Registration number: 01169677

Shell China Exploration And Production Company Limited

Annual Report

and

Financial Statements

For the year ended 31 December 2017

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Shell China Exploration And Production Company Limited

Contents

Shell China Exploration And Production Company Limited

Strategic report for the year ended 31 December 2017

The Directors present their strategic report on Shell China Exploration And Production Company Limited (also referred to as the "Company") for the year ended 31 December 2017.

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

Business review

The principal activities of the Company are the exploration, development and production of petroleum and natural gas in China. The Company will continue with these activities for the foreseeable future.

The Company's profit for the financial year is USD 31 million (2016: loss of USD 165 million). The main factors contributing to the results were;

- lower exploration costs which decreased to USD 34 million from USD 173 million in 2016, on account of decrease in activities in the Changbei main project in 2017 and exits from the Sichuan and Ying Ge Hai projects.
- a lower tax charge of USD 50 million in 2017 compared to tax charge USD 102 million in 2016.

The balance sheet at 31 December 2017 reports a net current assets position of USD 125 million (2016: USD 3 million).The accounts have been prepared under the going concern concept based on a detailed review by the Directors of the Company's cash-flow forecasts.

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 12 to 16 of Royal Dutch Shell's Annual Report and Form 20-F for the year ended 31 December 2017 (the "Group Report"), include those of the Company. (The Group Report does not form part of this report).

Key Performance Indicators

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

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 6 September 2018 and signed on its behalf by:

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Kim Elan Code
Director

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

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

Dividends

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

Future Outlook

No significant change in the business of the Company has taken place during the year or is expected in the immediately foreseeable future. The Company will continue production in the Changbei main project and continue the operations in the Changbei II project according to the PSC terms.

Directors of the company

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

Kim Elan Code

R.A. Grouette (appointed 1 April 2017)

H. Zhang

X. Zhang

L. Xu (resigned 31 March 2017)

Financial risk management

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

Employee involvement

The Company has a comprehensive policy concerning information provision and consultation with employees. Its objective is to meet their needs for information and involvement in issues affecting them, and to contribute to the management of change in the organisation.

The primary responsibility for information and consultation rests with management. It is supplemented by representative bodies at some employment locations. In addition, there is a well-established system by which the senior management in the Company makes presentations to employees on business results and plans. This is in turn supplemented by in-house journals, briefing papers, management letters and video presentations.

All of the formal employee representative bodies held regular meetings throughout the year.

Equal opportunities

Shell China Exploration And Production Company Limited aims to have leading equal opportunities policies and practices. The Company has a published equal opportunities policy and a detailed code of practice in support of this. Progress is regularly monitored. The Company's policy continues to be the application of equal opportunity principles to the selection, training and career development of all applicants and employees, irrespective of gender, race, ethnic origin, marital status, religion or disability.

With respect to disabled people, the Company's medical officers provide appropriate advice to help with the successful achievement of these objectives, particularly regarding physical facilities, which need to be made available at the workplace. Shell Group is part of the Business Disability Forum, which promotes best practice among private sector employers. Shell China Exploration And Production Company Limited is also committed to providing continuing employment of employees who become disabled whilst working for the Company.

The Company offers a range of flexible working conditions to assist employees in balancing work and outside commitments.

Statement of Directors' responsibilities

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

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

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

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

Disclosure of information to the 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 6 September 2018 and signed on its behalf by:

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Kim Elan Code
Director

Independent Auditor's Report to the Member of Shell China Exploration And Production Company Limited

Opinion

We have audited the financial statements of Shell China Exploration And Production Company Limited (the "Company") for the year ended 31 December 2017, which comprise the Profit and loss account, Statement of comprehensive income, Balance sheet, Statement of changes in equity, and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Independent Auditor's Report to the Member of Shell China Exploration And Production Company Limited (continued)

Other information

The other information comprises the information included in the annual report set out on pages 1 to 5, 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 Shell China Exploration And Production Company Limited (continued)

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

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

6 September 2018

Shell China Exploration And Production Company Limited

Profit and loss account for the year ended 31 December 2017

Continuing operations

	Note	2017 USD 000	2016 USD 000
Turnover	3	227,828	232,518
Cost of sales		(89,641)	(101,147)
GROSS PROFIT		**138,187**	**131,371**
Administrative expenses		(35,815)	(13,768)
Exploration expenses		(34,066)	(173,339)
Other income		3,873	1,397
OPERATING PROFIT/(LOSS)	6	**72,179**	**(54,339)**
PROFIT/(LOSS) BEFORE INTEREST AND TAXATION		**72,179**	**(54,339)**
Interest receivable and similar income	4	8,727	500
Interest payable and similar charges	5	(157)	(9,103)
PROFIT/(LOSS) BEFORE TAXATION		**80,749**	**(62,942)**
Tax on Profit/ (loss)	9	(49,773)	(102,424)
PROFIT/ (LOSS) FOR THE YEAR		**30,976**	**(165,366)**

Shell China Exploration And Production Company Limited

Statement of comprehensive income for the year ended 31 December 2017

	Note	2017 USD 000	2016 USD 000
Profit/(loss) for the year		**30,976**	**(165,366)**
Items that will not be reclassified to profit or loss			
Remeasurement gain on pension scheme	17	278	1,067
Tax on items relating to components of other comprehensive income		(69)	(267)
		209	**800**
Other comprehensive income for the year, net of tax		**209**	**800**
Total comprehensive income/ (loss) for the year		**31,185**	**(164,566)**

Shell China Exploration And Production Company Limited

(Registration number: 01169677)
Balance sheet as at 31 December 2017

	Note	2017 USD 000	2016 USD 000
Fixed assets			
Intangible assets	10	454	595
Tangible assets	11	356,191	418,420
Investments	12	4,899	4,899
Deferred tax	9	228,550	278,392
		590,094	**702,306**
Current assets			
Debtors	13	121,875	131,002
Cash at bank and in hand	14	76,388	40,893
		198,263	171,895
Creditors: Amounts falling due within one year	15	(73,049)	(169,138)
Net current assets		**125,214**	**2,757**
Total assets less current liabilities		**715,308**	**705,063**
Provisions	18	(1,914)	(23,327)
Net assets excluding pension deficit		**713,394**	**681,736**
Pension deficit	17	(7,404)	(8,253)
Net assets		**705,990**	**673,483**
Equity			
Called up share capital	19	482,026	482,026
Share premium reserve		2,334,667	2,334,667
Profit and loss account		(2,110,703)	(2,143,210)
Total equity		**705,990**	**673,483**

The accounts on pages 9 to 42 were authorised for issue by the Board of Directors on 6 September 2018 and signed on its behalf by:

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Kim Elan Code
Director

Shell China Exploration And Production Company Limited

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

	Called up share capital USD 000	Share premium USD 000	Profit and loss account USD 000	Total USD 000
Balance as at 01 January 2016	**441,778**	**2,218,915**	**(1,983,799)**	**676,894**
Profit/ (Loss) for the year	-	-	(165,366)	(165,366)
Other comprehensive income for the year	-	-	800	800
Total comprehensive income for the year	**-**	**-**	**(164,566)**	**(164,566)**
Share based payments - notional	-	-	5,155	5,155
Proceeds from shares issued	40,248	115,752	-	156,000
Balance as at 31 December 2016	**482,026**	**2,334,667**	**(2,143,210)**	**673,483**
Balance as at 01 January 2017	482,026	2,334,667	(2,143,210)	673,483
Profit/ (Loss) for the year	-	-	30,976	30,976
Other comprehensive income for the year	-	-	209	209
Total comprehensive income for the year	**-**	**-**	**31,185**	**31,185**
Share based payments - notional	-	-	2,858	2,858
Share based payments- charge from parent	-	-	(1,536)	(1,536)
Balance as at 31 December 2017	**482,026**	**2,334,667**	**(2,110,703)**	**705,990**

Shell China Exploration And Production Company Limited

Notes to the financial statements for the year ended 31 December 2017

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 (UK).

1 Accounting policies

Basis of preparation

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

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

The accounting policies have been consistently applied.

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

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

- 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:
  (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':

1 Accounting policies (continued)

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

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

Consolidation

The immediate parent companies are Shell China Holdings GmbH (53.19%) and B.V. Dordtsche Petroleum Maatschappij (46.81%).

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

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

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

Taxation

Tax is recognised in profit or loss, except that tax attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income or directly in equity which is calculated at the tax rates and laws that are enacted or substantively enacted by the balance sheet date for tax payable in the People's Republic of China.

1 Accounting policies (continued)

Current tax

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

Deferred tax

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

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

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

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

Amounts relating to deferred tax are undiscounted.

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.

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 USD, which is also the Company's functional currency.

1 Accounting policies (continued)

(ii) Transaction and balances

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

Monetary assets and liabilities recorded in foreign currencies have been expressed in USD 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.

Foreign currency amounts have been translated at CNY 6.5120: 1 USD (2016: CNY 6.9495: 1 USD), being the relevant exchange rate prevailing at the balance sheet date.

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.

Capitalised field development costs such as drilling costs and other construction costs including costs relating to platforms, infield pipelines and injection wells are depleted from the date field production commences on a unit-of-production basis over the period during which proved developed reserves of the field concerned are likely to be in production. 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. Such impairment reviews are performed in accordance with IAS 36. Any impairments are recorded in the profit and loss account.

1 Accounting policies (continued)

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

Platforms and infield pipelines are depleted from the date field production commences on a unit-of-production basis over the proved developed reserves of the field concerned. Successful exploration, appraisal, production and injection wells are depleted on a unit-of-production basis over the proved developed reserves of the field concerned.

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

Other exploration and production fixed assets are depreciated on a straight-line basis over their estimated useful lives, which is generally five years.

Exploration, appraisal and development costs

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

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

Oil and gas field development cost are capitalised excluding initial feasibility studies, which are written off to the profit and loss account.

Decommissioning and restoration costs

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

1 Accounting policies (continued)

Environmental expenditure

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

Intangible fixed assets

Intangible assets are recognised only when the relevant economic benefits are likely flow into the Company and the cost can be measured reliably, and they are initially measured at cost. Useful life of an intangible asset is determined according to the expected period over which the economic benefits will flow into the Company. Where there is no foreseeable limit to the period over which an intangible asset is expected to generate economic benefits for the Company, the intangible asset is regarded as having indefinite useful life.

Amortisation

An intangible asset with a finite useful life is amortized over its useful life using straight-line method. The Company reviews useful lives and amortisation method of intangible assets at least at the end of each year and makes adjustments if necessary. Each category of intangible assets is amortised evenly over the following periods:

Asset class	Amortisation method and rate
Computer Software	Over the expected useful life of not more than 5 years

Financial assets

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise trade, contractual loans and cash on the balance sheet.

1 Accounting policies (continued)

Cash at bank and in hand

Cash at bank and in hand includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Loans and trade and other receivables

Loans and trade and other receivables are initially recognised at fair value based on the amounts exchanged and are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial liabilities

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

Recognition and measurement

Financial liabilities are initially recognised at fair value, and then subsequently at amortised cost using the effective interest rate method.

Investment in subsidiaries and participating undertakings

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

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

Turnover

Turnover represents amounts receivable (excluding value added tax and less petroleum special profits levy) for sales of oil related products and natural gas. Revenues are recognised when transfer of ownership of product occurs and title is passed.

1 Accounting policies (continued)

Leases

Leases that transfer substantially all the risks and rewards of ownership are recognised at the commencement of the lease term as finance leases. Finance leases are recorded in the balance sheet as assets and as obligations to make future payments. The sum recorded both as an asset and as a liability is the lower of the fair value of the leased asset and the present value of the minimum lease payments calculated using the discount rate implicit in the lease. The resultant tangible fixed assets are depreciated, depleted or amortised over the lower of the useful life and the term of the lease. Payments made are accounted for in the appropriate proportions as repayments of principal and charges for interest.

All other leases are recorded as operating leases and the costs (net of lease incentives) are charged to the profit and loss account as incurred on a straight line basis.

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.

1 Accounting policies (continued)

Defined contribution plan

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, contributions are paid to publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as an employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

The Company is a member of the Shell Contributory Pension Fund and Stichting Shell Pension funds, a Group plan which covers the majority of its employees and is a funded defined benefits scheme.

Under the terms of the scheme, there is no defined policy for allocating the net defined benefit obligation amongst the participating members. Accordingly, the plan is accounted for as a defined contribution plan.

The Company is a contributor for People's Republic of China Scheme (PRC), which is a defined contribution pension scheme.

The Company operates a Long Service Gratuity Scheme (defined benefit scheme) in China. A full actuarial valuation was carried out using the projected unit method at 31 December 2017 by a qualified independent actuary.

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.

Related party disclosures

In accordance with the exemption allowed by FRS 101, no disclosure is made of transactions with wholly-owned member companies of the Shell Group.

1 Accounting policies (continued)

Share based payments

The fair value of share-based compensation for performance share plans is estimated using a Monte Carlo pricing model.

The fair value of the performance share plans is recognised in the profit and loss account from the date of grant over the vesting period, with a corresponding increase recognised directly in equity. At each subsequent balance sheet date, the Company revises its estimate of the number of awards that are expected to vest (in relation to non-market based performance conditions) and recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

The market value of vested schemes is subsequently invoiced to employing entities in the year of delivery. This is treated as a distribution and is deducted from equity.

Joint arrangements

The Company's exploration, development and production activities are generally conducted in production sharing contracts with other companies. The accounts reflect the share of production, operating costs and capital expenditure applicable to the Company's production sharing interests. The effects of re determinations or equity interests in production sharing contracts are accounted for when the outcome of the redetermination is known. In the case of producing fields, adjustments to past production entitlements arising there from are accounted for over the period of the adjustment to entitlements agreed with co-contractors.

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Impairment of tangible fixed assets and intangible fixed assets

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

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

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

Impairment of investments

For the purposes of determining whether impairment of investments has occurred, and the extent of any impairment or its reversal, management review a range of measures relating to the underlying entity's performance, including the net present value of future cash flows. In assessing these measures, management make a number of assumptions relating (but not restricted) to future oil and gas prices, expected production volumes and refining margins appropriate to the local circumstances and environment. These assumptions and the judgements of management that are based on them are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates.

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

Estimation of proved oil and gas reserves

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

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

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

Decommissioning and restoration provisions

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

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

3 Turnover

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

	2017 USD 000	2016 USD 000
Sale of goods	227,828	232,518
	227,828	**232,518**

The analysis of the Company's turnover for the year by market is as follows:

	2017 USD 000	2016 USD 000
Asia Pacific	**227,828**	**232,518**

Class of business

Turnover is principally related, directly or indirectly, to the oil and gas exploration and production.

Class of business	2017 USD 000	2016 USD 000
Oil and gas	227,828	232,518
	227,828	**232,518**

4 Interest receivable and similar income

	2017 USD 000	2016 USD 000
Interest from Group undertakings:		
Subsidiary undertakings	687	368
Interest from banks and similar income	229	132
Profit on currency translation	7,811	-
	8,727	**500**

5 Interest payable and similar charges

	2017 USD 000	2016 USD 000
Interest on loans from Group undertakings:		
Subsidiary undertakings	-	(2,456)
Loss on currency translation	-	(6,128)
Unwinding of discount on long term provisions (note 18)	(136)	(476)
Other interest payable	(21)	(43)
	(157)	**(9,103)**

6 Operating Profit/ (loss)

Arrived at after charging/ crediting:

	2017 USD 000	2016 USD 000
Operating lease rental charged:		
Other operating lease	(7,909)	(9,633)
Currency translation (gain)/ loss:		
Trading activities	793	(2,554)
Depreciation:		
On owned assets	(60,722)	(65,261)

7 Staff costs

The aggregate payroll costs were as follows:

	2017 USD 000	2016 USD 000
Wages and salaries	(21,024)	(34,783)
Social security costs	(3,926)	(5,416)
Other Pension costs (note 17)	(1,937)	(3,712)
Share-based payments (note 22)	(2,858)	(5,155)
	(29,745)	**(49,066)**

7 Staff costs (continued)

The average number of persons employed by the Company (including Directors) during the year, analysed by category was as follows:

	2017 No.	2016 No.
Administration and Support	254	427

8 Auditor's remuneration

	2017 USD	2016 USD
Audit of the financial statements	(36,000)	(123,000)
	(36,000)	**(123,000)**

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/ (Loss)

Tax charge in the profit and loss account

The tax charge for the year of USD 49,773,000 (2016: USD 102,424,000) is made up as follows:

	2017 USD 000	2016 USD 000
Adjustments in respect of prior years	-	108
Total current tax charge	**-**	**108**
Deferred taxation		
Arising from origination and reversal of temporary differences	49,773	102,316
Total deferred tax charge	**49,773**	**102,316**
Tax charge in the profit and loss account	**49,773**	**102,424**

9 Tax on Profit/ (Loss) (continued)

Reconciliation of total tax charge

As the Company is operating outside the United Kingdom, UK Corporation tax is not applicable. The Company is subject to People's Republic of China's ("PRC") corporate income tax for its oil and gas exploration, development and production activities in China. Taxable income is calculated based on total revenue less deductible cost of goods sold, expenses and other non-operating gains and losses allowed under the existing tax regulations.

Effective 1 January 2008, the Company pays the income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, effective 1 January 2008, the corporate income tax rate applicable to the Company is 25%.

The tax on profit before tax for the year differs from the standard rate of tax in PRC of 25.00% (2016: 25.00%).

The differences are reconciled below:

	2017 USD 000	2016 USD 000
Profit/ (Loss) before tax	**80,749**	**(62,942)**
Tax on Profit/ (Loss) calculated at standard rate (2017- 25.00%) (2016- 25.00%)	20,187	(15,735)
Effects of:		
Expenses not deductible	578	1,634
Tax decrease from utilisation of tax losses	17,994	102,424
Unrelieved tax losses carried forward	11,014	14,101
Total tax charge	**49,773**	**102,424**

9 Tax on Profit/ (Loss) (continued)

Deferred tax assets as at:

2017	Asset USD 000	Liability USD 000	Net deferred tax USD 000
Tax losses carried forward	219,652	-	219,652
Accelerated tax depreciation	-	(38,132)	(38,132)
Other items	-	(396)	(396)
Accruals	5,816	-	5,816
Revaluation of plant and equipment	41,610	-	41,610
	267,078	**(38,528)**	**228,550**

2016	Asset USD 000	Liability USD 000	Net deferred tax USD 000
Tax losses carried forward	102,646	-	102,646
Accelerated tax depreciation	-	(38,590)	(38,590)
Other items	-	(327)	(327)
Accruals	16,995	-	16,995
Revaluation of plant and equipment	197,668	-	197,668
	317,309	**(38,917)**	**278,392**

9 Tax on Profit/ (Loss) (continued)

Deferred tax movement during the year:

	At 1 January 2017 USD 000	Recognised in profit and loss account USD 000	Recognised in other comprehen -sive income USD 000	At 31 December 2017 USD 000
Tax losses carried forward	102,646	117,075	(69)	219,652
Accelerated tax depreciation	(38,590)	458	-	(38,132)
Other items	(327)	(69)	-	(396)
Accruals	16,995	(11,179)	-	5,816
Revaluation of plant and equipment	197,668	(156,058)	-	41,610
Net tax assets/(liabilities)	**278,392**	**(49,773)**	**(69)**	**228,550**

Deferred tax movement during the prior year:

	At 1 January 2016 USD 000	Recognised in profit and loss account USD 000	Recognised in other comprehen -sive income USD 000	At 31 December 2016 USD 000
Tax losses carried forward	214,571	(111,658)	(267)	102,646
Accelerated tax depreciation	(35,040)	(3,550)	-	(38,590)
Other items	5,652	(5,979)	-	(327)
Accruals	12,879	4,116	-	16,995
Revaluation of plant and equipment	182,913	14,755	-	197,668
Net tax assets/(liabilities)	**380,975**	**(102,316)**	**(267)**	**278,392**

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

	2017 USD 000	2016 USD 000
Deferred tax assets due more than 12 months	267,078	317,309
Deferred tax liabilities due more than 12 months	(38,528)	(38,917)
Total deferred tax	**228,550**	**278,392**

10 Intangible assets

	Other Intangibles USD 000
Cost	
Balance at 1 January 2017	706
Balance at 31 December 2017	**706**
Accumulated amortisation and impairment	
Balance at 1 January 2017	(111)
Charge for the year	(141)
Balance at 31 December 2017	**(252)**
Net book amount	
At 31 December 2017	**454**
At 31 December 2016	**595**

11 Tangible assets

	Developed fields USD 000	Fixtures, fittings, tools and equipment USD 000	Assets under construction USD 000	Total USD 000
Cost or valuation				
Balance at 1 January 2017	1,024,539	19,514	54,277	**1,098,330**
Additions	-	15	1,617	**1,632**
Disposals	(776)	(11,882)	-	**(12,658)**
Write offs	-	-	(2,765)	**(2,765)**
Transfers	30,947	5,219	(36,166)	-
Balance at 31 December 2017	**1,054,710**	**12,866**	**16,963**	**1,084,539**
Accumulated Depreciation				
Balance at 1 January 2017	(665,676)	(14,234)	-	**(679,910)**
Charge for the year	(58,736)	(1,844)	-	**(60,580)**
Disposals	762	11,380	-	**12,142**
Balance at 31 December 2017	**(723,650)**	**(4,698)**	**-**	**(728,348)**
Net book amount				
At 31 December 2017	**331,060**	**8,168**	**16,963**	**356,191**
At 31 December 2016	**358,863**	**5,280**	**54,277**	**418,420**

The write off of Asset under construction mainly pertains to write off of one of the exploration wells in Changbei II and Sichuan Projects.

12 Investments

	Subsidiary undertakings shares USD 000
Cost	
Balance at 1 January 2017	258,446
Balance at 31 December 2017	**258,446**
Amounts provided	
Balance at 1 January 2017	(253,547)
Balance at 31 December 2017	**(253,547)**
Carrying amount	
At 31 December 2017	**4,899**
At 31 December 2016	**4,899**

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

Name of subsidiary	Registered office and County of incorporation	Class of shares	% of ownership
Pecten Orient Company LLC	1209 Orange Street, Wilmington, DE 19801, USA	Ordinary	100%

13 Debtors

Debtors: amounts due within one year

	2017 USD 000	2016 USD 000
Trade debtors	48,796	52,064
Amounts owed by Group undertakings:		
Subsidiary undertakings	61,462	59,130
Prepayments and accrued income	3,793	8,374
Other debtors	7,824	11,434
	121,875	**131,002**

Amounts owed by Group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Trade Debtors are stated after provisions for impairment amounting to nil (2016: USD 1,184,000).

14 Cash at bank and in hand

	2017 USD 000	2016 USD 000
Cash at bank	76,388	40,893

15 Creditors: amounts falling due within one year

	2017 USD 000	2016 USD 000
Trade creditors	2,087	4,770
Amounts owed to Group undertakings		
Fellow subsidiary undertakings	3,988	12,641
Decommissioning and Restoration Provision	29,554	66,405
Tax and social security	472	18,029
Accruals and deferred income	11,083	14,694
Other creditors	25,865	52,599
	73,049	**169,138**

16 Obligations under leases and hire purchase contracts

Operating leases

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

	2017 USD 000	2016 USD 000
Within one year	4,220	1,515
In two to five years	12,996	13,057
In over five years	1,902	930
	19,118	**15,502**

17 Pension and other schemes

The Company is a Member Company of the Shell Overseas Contributory Pension Fund (SOCPF) and the Stichting Shell Pensioenfonds (SSPF), both being defined benefits pension schemes. SOCPF provides pensions and other post-retirement benefit entitlements for expatriate employees whose base country is the United Kingdom. SSPF provides pensions and other post-retirement benefit entitlements for those Netherlands employees who elect to become Members of the SSPF. Apart from the contributions from employee members, which have a fixed maximum rate, the SOCPF and SSPF are funded entirely by contributions from Member Companies at rates certified from time to time by Aon Hewitt Limited, the SOCPF actuary, and Towers Watson, the SSPF actuary. On 1 March 2013 and 1 July 2013 the SOCPF and SSPF respectively, was closed to new entrants. At the same time, the Shell Group established the UK Shell Pension Plan ("UKSPP") and the Shell Nederland Pensioenfonds Stichting ("SNPS"), defined contribution schemes, to provide benefits to new employees.

Aon Hewitt Limited carried out the triennial actuarial valuation of the SOCPF as at 31 December 2014 using the projected unit method. The value of the SOCPF's assets taken into account for the funding valuation at that date was £3,831 million and the value of the liabilities was £3,747 million. The principal financial assumptions adopted in the valuation were: a discount rate determined with reference to the UK Government Fixed Interest yield curve plus 1.75%; a price inflation rate being the difference between the UK Government Fixed Interest yield and the UK Government Index-Linked yield curves; and a rate of general salary increases at the price inflation curve plus 0.5% per annum. The funding surplus (excess of assets compared to the value of pension liabilities) was £84 million. This corresponded to a funding ratio (assets as a percentage of liabilities) of 102%.

17 Pension and other schemes (continued)

A valuation was performed for accounting purposes at 31 December 2017 using assumptions set in line with the requirements of the IAS19 accounting standard. The principal financial assumptions adopted in the valuation were a discount rate of 2.55%, a rate of general salary increases of 2.66% for 2018 and 2019 and 3.66% for 2020 onwards, and a price inflation rate of 3.16%. The value of the SOCPF's assets as at that date was £4,546 million and the value of the liabilities on this accounting basis was £4,747 million, meaning the deficit measured for accounting purposes was £201 million.

The plan assets of the scheme are invested mainly in equities (45.8%) and debt instruments (31.2%), with the remainder (23%) invested across a variety of asset classes including real estate, private equity and other investment funds.

The Company is unable to identify its share of the scheme's underlying assets and liabilities on a consistent and reasonable basis to enable it to account for the plan as a defined benefit plan There are no contractual or stated policies on which to base an allocation of the Fund's underlying assets and liabilities to member companies. Accordingly, the Company will continue to account for the SOCPF as a defined contribution scheme.

The Company's contributions to the SOCPF for the year amounted to USD 0.022 million (2016: USD 0.260 million). Contributions are expected to remain at 30% of members' pensionable salaries until the next triennial valuation (due as at 31 December 2017).

Willis Towers Watson carried out an actuarial valuation of the SSPF as at 31 December 2017 in line with Dutch Pension Fund law. The fair value of the SSPF's assets as at that date was €28,038 million and the value of the liabilities on this accounting basis was €29,062 million. The principal actuarial assumption adopted in the valuation was a discount rate of 1.72%. The fund surplus is €1,024 million.

The plan assets of the scheme are invested mainly in equities (28%) and debt instruments (53.5%), with the remainder (18.5%) invested across a variety of asset classes including real estate, private equity and other investment funds.

The Company is unable to identify its share of the scheme's underlying assets and liabilities on a consistent and reasonable basis to enable it to account for the plan as a defined benefit plan There are no contractual or stated policies on which to base an allocation of the Fund's underlying assets and liabilities to member companies. Accordingly, the Company will continue to account for the SSPF as a defined contribution scheme.

The Company's contributions to the SSPF for the year amounted to USD 0.029 million (2016: USD 0.187 million). Contributions during 2017 were 15.4% of members' pensionable salaries.

Defined contribution pension scheme

The Company contributes to PRC social pension plan in accordance with local regulation, which is a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to USD 1.484 million thousand (2016- USD 2.105 million).

17 Pension and other schemes (continued)

Others

The Company contributes to other countries' state pension schemes for expatriate employees whose base countries are other than the United Kingdom, the Netherlands or China. The total contribution of the Company to other defined contribution schemes for the year is USD 0.22 million (2016: USD 0.43 million)

Defined benefit pension schemes

Long Service Gratuity Scheme

The Company provides a Long Service Gratuity (LSG) Scheme to all PRC regional permanent employees or any other employees designated expressly in writing by the Company as eligible. An employee will be entitled to receive the LSG when he/she retires or leaves the Company earlier than normal retirement age, but has completed a minimum of three years' service. The Long Service Gratuity Scheme liability balance is USD 7.4 million (2016: USD 8.2 million). LSG cost charge to P&L is USD 0.2 million (2016: USD 0.7 million).

Mercer carries out annual actuarial valuations of the Scheme under IAS 19. The liabilities are computed using the Projected Unit Cost (PUC) actuarial cost method as required by IAS 19. An individual member's accrued liability is the present value of the member's projected benefits allocated to service prior to the valuation date. The calculation is based on employee's final month base salary and his/her accredited service. For retired or terminated vested members, this is the total current or projected benefit. An active member's current service cost is the present value of the benefits allocated to the current fiscal year. The plan's current service cost is the sum of the individual current service costs, and the plan's present value of defined benefit obligation is the sum of the accrued liabilities for all members of the plan.

As the scheme is unfunded, there are no assets which qualify as plan assets under IAS 19 and cash payments are made when the employee retires or leaves the company to settle the liabilities as they fall due.

Uncertainties around the timing of cash flows arise due the potential for employees to leave the Company earlier than the normal retirement age, either due to resignation, early retirement or death in service. There is no potential for uncertainties to arise in relation to employees leaving the Company later than the normal retirement age, as the Company doesn't offer the scheme to them after normal retirement age.

The Company operates a Long Service Gratuity Scheme (defined benefit scheme) in China. A full actuarial valuation was carried out using the projected unit method at 31 December 2016 by a qualified independent actuary.

The scheme was most recently valued on 13 December 2017. For the defined benefit elements of the retirement benefit scheme and the provident fund, a full actuarial valuation was carried out using the projected unit method at 31 December 2017 by a qualified independent actuary.

17 Pension and other schemes (continued)

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the balance sheet date are as follows:

	2017 %	2016 %
Mortality rate	100	100
Proportion of employees opting for early retirement	10	10
Discount rate	4	3

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows:

	2017 USD 000	2016 USD 000
Present value of scheme liabilities	(7,404)	(8,253)

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	2017 USD 000	2016 USD 000
Present value at start of year	8,253	9,210
Current service cost	643	978
Actuarial gains and losses arising from changes in financial assumptions	(278)	(1,067)
Foreign exchange differences	(282)	-
Interest cost	209	254
Benefits paid	(468)	(583)
Effect of curtailments	(673)	(539)
Present value at end of year	7,404	8,253

17 Pension and other schemes (continued)

Scheme assets

Changes in the fair value of scheme assets are as follows:

	2017 USD 000	2016 USD 000
Employer contributions	468	583
Benefits paid	(468)	(583)
Fair value at end of year	-	-

Amounts recognised in the profit or loss account

	2017 USD 000	2016 USD 000
Amounts recognised in operating profit		
Current service cost	643	978
Gains on curtailments and settlements	(673)	(539)
Recognised in arriving at operating profit	(30)	439
Amounts recognised in interest income or costs		
Interest cost on Obligation	209	254
Total recognised in the profit or loss account	**179**	**693**

Amounts taken to the statement of comprehensive income

	2017 USD 000	2016 USD 000
Actuarial gains arising from changes in financial assumptions	(278)	(1,067)

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	2017			2016		
Adjustment to discount rate	**+ 0.1%**	**0.0%**	**- 0.1%**	**+ 0.1%**	**0.0%**	**- 0.1%**
Present value of total obligation (USD 000)	**6,603**	**7,404**	**6,708**	**7,875**	**8,253**	**8,005**

17 Pension and other schemes (continued)

The summary of company's contribution to all the schemes are given below:

	2017	2016
	USD 000	USD 000
SOCPF	22	260
SSPF	29	187
PRC Social Pension	1,484	2,141
Other	224	431
LSG Scheme	179	693
	1,937	**3,712**

18 Provisions

	Decommissioning and restoration USD 000	Other provisions USD 000	Total USD 000
Balance as at 1 January 2017	23,327	-	23,327
Additions	567	1,914	2,481
Unwinding of discount	136	-	136
Utilisation	(926)	-	(926)
Transferred	(23,104)	-	(23,104)
Balance as at 31 December 2017	**-**	**1,914**	**1,914**

At 31 December 2017, the Company has provided decommissioning, restoration cost and related compensation costs. The majority of such cost are for the company's Xi Jiang offshore oil field projects which have been estimated based on the current PRC law and regulations, using existing technology, at current prices and discounted using a real discount rate of 4% (2016: 4%). The final settlement period is dependent on a number of factors such as decommissioning and restoration settlement with partner CNOOC. During the year, the balance has been transferred to other creditors (refer note 15) as the amount is expected to be utilised by 2018.

The other provisions relates to an onerous lease commitment for the Corporate office building in Beijing.

19 Called up share capital

Allotted, called up and fully paid shares

	2017 No.	2017 USD 000	2016 No.	2016 USD 000
Ordinary shares of £1 each	314,531,648	482,026	314,531,648	482,026

20 Directors' emoluments

The Directors' emoluments for the year were as follows:

	2017 USD 000	2016 USD 000
Emoluments	876	889

The number of Directors who were receiving retirement benefits as at 31 December 2017 are as follows:

	2017 No.	2016 No.
Shares receivable by Directors	5	5
Accruing benefits under defined benefit pension scheme	-	1

In respect of the highest paid Director:

	2017 USD 000	2016 USD 000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes.	478	478

During the year the highest paid Director received or was entitled to receive shares under a long term incentive scheme for services rendered to the company and its subsidiary undertakings.

These emoluments and pensions were borne by the Company and charged in the profit and loss account.

21 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was USD 1,528,000 (2016: USD 2,836,000).

22 Share-based payments

Performance share plan

Conditional awards of Royal Dutch Shell plc shares are made under an amended long-term incentive plan (the 'Performance Share Plan') when making awards to employees who are not Executive Directors of Royal Dutch Shell plc. The actual amount of shares that may vest, ranging from 0-200% of the conditional awards, depends on the measurement of the prescribed performance conditions over a three-year period beginning on 1 January of the award year. For awards granted in 2015 and 2016, half the award is linked to the relative performance compared to four of its main competitors in Total Shareholder Return ('TSR') measure, earnings per share, cash flow from operations and return on actual capital employed over the measurement period. The other half of the award is linked to the Shell scorecard results.

For awards granted in 2017, 37.5% of the award is linked to the relative performance compared to four of its main competitors in TSR, cash flow from operations and return on actual capital employed and 12.5% to a free cash flow factor relative to internal operating plans over the measurement period. The other half of the award is linked to the Shell scorecard results.

The weighted average market price for exercises in 2017 was USD 26.37 (2016: USD 23.06) for Royal Dutch Shell plc Class A shares, USD 27.51 (2016: USD 22.86) for Royal Dutch plc Shell Class B shares, and USD 52.69 (2016: USD 46.44) for Royal Dutch Shell plc Class A ADRs.

For the performance shares which were outstanding as at 31 December 2017, the weighted average remaining contractual life is 0.77 years (2016: 0.76 years).

The profit and loss charge for 2017 is USD 2.8 million (2016: USD 5.2 million).