income	3	516.8	488.9
Loss on currency translation	12	(74.9)	(922.4)
Profit/(loss) on sale of investments		<u>9.3</u>	<u>(0.2)</u>
		1,379.5	995.2
<u>DEDUCT</u>			
Interest payable and similar charges	4	144.3	150.0
Provisions against investments		2.0	15.8
Administrative expenses and other items		<u>15.2</u>	<u>6.6</u>
		<u>161.5</u>	<u>172.4</u>
Profit on ordinary activities before taxation	5	1,218.0	822.8
Taxation on ordinary activities	7	<u>141.7</u>	<u>162.4</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,076.3	660.4
Extraordinary item	6	<u>-</u>	<u>149.1</u>
PROFIT FOR THE YEAR		1,076.3	511.3
Balance brought forward		<u>5,705.0</u>	<u>5,701.5</u>
		6,781.3	6,212.8
Dividends in respect of ordinary "B" shares		<u>544.5</u>	<u>507.8</u>
BALANCE AT END OF YEAR	19	<u>6,236.8</u>	<u>5,705.0</u>

THE SHELL PETROLEUM COMPANY LIMITED

BALANCE SHEET

	<u>Note</u>	<u>31st December</u> <u>1988</u> <u>£ million</u>	<u>31st December</u> <u>1987</u> <u>£ million</u>
FIXED ASSETS			
Investments	9	<u>2,618.0</u>	<u>2,219.7</u>
CURRENT ASSETS			
Debtors	12	6,069.4	5,640.3
Investments	13	2,263.9	3,011.5
Cash at bank		<u>34.9</u>	<u>7.5</u>
		8,368.2	8,659.3
CREDITORS - amounts falling due within one year	14	<u>(3,282.0)</u>	<u>(3,706.9)</u>
NET CURRENT ASSETS		<u>5,086.2</u>	<u>4,952.4</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,704.2	7,172.1
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	16	(7.9)	(7.7)
Pension commitments	17	<u>(1.7)</u>	<u>(1.6)</u>
		<u>7,694.6</u>	<u>7,162.8</u>
CAPITAL AND RESERVES			
Called up share capital	18	255.8	255.8
Share premium account		902.1	902.1
Other reserves		299.9	299.9
Profit and loss account	19	<u>6,236.8</u>	<u>5,705.0</u>
		<u>7,694.6</u>	<u>7,162.8</u>

P. H. H. H.
R. H. H. H.

)
) Directors
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THE SHELL PETROLEUM COMPANY LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u>
<u>SOURCE OF FUNDS</u>		
Profit before taxation and extraordinary item	1,218.0	822.8
Adjustments for items not involving the movement of funds:		
(Profit)/loss on sale of investments	(9.3)	0.2
Increase in provision for pension commitments	0.1	0.1
Provisions against fixed asset investments	-	2.8
Release of provisions on disposal of investments	<u>(0.3)</u>	<u>(62.0)</u>
TOTAL GENERATED FROM OPERATIONS	1,208.5	763.9
<u>FUNDS FROM OTHER SOURCES</u>		
Proceeds from sale of fixed asset investments	15.9	79.6
	<u>1,224.4</u>	<u>843.5</u>
<u>APPLICATION OF FUNDS</u>		
Taxation paid	202.5	244.4
Dividends paid	559.7	507.7
Purchase of fixed asset investments	404.6	72.8
Subvention payment	<u>-</u>	<u>149.1</u>
	1,166.8	974.0
<u>MOVEMENT IN WORKING CAPITAL</u>		
Debtors	322.6	(26.2)
Creditors	455.2	749.0
Investments and cash at bank	<u>(720.2)</u>	<u>(853.5)</u>
	57.6	(130.5)
	<u>1,224.4</u>	<u>843.5</u>

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THE SHELL PETROLEUM COMPANY LIMITED

NOTES TO THE ACCOUNTS - 31ST DECEMBER, 1988

1. The Company

N.V. Koninklijke Nederlandsche Petroleum Maatschappij (Royal Dutch), incorporated in the Netherlands, and The "Shell" Transport and Trading Company, p.l.c. (Shell Transport), are the two Parent Companies of the companies known collectively as the Royal Dutch/Shell Group of Companies (Group), and own 60% and 40% respectively of the share capital of the Company. The ultimate holding company of The Shell Petroleum Company Limited is therefore Royal Dutch. Royal Dutch and Shell Transport also own the share capital in the same proportions of Shell Petroleum N.V. (SPNV), a company incorporated in the Netherlands, and, Shell Petroleum Inc. (SPI), a company incorporated in the United States. The two Parent Companies are not themselves part of the Group.

The Company, SPNV and SPI are known as the Group Holding Companies, and between them own, directly or indirectly, investments in the numerous companies engaged in the oil and natural gas, chemicals, metals, coal and other businesses of the Group. Companies in which Royal Dutch and Shell Transport, either directly or indirectly, have a majority of the voting power or have a majority equity interest are normally referred to as "Companies of the Royal Dutch/Shell Group" or "Group Companies". Companies in which Group Companies have interests of 50% or less are normally referred to as "Associated Companies" and are related companies within the meaning of the Companies Act 1985.

2. Accounting Policies

a) Accounting Convention

The financial statements have been prepared under the historical cost convention.

b) Group Accounts

Consolidated accounts of the Company and its subsidiaries have not been prepared as the Directors are of the opinion that the expense involved would be out of proportion to the value to the members. For this reason the results of subsidiaries and the Company's share in the results of the associated companies have not been included in the accounts of the Company except to the extent of dividends received or receivable.

The accounts of the Company, its subsidiaries and associates, together with the accounts of SPNV, SPI, and their subsidiaries and associates, are incorporated in the financial statements of the Royal Dutch/Shell Group of Companies which form part of the Annual Reports of Royal Dutch and Shell Transport. Information regarding the Company's share in the results and the net asset values of subsidiaries and associated companies is given in Notes 10 and 11, such information being based on accounting policies applied in the aggregation in sterling of the amounts in the financial statements of the Royal Dutch/Shell Group

referred to above. A summary of the more important accounting policies applied in the aggregation is provided in Annexe I to these notes.

In addition the reported profit/(loss) and aggregate capital and reserves of the Company's major subsidiaries and direct associates are set out in Note 20.

c) Fixed Asset Investments

These comprise investments in shares and loans which the Directors intend to hold on a continuing basis in the Company's business. The investments are stated at cost less provisions which are made where the attributable net asset value falls short of the carrying value and where there is little prospect that this deficiency will be recovered from future earnings.

d) Income from Shares in Group and Associated Companies

Income from shares in Group and Associated companies represents dividends, including accruals relating to 1988 and prior periods, provided that receipt of the dividend is assured.

e) Deferred Taxation

Deferred taxation is provided on all timing differences except where there is a reasonable probability that no liability will arise in the foreseeable future.

f) Foreign Currency Translation

Assets and liabilities recorded in foreign currencies have been expressed in sterling at the rates of exchange ruling on 31st December, 1988. Differences on translation are included in the profit and loss account.

g) Current Asset Investments

Securities are stated at cost adjusted by amortisation of premiums or the accrual of discount, as appropriate, over periods to maturity.

Other investments are stated at the lower of cost or net realisable value.

h) Forward Exchange Contracts

Forward exchange contracts taken out to cover the currency exposure in sterling of the Company in respect of its pool of foreign currency monetary assets or specific foreign currency liabilities, are deemed to be hedges. Difference in exchange gains or losses on such contracts are offset against those arising on the hedged assets or liabilities. Premiums or discounts on the contracts are amortised over the lives of the contracts. All other forward exchange contracts are marked to market and gains or losses taken direct to income.

PROFIT AND LOSS ACCOUNT

3. Interest receivable and similar income

	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u>
Group companies		
Subsidiaries	40.9	32.8
Fellow subsidiaries	255.4	249.1
Associated companies		
unlisted	0.1	0.4
listed	0.2	0.2
Interest from banks and similar income	<u>220.2</u>	<u>206.4</u>
	<u>516.8</u>	<u>488.9</u>

4. Interest payable and similar charges on loans repayable within 5 years

	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u>
Group company loans		
Subsidiaries	9.6	24.5
Fellow subsidiaries	109.6	109.6
Bank charges	0.2	0.1
Commitment fees	0.5	0.6
Premium on forward exchange contracts	<u>24.4</u>	<u>15.2</u>
	<u>144.3</u>	<u>150.0</u>

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following:

	<u>1988</u> <u>£</u>	<u>1987</u> <u>£</u>
Auditors' remuneration	<u>79,000</u>	<u>76,200</u>

6. Extraordinary item

The Company made no subvention payment in 1988 (1987 £149.1m).

7. Taxation

The charge for the year of £141.7m (1987 £162.4m) is made up as follows:-

	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u>
i) United Kingdom corporation tax		
Based on the net profit for the year	430.5	361.3
Double taxation relief	<u>(295.2)</u>	<u>(236.6)</u>
	135.3	124.7
Deferred taxation (Note 16)	<u>0.2</u>	<u>(1.9)</u>
	135.5	122.8
ii) Advance corporation tax		
- prior year adjustment	(22.4)	-
iii) Taxation imposed outside the United Kingdom	24.0	22.1
iv) United Kingdom tax attributable to franked investment income	0.9	0.7
v) Group relief payments	<u>3.7</u>	<u>16.8</u>
	<u>141.7</u>	<u>162.4</u>

United Kingdom corporation tax, calculated at 35%, is based on income included in the Profit and Loss Account and chargeable gains arising during 1988, less expenses, and charges on income.

The company or companies which have surrendered or will surrender losses by way of group relief to the Company in respect of an accounting period may call upon the Company to make a payment of an amount not exceeding the amount of the relief surrendered for that period. Group relief provisionally surrendered to the Company to date for which no payment has been called, and consequently for which no provision has been made, amounts to some £2,400m (1987 £2,400m).

United Kingdom advance corporation tax has been computed at the rate of twenty-five seventy-fifths of the year's dividends and reduced by tax credits on franked investment income received during the year. Under the provisions of Section 240 of the Income and Corporation Taxes Act 1988, the surplus advance corporation tax paid or payable in respect of dividends declared for the year is available, or will be available when paid, to be surrendered to subsidiary companies for offset against their future corporation tax liabilities. During the year an amount of £78.6m in respect of the accounting period to 31st December, 1982 (1987 £79.9m in respect of 1981) was formally surrendered by the Company to subsidiary companies in consideration for which the Company may call for payments not exceeding the amounts surrendered. Advance corporation tax formally surrendered by the Company to 31st December, 1988 amounts to £640.8m (1987 £562.2m); of this amount payment has been received for £215.8m (1987 £215.8m). The total amount of advance corporation tax paid for the years up to and including 1980 available for future formal surrender by the Company amounts to some £390m (1987 £380m).

8. Directors

i) Information relating to Directors' emoluments and pensions pursuant to Section 231 and Schedule 5 of the Companies Act 1985

In 1988 the emoluments of the Chairman, who was also the highest paid Director, were £233,521 (1987 £206,751).

The number of Directors (including the foregoing) whose emoluments fell within the prescribed ranges were:-

	<u>1988</u>	<u>1987</u>
	<u>£</u>	<u>£</u>
Not more than £5,000	-	1
£5,001 - £10,000	7	7
£10,001 - £25,000	-	1
£25,001 - £40,000	3	3
£40,001 - £100,000	-	1
£100,001 - £150,000	-	1
£150,001 - £180,000	1	-
£180,001 - £210,000	1	1
£210,001 - £235,000	1	-
	<u>1988</u>	<u>1987</u>
	<u>£</u>	<u>£</u>
Directors' emoluments, including pension fund contributions for the year:		
In respect of services as Directors	45,500	52,000
In respect of other services	<u>769,380</u>	<u>617,312</u>
	814,880	669,312
Directors' and past Directors' pensions:		
In respect of services as Directors	-	-
In respect of other services	<u>253,316</u>	<u>295,061</u>
	<u>1,068,196</u>	<u>964,373</u>

Of these emoluments and pensions £546,016 in 1988 and £591,144 in 1987 were borne by the Company and charged in the Profit and Loss Account.

ii) Statement of other transactions with Directors pursuant to Section 232 and Schedule 6 of the Companies Act 1985

Mr. D. de Bruyne, held a yearly sub-tenancy of a leasehold property of a subsidiary under an agreement dated 13th November, 1970. This sub-tenancy ceased on 5th October, 1988. The rental, based on open market rates, was £37,871 p.a. inclusive of rates and maintenance charges.

iii) Directors' interests under Share Option Schemes

Directors' interests under all share option schemes of Group Companies are set out in the Report of the Directors.

Directors' options under the Company's own schemes by virtue of option agreements with the Company or a subsidiary were as follows:-

	<u>Date of Grant</u>	<u>Option Price Pence</u>	<u>Options Outstanding 1st January 1988</u>	<u>Options Granted during 1988</u>	<u>Options Exercised during 1988</u>	<u>Options Outstanding 31st December 1988</u>
Sir Peter Baxendell	16.12.83	187.0	50,400	-	50,400~	-
	*16.12.83	187.0	159,600	-	159,600+~	-
	9.01.85	216.6*	<u>201,000</u>	-	-	<u>201,000</u>
			411,000	-	210,000	201,000
P.F. Holmes	**16.12.85	212.6*	150,000	-	-	150,000
	^12.12.86	319.0	1,155	-	-	1,155
	**15.12.86	316.3*	120,000	-	-	120,000
	11.12.87	323.3*	129,000	-	-	129,000
	**11.12.87	323.3*	21,000	-	-	21,000
	^11.12.87	332.0	1,080	-	-	1,080
	16.12.88	344.0	-	<u>150,000</u>	-	<u>150,000</u>
			422,235	150,000	-	572,235
J.S. Jennings	**14.12.87	323.3*	108,000	-	-	108,000
	16.12.88	344.0	-	<u>108,000</u>	-	<u>108,000</u>
			108,000	108,000	-	216,000
W.C. Thomson	16.12.83	187.0	30,000	-	30,000#	-
	*16.12.83	187.0	90,000	-	90,000#	-
	9.01.85	216.6*	<u>105,600</u>	-	-	<u>105,600</u>
			225,600	-	120,000	105,600
The Duke	**16.12.85	212.6*	63,000	-	63,000@	-
D.S. Welham	^12.12.86	319.0	2,313	-	-	2,313
	**15.12.86	316.3*	108,000	-	-	108,000
	11.12.87	323.3*	87,000	-	-	87,000
	**14.12.87	323.3*	21,000	-	-	21,000
	16.12.88	344.0	-	<u>108,000</u>	-	<u>108,000</u>
			281,313	108,000	63,000	326,313

* Option agreement with the Company's subsidiary Shell International Petroleum Company Limited.

**Option granted under the Company's Share Option Scheme (1985)

^ Option granted under the Shell Sharesave Scheme

Price on date of exercise of option on 120,000 shares 355.0p

+ Price on date of exercise of option on 90,000 shares 324 1/3p.

~ Price on date of exercise of option on 120,000 shares 328.0p

@ Price on date of exercise of option on 63,000 shares 337.0p.

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BALANCE SHEET

9. Fixed Assets - Investments

	<u>Subsidiary Companies Shares £ million</u>	<u>Subsidiary Companies Loans £ million</u>	<u>Fellow Subsidiary Shares £ million</u>	<u>Associated Companies Shares £ million</u>	<u>Total £ million</u>
<u>Cost</u>					
At 1.1.88	2,135.9	34.7	26.9	77.7	2,275.2
Additions	403.5	-	-	1.1	404.6
Disposals	<u>(2.4)</u>	<u>-</u>	<u>(0.3)</u>	<u>(3.9)</u>	<u>(6.6)</u>
At 1.12.88	<u>2,537.0</u>	<u>34.7</u>	<u>26.6</u>	<u>74.9</u>	<u>2,673.2</u>
<u>Amounts Provided</u>					
At 1.1.88	(43.6)	-	-	(11.9)	(55.5)
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.3</u>	<u>0.3</u>
At 31.12.88	<u>(43.6)</u>	<u>-</u>	<u>-</u>	<u>(11.6)</u>	<u>(55.2)</u>
<u>Net Book Amount</u>					
31.12.88	2,493.4	34.7	26.6	63.3	2,618.0
31.12.87	2,092.3	34.7	26.9	65.8	2,219.7

Including in the category of shares in Associated Companies is an amount of £26.1m (1987 £26.8m) in respect of listed investments with a quoted market value of £1,337.3m (1987 £889.8m).

10. Subsidiary and Fellow Subsidiary Companies

Based on audited statements the aggregate of the underlying net assets attributable to the Company's carrying value (see Note 9) of £2,520.0m (1987 £2,119.2m) amounted to £8,471.5m (1987 £7,477.1m) at 31st December arrived at as follows:-

	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u> <u>Restated</u>
Net assets at beginning of year	7,477.1	7,904.1
Profit before taxation	3,016.9	3,459.6
Taxation	<u>(1,602.7)</u>	<u>(2,044.6)</u>
Profit after taxation	1,414.2	1,415.0
Dividends paid and proposed	<u>(915.3)</u>	<u>(1,413.5)</u>
	498.9	1.5
Equity investments	403.5	81.7
Equity disposals	(2.7)	(0.2)
Transfer of retained earnings		
from Associates	(0.2)	47.8
Currency translation differences	<u>94.9</u>	<u>(557.8)</u>
Net assets at end of year	<u>8,471.5</u>	<u>7,477.1</u>

In 1988, Group accounting policies with respect to deferred taxation and the capitalization of interest changed, as a result of which the financial statements of the Group for prior years have been restated.

These net assets include amounts in currencies on which there are restrictions on remittances. They also include an estimated deferred taxation asset of some £850m (1987 £850m) in respect of payments which may be called for in respect of group relief provisionally surrendered to the Company by its subsidiaries. This amount has not been fully recognised as a liability in the Company's accounts. Details of the group relief provisionally surrendered to the Company for which no provision has been made are set out in Note 7.

The provision for deferred taxation within the underlying net assets at 31st December 1988 amounts to £1,597.8m (1987 £1,636.8m). If deferred taxation had been provided only for amounts considered to become payable within the foreseeable future in accordance with United Kingdom practice;

- the provision would have been reduced and the net assets increased by £455.0m (1987 £395.1m);
- the charge for taxation shown above would have been increased by £36.6m (1987 reduced by £57.1m).

11. Associated Companies

Based on the last audited accounts received and estimates thereafter the aggregate of the underlying net assets of these companies attributable to the Company's carrying value (See Note 9) of £63.3m (1987 £65.8m) amounted to £176.6m (1987 £159.2m) at 31st December arrived at as follows:

	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u>
Net assets at beginning of year	159.2	197.5
Profit before taxation	62.6	55.8
Taxation	(27.2)	(16.1)
Profit after taxation	35.5	39.7
Dividends paid and proposed	(13.1)	(15.4)
	22.4	24.3
Currency translation differences	(2.2)	(5.9)
Equity investments	1.2	0.2
Equity disposals	(4.0)	(9.1)
Transfer retained earnings to subsidiary Companies	-	(47.8)
	<u>176.6</u>	<u>159.2</u>

12. Debtors

	<u>1988</u>		<u>1987</u>	
	<u>Within 1 Year</u> <u>£ million</u>	<u>Over 1 Year</u> <u>£ million</u>	<u>Within 1 Year</u> <u>£ million</u>	<u>Over 1 Year</u> <u>£ million</u>
Prepayments and accrued income	18.2	-	104.6	-
Group Companies				
Subsidiaries	948.0	1,689.2	910.1	1,200.5
Fellow Subsidiaries	304.8	2,828.4	226.5	2,938.1
Associated Companies	12.7	18.9	19.1	17.1
Other debtors	143.8	-	113.8	-
A.C.T. recoverable	-	105.4	-	110.5
	<u>1,427.5</u>	<u>4,641.9</u>	<u>1,374.1</u>	<u>4,266.2</u>
	<u>6,069.4</u>		<u>5,640.3</u>	

Included in the amount due from fellow subsidiaries is £2,619.1m, being a loan due from Shell Petroleum Inc. of U.S.\$4,714.5m translated at the year end exchange rate. The loan is repayable over ten years commencing from 1986. The gain of £110.8m (1987 loss £734.1m) arising on the translation of this loan balance into sterling is included in the loss of £74.9m (1987 £922.4m) shown in the Profit and Loss Account.

Other debtors includes an amount of £16.8m (1987 £17.7m) deposited with banks as security for their loans to third parties, and an interest free advance to Shell Transport amounting to £75.7m (1987 £65.0m).

13. Investments

	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u>
British Government securities (Market Value 1988 £112.6m, 1987 £334.1)	112.6	333.1
US Dollar quoted securities (Market Value 1988 £307.3m, 1987 £233.4)	307.2	233.8
Sundry quoted securities (Market Value 1988 £277.4m, 1987 £522.9)	277.3	522.5
Bank deposits	456.9	1,171.9
Other short term deposits	1,052.2	693.5
Ordinary shares of Shell Transport in respect of which share options have been granted, at cost, being below option price and market value	52.6	48.3
Other	3.8	6.9
Associated Company debentures	<u>1.3</u>	<u>1.5</u>
	<u>2,263.9</u>	<u>3,011.5</u>

14. Creditors - amounts falling due within one year

	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u>
Group Companies:		
Subsidiaries	1,460.0	1,509.1
Fellow subsidiaries	1,019.9	1,434.5
Associated Companies	4.5	4.5
Taxation payable (See Note 15)	427.0	381.5
Dividends payable	316.3	331.5
Other	<u>54.3</u>	<u>45.8</u>
	<u>3,282.0</u>	<u>3,706.9</u>

15. Taxation payable

The assessments for the years 1973 and later are not yet finally agreed.

The amount set aside for taxation represents the provision for estimated outstanding liabilities for taxation based on net income and chargeable gains included in the accounts for years up to and including 1988 and the advance corporation tax payable in respect of the dividends paid or payable for the year 1988.

The provision comprises:-

	<u>1988</u> <u>£ million</u>	<u>1987</u> <u>£ million</u>
Corporation tax liability	836.9	704.4
Advance corporation tax recoverable	<u>(598.1)</u>	<u>(501.6)</u>
	238.8	202.8
Advance corporation tax in respect of dividends paid	75.7	65.0
Advance corporation tax which becomes payable when dividends already declared are paid	105.4	110.5
Other provisions	<u>7.1</u>	<u>3.2</u>
	<u>427.0</u>	<u>381.5</u>

The United Kingdom Inland Revenue continues to enquire into the practices of the oil industry with regard to inter-affiliate pricing. Although the availability of group relief in respect of losses of subsidiary companies is affected by these enquiries, it is considered that the provisions made by the Company for U.K. taxation for the years up to and including 1988 will not be materially affected.

16. Deferred taxation

Deferred taxation has been provided in full as follows:-

	<u>Balance</u> <u>1.1.88</u> <u>£ million</u>	<u>Movement</u> <u>during</u> <u>year</u> <u>£ million</u>	<u>Balance</u> <u>31.12.88</u> <u>£ million</u>
Short term timing differences relating to interest accruals	7.7	0.2	7.9

17. Pension commitments

- i) Contributions are payable by the Company to the Shell Contributory Pension Fund in 1988 in respect of the pensionable emoluments of the three Managing Directors of the Company who are Members of that Fund at the rate of 6% of those emoluments.
- ii) Provision of £1.7m (1987 £1.6m) has been made in respect of the actuarial value of unfunded pension obligations to other Directors.

18. Called up share capital

At 31st December, 1988 and 1987 the authorised and issued share capital of the Company was:-

	<u>£ million</u>
Ordinary "A" shares of £1 each (held by Royal Dutch)	153.5
Ordinary "B" shares of £1 each (held by Shell Transport)	<u>102.3</u>
	<u>255.8</u>

19. Distributable retained earnings

Unrealised exchange gains and losses arising on long term monetary items are included in the Profit and Loss Account. In the Directors' opinion to exclude the gains but include the losses would be unrealistic since recognition of both reflects more accurately the Company's involvement in currency transactions.

The exchange gains on long term monetary items which have not been realised are not available for distribution. Thus the profits available for distribution are reduced by £70.4m to £6,166.4m.

20. Details of the Major Subsidiaries and Direct Associates which are significant in relation to the profit or the assets of the company pursuant to Schedule 5 of the Companies Act 1985

Subsidiaries	Country of Incorporation	Class of Shares	Proportion of Nominal Value of Shares held		Currency	Profit/ (Loss) * Millions	Capital & Reserves * Millions
			Directly	Indirectly			
Compania Shell de Colombia Inc.	U.S.A.	Ordinary	100.00	-	US\$	(45) #	840 #
Dansk Shell	Denmark	Ordinary	100.00	-	D.Kr	140	1,358
Mytilus Insurance Co. Ltd.	Great Britain	Ordinary	100.00	-	£	10	85
Norsk Shell	Norway	Ordinary	100.00	-	N.Kr	533	1,725
Pilipinas Shell Petroleum Corporation	Philippines	Ordinary	66.67	-	Pesos	578	4,886
Sabah Shell Petroleum Co. Ltd.	Great Britain	Ordinary	100.00	-	MS	39	96
Saravak Shell Berhad	Saravak	Ordinary	-	55.00	MS	230	684
Shell Australia Ltd.	Australia	Ordinary	100.00	-	A\$	281	2,465
Shell Brazil S.A. (Petrochem)	Brazil	Ordinary	-	100.00	Cruzeiro	76,180	431,429
The Shell Co. of Australia Ltd.	Australia	Ordinary	-	100.00	A\$	8	615
Shell Eastern Petroleum (Pty) Ltd.	Singapore	Ordinary	-	100.00	S\$	149	1,122
Shell Holdings Bermuda Ltd.	Bermuda	Ordinary	-	100.00	£	121	341
Shell Holdings (U.K.) Ltd.	Great Britain	Ordinary	100.00	-	£	496	812
Shell International Chemical Co. Ltd.	Great Britain	Ordinary	100.00	-	£	(2)	(11)
Shell International Marine Ltd.	Great Britain	Ordinary	100.00	-	£	1	19
Shell International Petroleum Company Limited	Great Britain	Ordinary	100.00	-	£	124	(175)
Shell New Zealand Holdings	New Zealand	Ordinary	100.00	-	NZ\$	91	352
Shell Oman Trading Co. Ltd.	Great Britain	Ordinary	100.00	-	US\$	146	29
Shell Overseas Holdings Ltd.	Great Britain	Ordinary	100.00	-	£	335	1,374
Shell Overseas Trading Ltd.	Bermuda	Ordinary	100.00	-	£	41	665
Shell Petroleum Development Co. of Nigeria Ltd.	Nigeria	Ordinary	100.00	-	Naira	886	963
Shell Portuguesa S.A.R.L.	Portugal	Ordinary	100.00	-	Escudos	2,124	12,206
Shell Refining (Australia) Pty Ltd.	Australia	Ordinary	-	100.00	A\$	11	222
Shell Switzerland	Switzerland	Ordinary	100.00	-	S.Fr	25	264
Shell Tankers (U.K.) Ltd.	Great Britain	Ordinary	-	100.00	£	1	197
Shell U.K. Ltd.	Great Britain	Ordinary	-	100.00	£	285	1,398
Svenska Shell	Sweden	Ordinary	100.00	-	S.Kr	96	373
Tacoma Co. Ltd.	Bermuda	Ordinary	-	100.00	£	11	11
<u>Yellow Subsidiary</u>							
Deutsche Shell A.G.	Germany	Ordinary	22.14	-	DMk	325	1,338
<u>Direct Associates</u>							
Mitsubishi Yuka K.K.	Japan	Ordinary	14.38	8.26	Yen	20,860	121,017
National Organic Chemical Industries Ltd.	India	Ordinary	33.33	-	Rupees	174	916 †
Petroleum Development Oman L.L.C.	Oman	Ordinary	34.00	-	US\$	-	25
Shova Shell Sakuyu K.K.	Japan	Ordinary	46.74	3.26	Yen	10,698	63,779

Notes:

- * The profit or loss and aggregate of capital and reserves are as published in the companies' latest statutory accounts, where available; otherwise unaudited draft statutory accounts have been used. These accounts have been prepared in accordance with the accounting principles operating in the countries of incorporation and do not necessarily conform with United Kingdom accounting principles.
- # Statutory accounts are neither required for, nor published by, this company. Consequently the unaudited information disclosed is as advised by the directors.
- † The accounting period has been changed to 31 March, from 1989. Consequently, statutory accounts are not yet available for 1988. The figures shown are from the latest published accounts which are for the period ended 31st December 1987.

21. Contingent liabilities

(a) The Company has given guarantees;

- i) for the due performance of, and all obligations under, certain charter parties between third parties and
 - a) fellow subsidiary companies amounting to £82.6m (1987 £69.5m)
 - b) subsidiary companies amounting to £22.0m (1987 £30.3m)
- ii) for the due performance of, and all obligations under, joint operating agreements between third parties and a fellow subsidiary company amounting to £82.7m (1987 £82.9m)
- iii) in respect of loans and overdraft facilities granted by banks and other finance institutions to:
 - a) a fellow subsidiary company totalling £0.3m (1987 £0.6m)
 - b) subsidiary companies totalling £7.2m (1987 £5.7m)
 - c) related companies totalling £10.2m (1987 £1.5m)
 - d) other companies totalling £35.4m (1987 £44.3m)
- iv) in respect of other obligations of:
 - a) a subsidiary company amounting to £23.9m (1987 £21.8m)
 - b) other companies amounting to £0.3m (1987 £0.5m)

Of the foregoing amounts, £40.9m (1987 £69.5) under items (i) (a) and £33.5m (1987 £40.3m) under item (iii) (d) are jointly and severally guaranteed with Shell Petroleum N.V.

- b) The Company has declared itself jointly and severally liable with Shell Petroleum N.V. for the liabilities of Shell Petroleum N.V. arising out of acts in law and in consideration therefore Shell Petroleum N.V. has undertaken to guarantee all liabilities of the Company arising out of acts in law, and for this purpose, to be a surety for the Company in accordance with the relevant provisions of the Netherlands Civil Code.

In the judgement of the Directors no losses are likely to fall on the Company from this surety. The underlying net assets of Shell Petroleum N.V., including those of its subsidiary and associated companies, as shown in the Balance Sheet Notes to the Accounts of Shell Petroleum N.V., as at 31st December, 1988 were approximately N.Fl.44,300m, £12,238m (1987 N.Fl. 37,000m, £11,111m).

- c) No security has been provided by the Company in connection with the above.

21. Contingent liabilities (Cont.)

- d) The operations and earnings of the Company's subsidiary and fellow subsidiary companies continue, from time to time, to be affected to varying degrees by political, legislative, fiscal and regulatory developments, including those relating to environmental protection, in the countries in which they operate. The nature and frequency of these developments, as well as their effect on the future operations and earnings of subsidiary and fellow subsidiary companies, are unpredictable.

22. Financial commitments

- i) The Company has undertaken to provide finance, the majority of which is denominated in U.S. Dollars, Dutch Florins and Sterling, mainly by the making of advances to or subscription for shares in:-
- a) Subsidiary Companies totalling £682.1m (1987 - £509.4m)
 - b) Fellow Subsidiary Companies totalling £102.5m (1987 - £76.8m)
 - c) Related Companies totalling £25.4m (1987 - £135.1m)
 - d) Third parties totalling £0.6m (1987 - £0.5m)
- ii) The company has also undertaken to provide finance by subscription for shares in and the making of advances to new companies totalling £18.9m (1987 - £2.4m).
- iii) The Company has also agreed to provide short term financial support to certain subsidiary companies to enable them to meet liabilities incurred in the ordinary course of business.
- iv) The company is committed to pay a further U.S. \$100m, £55.6m (1987 - US\$100m, £53.5m) relating to the acquisition of a new subsidiary Company; the payment is contingent upon the subsidiary company reaching certain production targets.

23. Subsequent event

The shareholders of the Company have each requested that the Company make subvention payments in 1989 to SPNV of amounts which in total do not exceed the sterling equivalent of Netherlands Florins 1,500 million. This is to facilitate the payment of SPNV's dividends in that year. The Directors have considered the position of the Company's creditors and shareholders, and determined that they would not be prejudiced by such payments; the Company has no employees. Accordingly, the Directors have resolved that it would be in the best interests of the Company to accede to the requests of the shareholders.

24. Board approval

The Board of Directors approved these accounts on **-3 MAY 1989**

SUMMARY OF THE MORE IMPORTANT ACCOUNTING POLICIES
APPLIED IN THE AGGREGATION OF THE ACCOUNTS OF COMPANIES OF
THE ROYAL DUTCH/SHELL GROUP (REFERENCE NOTE 2 [b])

Principles

The financial statements have been prepared under the historical cost convention. They are consistent in all material respects with the generally accepted accounting principles in each of The Netherlands, the United Kingdom and the United States, except for that in use in the United Kingdom in respect of deferred taxation as clarified below.

Nature of the financial statements

The financial statements take the form of an aggregation in sterling of the accounts of the companies in which Royal Dutch Petroleum Company (Royal Dutch) and The "Shell" Transport and Trading Company, p.l.c. (Shell Transport), either directly or indirectly, have a majority of the voting power or have a majority equity interest. Certain Group companies having a negligible effect on the aggregation are accounted for as associated companies. The accounts of the above two Parent Companies are not included in the said financial statements, whose object is to demonstrate the financial position and results of operations of a group of undertakings in which each Parent Company has an interest in common whilst maintaining its separate identity.

Investments of Group companies in associated companies, in which the Group interest is 50% or less, are accounted for on the equity basis unless immaterial, in which case the investment is accounted for on a cost/dividend basis.

Group companies' undivided interests in unincorporated joint ventures are taken up proportionately in the financial statements.

Currency translation

Assets and liabilities of non-sterling Group companies are translated to sterling at year-end rates of exchange, whilst their statements of income and source and use of funds are translated at quarterly average rates. Translation differences arising on aggregation are taken direct to a currency translation differences account, which forms part of Parent Companies' interest in Group net assets. Upon disinvestment or liquidation of a non-sterling Group company cumulative currency translation differences are taken to income.

The sterling equivalents of gains and losses in exchange arising in Group companies as a result of their foreign currency transactions (including those in respect of inter-company balances unless related to transactions of a long-term investment nature) are included in Group net income.

Exploration costs

Group companies follow the 'successful efforts' method in accounting for exploration costs. As a result, exploration costs are charged to income as incurred with the exception that exploratory drilling costs are initially included in tangible fixed assets pending determination of commercial reserves; should the efforts be determined unsuccessful, they are then charged against income.

Tangible fixed assets

Acquisitions of tangible fixed assets (property, plant and equipment including rights and concessions) are capitalized at cost. Cost generally comprises purchase cost and cost of own services where appropriate. In the case of material capital projects it includes related interest cost during the construction phase until the assets are ready for intended use. In 1988 the time when capitalization of interest should cease was changed. Leases providing Group companies with substantially all benefits and risks of ownership are capitalized as tangible fixed assets at amounts equivalent to the estimated present value of the underlying lease payments.

Investment and development grants related to tangible fixed assets are, in general, initially recorded as deferred income. Subsequently, they are taken to income over the useful lives of the related assets. Investment tax credits relating to tangible fixed assets are taken to income in the year in which they arise.

Estimated dismantlement and restoration costs are provided for and charged against income on the unit-of-production basis.

Investments in associated companies

Investments in associated companies unless immaterial are stated at the amount of the Group share in the net assets of the companies concerned. Such investments include capitalized interest on funds invested by Group companies which are used by the associated companies for material capital projects during the construction phase, prior to the commencement of their principal operations. The Statement of Income includes the Group share of net income of associated companies less amortization of interest capitalized.

Investments in associated companies which are immaterial are stated at cost less provisions, and the Statement of Income includes the dividends from such investments.

Inventories

Inventories are valued at cost to the Group or net realizable value, whichever is lower. Such cost is determined for the most part by the first-in first-out method (FIFO), but relatively important amounts are determined on the basis of the last-in first-out method (LIFO). Cost comprises all direct purchase costs and attributable operating expenses (the cost of production - including taxes - transportation and manufacturing).

Short-term securities

ANNEXE I

Short-term securities are generally stated at the lower of cost or market value. Short-term government securities are, however, stated at cost, adjusted by the amortization of premiums and the accrual of discounts over periods to maturity.

Short-term securities comprise highly liquid investments with a wide range of maturity dates. They are purchased by the Group as part of its short-term funds management policy and are generally realized well before their maturity dates. These are considered to be cash equivalents for the purposes of the Group Statement of cash flows.

Employee retirement plans

Retirement plans to which employees contribute and many non-contributory plans are generally funded by payment to trusts independent of the companies' finances. Where, due to local conditions, a plan is not funded, a provision is made in the financial statements. Valuation of both funded and unfunded plans are carried out by independent actuaries taking into account future remuneration and other local factors.

Pension cost for the year comprises the actuarial present value of future pension benefits attributed to services rendered by employees during the year and the increase in the present value of the benefits earned by employees in previous years net of the return on the plan assets. These costs are adjusted by the recognition, generally over the estimated remaining employee worklife, of the differences between the projected benefit obligations of both funded and unfunded plans and the related plan assets and unfunded pension provisions.

Sales proceeds and expenditures

Sales proceeds are determined by reference to the sales price of the goods delivered and services rendered during the year. Intra-Group sales are based on prices generally equivalent to commercially available prices.

Expenditures are charged against income in the period in which the related sales are recognized.

Depreciation, depletion and amortization

Tangible fixed assets related to producing activities are depleted on the unit-of-production basis over the proved developed reserves of the field concerned, except in the case of those assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions however, are depleted on the unit of production basis over the total proved reserves of the relevant area.

Unproved properties are amortized as required by particular circumstances. Other tangible fixed assets are in general depreciated on a straight-line basis over their estimated useful lives.

Deferred taxation

Deferred taxation is provided using the comprehensive liability method of accounting for income taxes under which deferred tax consequences are recognized for differences between the book amounts and the tax amounts of assets and liabilities. Deferred taxation on these differences is determined using the

provisions of enacted tax laws, including rates, and is adjusted upon enactment of a change in these laws.

Deferred taxation was formerly provided under the comprehensive deferral method.

Research and development

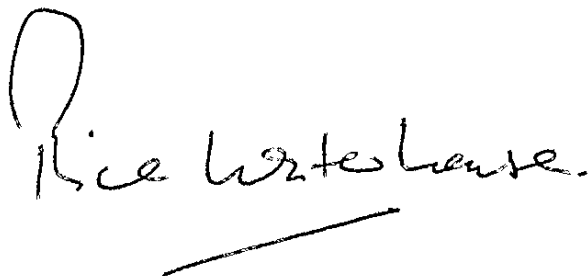
Research and development expenditure is charged against income as incurred, with the exception of that on buildings and major items of equipment which have an alternative use.

REPORT OF THE AUDITORS TO THE MEMBERS OF

THE SHELL PETROLEUM COMPANY LIMITED

We have audited the financial statements on pages 6 to 28 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31st December, 1988 and of the profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Price Waterhouse

Price Waterhouse



Chartered Accountants

Southwark Tower,
32 London Bridge Street,
LONDON. SE1 9SY.

-3 MAY 1989