Registration number: 737366

Methane Services Limited

Annual Report

and

Financial Statements

For the year ended 31 December 2018

Methane Services Limited

Contents

Methane Services Limited

Strategic report for the year ended 31 December 2018

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

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

Business review

The principal activities of Methane Services Limited are marketing and chartering of ships for the transportation of Liquefied Natural Gas (LNG) and to hold investments in subsidiary undertakings engaged in various branches of the oil and natural gas business. The Company will continue with these activities for the foreseeable future.

As at 31 December 2018, the Company owned two LNG vessels. Registered mortgages are in place with respect to these two owned vessels which act as collateral in support of loan obligations to BG Pension Funding Scottish Limited Partnership, a pension funding partnership. At the end of 2018, the Company had one LNG vessel on a long-term bareboat charter and five LNG vessels on long-term time charters held under finance lease arrangements and various other time charter vessels.

The Company result for the financial year increased from loss of $2,334,465,000 to profit of $65,813,000 mainly due to the increase in the number of vessels and also increase in the charter cost of owned LNG vessels. The loss in 2017 was due to capital restructuring and impairment of investments.

There have not been any changes in the Company's activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

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

Principal risks and uncertainties

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

Key Performance Indicators

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

Human Rights

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

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

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

Approved by the Board on 5 August 2019 and signed on its behalf by:

Stefan Strausfeld-Perry

....

S A Strausfeld-perry
Director

Methane Services Limited

Directors' report for the year ended 31 December 2018

The Directors present their report and the financial statements of Methane Services Limited (also referred to as the "Company") for the year ended 31 December 2018.

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

Dividends

Interim dividends of $nil were paid in the year (2017: $9,620,548,260). The Directors recommend that no further dividend be paid for the year ended 31 December 2018 (2017: $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 were as follows:

A Collins (resigned 31 August 2018)

R Hockel (resigned 14 January 2019)

M P Lockey

R Dickins (appointed 23 February 2018)

O D'Costa

The following director was appointed after the year end:

S A Strausfeld-perry (appointed 13 February 2019)

Statement of Directors' responsibilities

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

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

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

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

Disclosure of information to the auditor

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

Approved by the Board on 5 August 2019 and signed on its behalf by:

Stefan Strausfeld-Perry

....

S A Strausfeld-perry
Director

Independent Auditor's report to the Member of Methane Services Limited

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Independent Auditor's report to the Member of Methane Services 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 Methane Services Limited (continued)

Responsibilities of Directors

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

Khilan Shah (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: 6 September 2019

Methane Services Limited

Profit and loss account for the year ended 31 December 2018

Continuing operations

	Note	2018 $ 000	2017 $ 000
Turnover	4	1,329,906	1,140,551
Cost of sales		(1,192,575)	(1,036,580)
OPERATING PROFIT	6	**137,331**	**103,971**
Income from shares in subsidiary undertakings		-	9,620,548
Amounts provided against investments		-	(12,000,000)
Other income		566	566
PROFIT/(LOSS) BEFORE INTEREST AND TAXATION		**137,897**	**(2,274,915)**
Interest receivable and similar income	5	21,472	20,623
Interest payable and similar charges	7	(85,531)	(42,550)
PROFIT/(LOSS) BEFORE TAXATION		**73,838**	**(2,296,842)**
Tax expense on profit/(loss)	9	(8,025)	(37,623)
PROFIT/(LOSS) FOR THE YEAR		**65,813**	**(2,334,465)**

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

Methane Services Limited

(Registration number: 737366)
Balance sheet as at 31 December 2018

	Note	2018 $ 000	2017 $ 000
Fixed assets			
Tangible assets	10	1,153,217	835,573
Current assets			
Stock	11	49,577	37,060
Debtors	12	416,482	1,461,879
		466,059	1,498,939
Creditors: Amounts falling due within one year	13	(452,254)	(1,550,343)
Net current assets/(liabilities)		**13,805**	**(51,404)**
Total assets less current liabilities		**1,167,022**	**784,169**
Creditors: Amounts falling due after more than one year	14	(864,392)	(530,085)
Deferred tax		(53,078)	(70,345)
Net assets		**249,552**	**183,739**
Equity			
Profit and loss account		249,552	183,739
Total equity		**249,552**	**183,739**

The financial statements on pages 8 to 28 were authorised for issue by the Board of Directors on 5 August 2019 and signed on its behalf by:

Stefan Strausfeld-Perry
....
S A Strausfeld-perry
Director

Methane Services Limited

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

	Called up share capital $ 000	Profit and loss account $ 000	Total $ 000
Balance as at 01 January 2017	**6,951,000**	**138,752**	**7,089,752**
Loss for the year	-	(2,334,465)	(2,334,465)
Total comprehensive income for the year	**-**	**(2,334,465)**	**(2,334,465)**
Transfers (refer note below)	5,049,000	-	5,049,000
Cancellation of shares	(12,000,000)	12,000,000	-
Dividends paid	-	(9,620,548)	(9,620,548)
Balance as at 31 December 2017	**-**	**183,739**	**183,739**
Balance as at 01 January 2018	-	183,739	183,739
Profit for the year	-	65,813	65,813
Total comprehensive income for the year	**-**	**65,813**	**65,813**
Balance as at 31 December 2018	**-**	**249,552**	**249,552**

The Company's share capital comprised of $1 A Preference shares. On 1 January 2017 5,049,000,000 B preference shares (classified as liability) issued by the Company were converted into A preference shares bringing the total number of A preference shares in issue to 12,000,000,000. On 24 April 2017 the 12,000,000,000 A preference shares were converted into ordinary shares. On 16 June 2017 these 12,000,000,000 ordinary shares were cancelled.

General information

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

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

1 Accounting policies

Basis of preparation

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

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

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

New standards applied

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

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

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

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

1 Accounting policies (continued)

(i) paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements';
(ii) paragraph 73(e) of IAS 16 'Property, plant and equipment';
(iii) paragraph 118(e) of IAS 38 'Intangible assets' (reconciliation between the carrying amount at the beginning and end of the period)

- The following paragraphs of IAS 1, 'Presentation of financial statements':

(i) 10(d), (statement of cash flows);
(ii) 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
(iii) 16 (statement of compliance with all IFRS);
(iv) 38A (requirement to present a minimum of two statements for each of the primary financial statements, including cash flow statements and related notes);
(v) 38B-D (additional comparative information);
(vi) 40A-D (requirements for a third balance sheet);
(vii) 111 (cash flow statement information); and
(viii) 134-136 (capital management disclosures)

- The following paragraphs of IFRS 15, 'Revenue from Contracts with Customers'

(i) the requirements of the second sentence of paragraph 110 (qualitative and quantitative information about contracts with customers, significant judgements, changes in judgements in applying this standard to those contracts, and assets recognised from the costs to obtain or fulfil a contract);
(ii) paragraph 113(a) (revenue recognised from contracts with customers);
(iii) paragraphs 114 and 115 (disaggregation of revenue);
(iv) paragraph 118 (changes in contract asset and liability);
(v) paragraphs 119(a) to (c) and 120 to 127 (performance obligations); and
(vi) paragraph 129 (practical expedients).

- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.

1 Accounting policies (continued)

Consolidation

The financial statements contain information about Methane Services 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 BG Energy Holdings Limited.

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

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

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

Income from shares in subsidiary and participating undertakings

Income from shares in subsidiary and participating undertakings represents dividends relating to the current year and prior periods, provided that the dividends have been approved by the Company.

Taxation

Tax is recognised in profit or loss, except that tax which is 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.

1 Accounting policies (continued)

Deferred tax

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

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

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

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

Amounts relating to deferred tax are undiscounted.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'US Dollars' ($), 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.

1 Accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. A review for the potential impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of a fixed asset may not be recoverable. If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell and value in use. Value in use 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.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	**Depreciation method and rate**
Plant and machinery	5 to 40 years

1 Accounting policies (continued)

Financial instruments

Financial assets

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

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

Impairment of financial assets

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

1 Accounting policies (continued)

Financial liabilities

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

Derivative contracts

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

Stock

Stocks are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Provision is made for obsolete, slow moving and defective stocks to write stocks now to their net realisable value, wherever necessary.

Stocks of materials not meant for resale

Stocks of materials not for resale represent quantities of bunkers on board ships and are valued at the lower of cost and net realisable value.

Turnover

Revenue from chartering services are recognised when title passes to the customer and over the period of the relevant contract.

1 Accounting policies (continued)

Leases

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as non-current assets of the Company at the lower of their fair value at the date of commencement of the lease and at the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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.

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Useful economic life of tangible fixed assets

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

Stock provision

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

Provision for expected credit losses of trade debtors

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

Fair value of financial assets and liabilities

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

3 Financial instruments

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

	2018 $ 000	2017 $ 000
Derivative financial liabilities	6,223	11,867

The Company enters into cross currency interest rate derivatives, to manage the floating interest rates in its finance lease liabilities.

Derivative fair values are derived directly from observable quoted prices in active markets where possible, or otherwise are based on valuation techniques using relevant market prices and market yield curves at the reporting rate.

At 31 December 2018, the maturity period of the outstanding contracts are more than five years.

4 Turnover

Turnover, which excludes value added tax, solely represents amounts receivable for the marketing and chartering of ships for the transportation of LNG amounting to $1,329,906,000 (2017: $1,140,551,000).

5 Interest receivable and similar income

	2018 $ 000	2017 $ 000
Interest from Group undertakings:		
Fellow subsidiary undertakings	15,130	18,579
Profit on currency translation - financial items	412	-
Other interest income	286	262
Fair value gain on derivatives	5,644	1,782
	21,472	**20,623**

6 Operating profit

Arrived at after charging:

	2018 $ 000	2017 $ 000
Lease rental charged:		
Operating lease	1,010,060	934,734
Depreciation:		
On owned assets	18,323	18,541
On assets held under finance leases	44,032	23,421

The Company had no employees during 2018 (2017: none).

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

7 Interest payable and similar charges

	2018 $ 000	2017 $ 000
Interest on loans from Group undertakings:		
Fellow subsidiary undertakings	18,100	20,443
Interest on obligations under finance leases	67,431	21,870
Loss on currency translation - financial items	-	237
	85,531	**42,550**

8 Auditor's remuneration

The Auditor's remuneration of $56,258 (2017: $55,617) in respect of the statutory audit was borne by the group undertaking 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.

9 Tax on profit

Tax charge in the profit and loss account

The tax charge for the year of $8,025,000 (2017: $37,623,000) is made up as follows:

	2018 $ 000	2017 $ 000
Current taxation		
UK corporation tax	10,557	21,787
UK corporation tax adjustment to prior periods	14,734	11,047
Total current tax charge	**25,291**	**32,834**
Deferred taxation		
Arising from origination and reversal of temporary differences	(17,750)	5,423
Arising from changes in tax rates and laws	484	(634)
Total deferred tax (credit)/charge	**(17,266)**	**4,789**
Tax charge in the profit and loss account	**8,025**	**37,623**

Reconciliation of total tax charge

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

The differences are reconciled below:

9 Tax on profit (continued)

	2018 $ 000	2017 $ 000
(Profit)/loss before tax	**(73,838)**	**2,296,842**
Tax on (profit)/loss calculated at standard rate (2018- 19.00%) (2017- 19.25%)	14,029	(442,142)
Effects of:		
Income exempt from taxation	(7,164)	(1,854,788)
Expenses not deductible	7,153	2,313,674
Adjustments in respect of prior periods	1,572	11,047
Currency translation adjustments	(6,155)	12,605
Deferred tax expense/(credit) relating to changes in tax rates or laws	483	(634)
Reconciliation between accounting profit and tax expense (income)	(1,893)	(2,139)
Total tax charge	**8,025**	**37,623**

Reductions of the UK corporation tax rate to 21% effective from 1 April 2014, and to 20% effective from 1 April 2015 were introduced by the Finance Act 2013 and enacted on 17 July 2013.

UK Finance Act (No 2) Act 2015 which introduced further 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 from 1 April 2020 was enacted on 15 September 2016.

The relevant deferred tax balances have been re-measured to 17%, the rate enacted by the balance sheet date.

The Finance Act 2016 enacted on 15 September 2016 reduced the supplementary charge from 20% to 10% effective from 1 January 2016 This reduced the overall ring fence corporation tax and supplementary charge rate from 50% to 40%. These have been reflected in the below tax reconciliation.

9 Tax on profit (continued)

Deferred tax movement during the year:

	At 1 January 2018 $ 000	Recognised in profit and loss account $ 000	At 31 December 2018 $ 000
Amortisation	(71,295)	17,363	(53,932)
Other items	950	(96)	854
Net tax liabilities	**(70,345)**	**17,267**	**(53,078)**

Deferred tax movement during the prior year:

	At 1 January 2017 $ 000	Recognised in profit and loss account $ 000	At 31 December 2017 $ 000
Amortisation	(66,603)	(4,692)	(71,295)
Other items	1,047	(97)	950
Net tax liabilities	**(65,556)**	**(4,789)**	**(70,345)**

The provision for deferred tax consists of the following deferred tax liabilities:

	2018 $ 000	2017 $ 000
Deferred tax liabilities due more than 12 months	(53,078)	(70,345)
Total deferred tax	**(53,078)**	**(70,345)**

10 Tangible assets

	Plant and machinery $ 000	Total $ 000
Cost or valuation		
Balance at 1 January 2018	1,231,889	1,231,889
Additions	380,000	380,000
Balance at 31 December 2018	**1,611,889**	**1,611,889**
Accumulated Depreciation		
Balance at 1 January 2018	(396,316)	(396,316)
Charge for the year	(62,356)	(62,356)
Balance at 31 December 2018	**(458,672)**	**(458,672)**
Net book amount		
At 31 December 2018	**1,153,217**	**1,153,217**
At 31 December 2017	**835,573**	**835,573**

The net book value of the mortgaged vessels included above as at 31 December 2018 amounts to $396,157,141(2017: $414,223,000).

11 Stock

	2018 $ 000	2017 $ 000
Raw materials and consumables	**49,577**	**37,060**

Stock represents the fuel stock on board ships as at the closing date.

12 Trade and other debtors

Debtors: amounts due within one year

	2018 $ 000	2017 $ 000
Trade debtors	1,050	1,117
Amounts owed by Group undertakings:		
Parent undertakings	241,963	267,632
Fellow subsidiary undertakings	81,121	1,100,345
Prepayments and accrued income	85,287	90,362
Other Trade debtors	7,061	2,423
	416,482	**1,461,879**

Amount owed by parent undertakings represents a loan of $241,963,000 (2017: $267,632,000), which is unsecured, bears 4% per annum and is repayable on demand. All other amounts owed by fellow subsidiaries and parent undertakings are unsecured, interest free and are repayable on demand.

13 Creditors: amounts falling due within one year

	2018 $ 000	2017 $ 000
Trade creditors	12,963	6,024
Amount owed to Group undertakings		
Amounts payable in respect of group tax relief	13,279	13,334
Fellow subsidiary undertakings	347,056	1,355,938
Finance lease liabilities (note 15)	36,924	24,891
Tax liability	39,758	144,444
Accrued expenses	2,274	5,712
	452,254	**1,550,343**

Amount owed to fellow subsidiary undertakings includes a loan of $241,963,000 (2017: $267,632,000), which is secured over by the Company's owned ships, bears 4% per annum and is repayable on demand. All other amounts owed to fellow subsidiary undertakings are unsecured, interest free and are repayable on demand.

14 Creditors: amounts falling due after more than one year

	2018 $ 000	2017 $ 000
Trade and other payables	5,000	5,000
Finance lease liabilities (note 15)	848,637	508,120
Derivative liabilities	6,223	11,867
Other liabilities	4,532	5,098
	864,392	**530,085**

15 Obligations under leases and hire purchase contracts

Finance leases

2018	**Minimum lease payments $ 000**	**Interest $ 000**	**Present value $ 000**
Within one year	113,340	(76,416)	36,924
In two to five years	464,117	(279,146)	184,971
In over five years	1,171,980	(508,314)	663,666
	1,749,437	**(863,876)**	**885,561**

2017	**Minimum lease payments $ 000**	**Interest $ 000**	**Present value $ 000**
Within one year	62,870	(37,979)	24,891
In two to five years	277,539	(137,512)	140,027
In over five years	572,143	(204,050)	368,093
	912,552	**(379,541)**	**533,011**

The present values of future finance lease payments are analysed as follows:

	2018 $ 000	2017 $ 000
Current liabilities	36,924	24,891
Non-current liabilities	848,637	508,120
	885,561	**533,011**

15 Obligations under leases and hire purchase contracts (continued)

Future finance charges are expected to be $(863,876,000) (2017 - $(379,541,000)).

Operating leases

The total future value of minimum lease payments is as follows:

	2018 $ 000	2017 $ 000
Within one year	663,226	656,187
In two to five years	1,995,927	2,219,814
In over five years	1,123,822	1,561,684
	3,782,975	**4,437,685**

16 Called up share capital

Allotted, called up and fully paid shares

	2018 No.	2018 $ 000	2017 No.	2017 $ 000
Issued share capital of £1 each	100	-	100	-
Redeemable preference shares of $1 each	-	-	-	-
	100	**-**	**100**	**-**

17 Commitments and contingencies

Capital commitments

The total amount contracted for but not provided in the financial statements was $190,000,000 (2017 - $570,000,000).