# ANNUAL REPORT 2015

## A/S DANSK SHELL

Rued Langgaards Vej 6-8, 5. sal

2300 København

## CVR number: 10 37 38 16

The Annual Report was presented and adopted at the Annual General Meeting of A/S Dansk Shell on

18 March 2016

**Chairman**
Christina Schmidt Mourier

# Contents




**A/S Dansk Shell**

**Rued Langgaards Vej 6-8, 5.**

**DK - 2300 Copenhagen S**

**CVR no. 10 37 38 16**

## Management's Statement

The Executive Board and Board of Directors of A/S Dansk Shell (the Company) have today considered and adopted the Annual Report for the financial year 1 January – 31 December 2015.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the Company's financial position at 31 December 2015, and of the result of the Company's operations for 2015.

In our opinion Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 18 March 2016

**Executive Board**

Ben Ring
*CEO*

**Board of Directors**

| | | |
|---|---|---|
| Henrik Elm Gulløv<br>*Chairman* | Andreas Krobjilowski<br>*Deputy Chairman* | Ben Ring<br>*CEO* |
| Maria Beck-Tange<br>*Retail Manager* | Anne Louise Krognos Dalgaard<br>*Trading and Supply Manager* | Christina Schmidt Mourier<br>*Head of Legal* |
| Søren Hvid Tønder<br>*Employee Representative* | René Holl Majgaard<br>*Employee Representative* | Charlotte Louise Julin Johansen<br>*Employee Representative* |

# Independent Auditor's Report

**To the Shareholder of A/S Dansk Shell**

## Report on the Financial Statements

We have audited the Financial Statements of A/S Dansk Shell for the financial year 1 January – 31 December 2015, which comprise income statement, balance sheet, statement of changes in equity, notes and accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

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

The audit has not resulted in any qualification.

**Opinion**
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2015 and of the results of the Company operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

# Independent Auditor's Report (continued)

## Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Financial Statements. On this basis, in our opinion, the information provided in Management's Review is consistent with the Financial Statements.

Copenhagen, 18 March 2016
**PricewaterhouseCoopers**
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Bo Schou-Jacobsen
State Authorised Public Accountant

Kristian Pedersen
State Authorised Public Accountant

# A/S Dansk Shell's Management

## Board of Directors

**Henrik Elm Gulløv**
*Chairman*

**Andreas Krobjilowski**
*Deputy Chairman*

**Maria Beck-Tange**
*Retail Manager*

**Søren Hvid Tønder**
*Employee Representative*

**Charlotte Louise Julin Johansen**
*Employee Representative*

**René Holl Majgaard**
*Employee Representative*

**Anne Louise Krognos Dalgaard**
*Trading and Supply Manager*

**Ben Ring**
*CEO*

**Christina Schmidt Mourier**
*Head of Legal*

## Executive Board

**Ben Ring**
*CEO*

## Executives

**Maria Beck-Tange**
*Retail Manager*

**Anne Louise Krognos Dalgaard**
*Trading and Supply Manager*

**Henrik Elm Gulløv**
*CFO*

**Andreas Krobjilowski**
*General Manager, Refinery*

**Henrik Lundquist Jensen**
*HR Director*

# Financial Highlights

## Key figures

| DKK million | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Gross revenue | 18,899.1 | 25,185.5 | 26,863.0 | 28,728.4 | 25,160.6 |
| Revenue | 12,577.0 | 18,136.5 | 19,068.9 | 20,896.2 | 17,565.8 |
| Operating profit/loss | 122.9 | (634.6) | (409.7) | (1,002.9) | (573.57) |
| Net financial items | 8.9 | (43.9) | (6.8) | (59.0) | (72.8) |
| Profit before tax | 131.8 | (678.5) | (416.5) | (1,061.9) | (646.5) |
| Net profit/loss for the year | 171.6 | (647.9) | (332.6) | (926.2) | (457.8) |
| Proposed dividend for the year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total assets | 4,220.3 | 4,071.4 | 5,473.4 | 5,222.1 | 6,087.5 |
| Equity | 1,776.6 | 1,605.0 | 1,152.9 | 522.7 | 199.0 |
| Wages and salaries | 357.1 | 332.9 | 338.7 | 346.7 | 339.6 |
| Investments in property, plant and equipment | 276.3 | 140.5 | 158.8 | 193.4 | 317.7 |
| **Employees** | | | | | |
| Average number of employees | 403 | 415 | 422 | 419 | 432 |

## Ratios

| Percent | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Return on assets | 3 | (16) | (7) | (16) | (9) |
| Return on average working capital | 7 | (44) | (44) | (187) | (76) |
| Liquidity ratio | 108 | 104 | 91 | 82 | 77 |

# Management's Review

A/S Dansk Shell was established in 1913. The Company is ultimately a wholly owned subsidiary of Royal Dutch Shell plc, whose head office is based in The Hague, The Netherlands. The Company's core business activity is Downstream, comprising refining, delivery and sale of oil products to private consumers as well as business customers. The Company's head office is located in Copenhagen, while the Refinery activities are located in Fredericia.

In March 2014, Royal Dutch Shell plc announced its intention to divest the Downstream activities in Denmark. The decision to put the Danish Downstream business up for sale is consistent with Shell's strategy to concentrate its Downstream footprint on a smaller number of assets and markets to where it can be most competitive.

A Share Purchase Agreement for the sale of the Marketing business was signed in March 2015 with Statoil Fuel & Retail A/S (SFR). The sale is subject to regulatory approvals and until this is achieved, Shell and SFR will continue to be separate and competing companies in Denmark.

Alongside this deal Shell continues to seek a divestment of the Refining business in Fredericia.

To enable the contemplated separate sales of the Marketing and Refining businesses a corporate restructuring will be required. Hence A/S Dansk Shell has a new wholly owned subsidiary (Dansk Fuels A/S).

## Market Development

### The International Oil Market in 2015

The oil price continued its downward trend in 2015. Marker crude Brent opened the year at around 55 USD/bbl and closed slightly below 37 USD/bbl. The average Brent crude price was 52 USD/bbl, compared to 99 USD/bbl in 2014 and 109 USD/bbl in 2013. The demand for oil is still below expectations, especially in China, whilst supply is ample. OPEC shows no sign of limiting production to support higher prices, and in 2016 Iran is expected to re-appear as a significant oil exporter. While the low oil prices obviously stress oil producers, the Downstream business industry saw a return of healthy refining margins in 2015 for the first time in quite a while.

The US dollar exchange rate continued the upward journey closing the year at 6.85 USD/DKK.

### The Danish Oil Market in 2015

While the market continued to be highly competitive, the Company's Commercial Fuels business has maintained its position while strengthening the sale of premium fuels. The Company has seen an increase in the sale of heating oil compared to last year due to 2015 being colder than previous years, although still warmer than a normal year. Additionally, duty reductions have postponed some sale of heating oil from December 2014 to January 2015.

### Retail

2015 has overall been a satisfactory year for Retail given the circumstances of the ongoing divestment. The revitalization of the food-on-the-go offer in 2014 has gained extra momentum in 2015 which combined with increased operational excellence on site has resulted in considerable growth especially in the latter part of the year. In addition, the Company's premium fuels brand V-Power 99 enjoyed a strong year with increased penetration compared to 2014. Overall, the fuels market is still under heavy pressure from price war levels increasing year on year and the unmanned operational platform now making up more than 70 percent of the market.

### The Refinery

In 2015 the Fredericia Refinery processed 3.0 million tonnes of crude from the Danish Underground Consortium (DUC) and a few minor new crudes (2014: 3.0 million tonnes). In addition the Fredericia Refinery imported blending components primarily for the production of petrol and diesel, and in particular a significant amount of Gas to Liquid (GTL) for Arctic diesel for export. The utilization rate was 82 percent (2014: 83 percent).

A turn around was successfully conducted in the autumn of 2015.

Focus on reliability and asset integrity is continuing. Unplanned downtime was 4.0 percent, which is an increase from 2014 mainly due to issues following the turn around.

With the significant drop in crude prices the refinery margins have improved over 2015. Overall the market is still challenged by overcapacity.

## Taxation

The tax in the income statement is based on the profit for the year, including use of unrecognized tax losses of prior years, including Group Companies' payment for use of A/S Dansk Shell tax losses under the joint taxation scheme.

For the year 2015 A/S Dansk Shell paid DKK 5,070 million in terms of VAT and duties. This is a reduction of DKK 94 million compared to 2014 and is due to a decrease in revenue.

See note 6 for further tax information.

## Employees

A/S Dansk Shell had 387 employees (respectively 108 women and 279 men) on 31 December 2015.

Shell is a global organisation, which provides employees with a wide range of personal and professional development opportunities in a dynamic, diverse and inclusive work environment. The Group Wide Performance Bonus Scheme rewards not only financial results, but also considers HSSE (Health, Safety, Security and Environmental) performance, customer satisfaction, employee engagement and reputation.

# Management's Review (continued)

**Employee communication and involvement**
Two-way dialogue between management and staff – directly and where appropriate, via employee representative bodies – is important and embedded in the Company's work practices. The annual Shell People Survey is one of the principal tools used to measure employee engagement. It provides insights into employees' views, and has had a consistently high response rate.

## Gender Distribution in Leadership Roles

With effect from 1 April 2013, A/S Dansk Shell has complied with legislation encouraging the top 1,100 companies in Denmark to deliver a focused approach in getting a balanced gender representation in the Company's Board of Directors and on other management levels. According to the legislation one gender is not considered underrepresented when it constitutes 40 percent or more of the supreme governing body and/or other management levels.

**Board of Directors**
*Target and status*
As an outcome of the legislation, the Company's Board of Directors has set a target and developed a policy whereby it will aspire to have a minimum of 2 members of the gender with the least representation on the Board of Directors. The target is still fulfilled as 3 (of 6) members of the shareholder elected board are female.

**Other Management Levels**
*Status*
The phrase "other management levels" includes all management positions in the Company, which is below the Board of Directors. If all levels of management throughout A/S Dansk Shell are looked at, the Company had a total of 66 leadership positions as of 31 December 2015. Of these, 49 (74 percent) were held by men, and 17 (26 percent) by women.

*Policies*
To strengthen its efforts to increase the proportion of the under-represented gender on other levels of management, the Board of Directors has initiated a policy, which includes the following initiatives:

- Hiring and recruitment: The Company is committed to recruit the best qualified person for the job regardless of gender.
- Career Development: The Company wants to ensure that all employees, regardless of gender, have equal opportunities to make a career in the Company.
- Mentoring and Networking: The Company offers mentoring for all junior management regardless of gender.
- Gender Dashboard: An internal Dashboard has been developed and published on the Intranet. It shows the trend and gender split of supervisors. This will help to focus on gender diversity and clarify any potential need for adjustments in actions and processes.

# Management's Review (continued)

*Executive Review of Current Status*

The Board of Directors of A/S Dansk Shell sees diversity management as an asset that will contribute positively to the Company's operational results and strengthen the Company's management force. The Board of Directors recognises the fact that it requires a long term sustained effort in this area to influence and potentially change the gender distribution in leadership roles in the Company being a member of a truly global organisation like Royal Dutch Shell. However, the Board of Directors of A/S Dansk Shell is convinced that it has created the foundation for delivering a focused approach in getting an overall balanced gender representation in the Company, management levels included, going forward.

## Health, Safety, Security and Environment (HSSE)

The Company is committed to Royal Dutch Shell's Goal Zero Programme; no harm and no leaks. In cooperation with the employees each manager is responsible for complying with the agreed safety standards.

**Petrol Stations**

*Robberies*

2014 was the turning point for a worrying robbery trend, and 2015 has been a continuation of a disciplined approach to reduce robberies. In 2015, the Company has only had one robbery on company owned sites which demonstrates the effects of a joint effort between introducing closed cash systems and working with site staff to increase the safety culture on sites.

**Removal of hands free fuelling**

In Q4 2015, the switch that enables customers to fuel their car without holding the nozzle was removed from all company owned sites. The Company made this decision after monitoring and investigating the root causes of more than 300 incidents on sites involving customers driving off with the nozzle still in the car. The potential harm caused by the nozzle and hose being separated by a moving car are serious in terms of damage to customers' cars or potentially to customers themselves. The Company's investigations made it clear that there was a correlation between the ability to leave ones car while fuelling and the incidents.

**The Refinery**

*Lost Time Incidents (LTI)*

There has been no LTI at the Fredericia Refinery in 2015, which is a continuation of the improved process safety status. It is now more than five years since the last LTI (2011).

*Environment*

In 2015 the main focus on the environmental side has been on the ongoing work with investigation and remediation of spills and older pollution. The number of spills has decreased, and the work is mainly around older pollution, where the demand for information from the authorities has increased.

The work around the old pollution on the public beach in Fredericia is ongoing in close cooperation with the relevant authorities and is progressing according to plan. Renewal of the environmental permit initiated by the publication of the relevant EU legislation for refineries (BREF) in October 2014 has progressed and is on schedule.

# Management's Review (continued)

### Research and Development

Human ingenuity and new technology hold the key to unlocking the energy consumers need to power their lives in the years ahead. At the same time they help the Company to limit its impact on the environment. With customers and partners, the Company applies innovative thinking across its businesses, now and for the future.

For more information please see the following link: www.shell.com/home/content/innovation/

## Corporate Social Responsibility

In 1976, Shell was one of the first global companies to inform about and share general business principles. These principles commit the Company to contribute to a sustainable development, to balance short and long term interests and to integrate financial, environmental and social responsibilities into the Company's decision making processes. All Shell companies are expected to abide by these business principles.

With reference to the Danish Financial Statements Act section 99 a A/S Dansk Shell has no independent policies on neither climate change nor human rights.

## Financial Review

### Net Profit

Net profit after tax was a gain of DKK 171.6 million in 2015, compared to a loss of DKK 647.9 million in 2014. The result is considered satisfactory.

In 2015 the average unit price on the Company's stock dropped by 21 percent. This price decrease has impacted the net profit before tax for the period by DKK 144 million. The retail market has continued to be under pressure, while the refinery margins have improved. In a number of significant areas the underlying business performance has improved compared to previous years.

### Revenue and Profit Margins

Revenue in 2015 decreased significantly compared to 2014, which is mainly due to the decreasing trend in product prices seen at the end of 2014 continuing into 2015. Crude and product prices declined on average 21 percent from 31 December 2014 to 31 December 2015.

Despite the decline in revenue the Profit Margins in 2015 increased by 4.0 percentage points from minus 0.2 percent in 2014 to 3.8 percent in 2015 calculated as gross profit proportionate to revenue. Strong refinery margins and decrease in production costs throughout 2015 were the main drivers behind this development.

# Management's Review (continued)

**Costs**

Compared to 2014 the total costs of sales, distribution and administration decreased by DKK 45.1 million (5 percent) to DKK 809 million in 2015.

Significant cost savings have been achieved in areas like maintenance and consultancy fees.

**Other Income**

Other income declined by DKK 38.5 million (15 percent) from DKK 260.4 million in 2014 to DKK 221.9 million in 2015. The decline mainly concerns the additional consideration the Company received in 2014 from the purchaser of ownership rights to certain trademarks. Excluding this, the underlying development from 2014 to 2015 shows an increase of DKK 35 million which regards realized and unrealized hedging of Aviation/Supply contracts.

**Distribution of Profit**

The Board of Directors suggests that the Company's net profit for the year, a gain of DKK 171.6 million is carried forward to next year, and thus equity is DKK 1,776.6 million at year-end 2015.

**Capital Resources**

The Company's total drawing rights on intercompany credit facilities is USD 300 million, of which USD 232 million are unused at year-end.

Based on the expected cash flow development in 2016 and the unused credit facilities the Company's Board of Directors and Executive Board consider capital resources to be adequate.

**Financial Position**

In 2015 investments were focused at the Fredericia Refinery as part of the planned turn around in September of DKK 74.9 million and building facilities for a new control room of DKK 33.2 million.

Compared to 2014, assets under construction increased by 96 percent amounting to DKK 146.5 million year-end 2015. The increase is mainly in respect of IT related assets under construction of DKK 102.0 million.

The value of the inventories increased by DKK 22 million from DKK 706.5 million in 2014 to DKK 728.5 million in 2015. The previously mentioned price decrease (21 percent) was offset by a stock volume increase due to the turn around and subsequent start-up challenges.

Receivables increased by DKK 44.8 million (2. percent) from DKK 1,820.6 million in 2014 to DKK 1,865.4 million in 2015.

Current liabilities declined by DKK 19.6 million (1 percent) from DKK 2,418.5 million in 2014 to DKK 2,398.9 million in 2015.

# Management's Review (continued)

## Prospect and Outlook for 2016

The Share Purchase Agreement for the sale of the Marketing business was signed in March 2015 with Statoil Fuel & Retail A/S, and the Company is waiting for the purchaser to secure anti-trust approval before the transaction can be completed. Preparation to ensure business continuity when the transaction occurs is a critical activity. The potential divestment of the Refining business comprising Fredericia Refinery and connected Trading & Supply activities continues. In the light of these activities Management expects 2016 to be a challenging year.

## Risk Factors

### Operational Risks

A/S Dansk Shell's significant operational risk factors are:

- Exposure to pricing on the European product market, and the crude oil price has a significant effect on refinery operation profit (except hedging of Aviation and Supply contracts).
- Exposure to Danish pricing on sale of oil products.
- As a consequence of the refinery operations in Fredericia, the Company is particularly exposed to unscheduled operational shut-downs, which can have negative financial consequences.
- The Company's large holdings of oil products lead to increased risk associated with fluctuations in oil prices. As part of an integrated international oil company, it is the Company's policy not to hedge the risk on the operational stock. It might result in significant variations in the results as the Company saw in 2014. Stock risk will be reduced through improved forecasting and trimming of business processes with a positive effect on stock turnover ratio.

### Foreign Exchange and Interest Exposure

As a consequence of operation, investments and financing, the Company is exposed to changes in exchange rates (primarily USD), and in interest rate levels. The risks are managed in cooperation with the Shell Group's internal specialists, and by managing the Company's cash flow fluctuations.

Currency risk mainly arises from the purchase, storage and sale of oil products, because they are bought and valued on the basis of the US dollar, and simultaneously sold to customers in both Danish kroner and US dollars. As part of an international integrated oil company, it is the Company's policy not to hedge such currency risks, which can lead to significant fluctuations in results. Open currency risks are managed by the Company's financial processes, while the Company to the widest possible extent ensures that debts and claims arise in the same currency.

### Pension Funds Risks

The transfer of pension funds' assets and liabilities to CNP Assurances Danmark, effectuated in 2013, has significantly reduced the risks relating to pension obligations. The future risks maintained by the Company are those relating to changes in legislation that require additional funding, cf. description of pension-related contingent liabilities in note 12. Specifically, this is comprised of changes in the State Pension Age and potential increases in the PAL-Tax rate, currently 15.3 percent.

# Management's Review (continued)

## Post Balance Sheet Events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet day.

# Income Statement 1 January – 31 December

| Note | | 2015<br>DKK million | 2014<br>DKK million |
|---|---|---|---|
| | **Gross revenue** | **18,899.1** | **25,185.5** |
| | VAT and duties | (6,322.1) | (7,049.0) |
| 1 | **Revenue** | **12,577.0** | **18,136.5** |
| 2 | Production costs | (11,867.0) | (18,177.4) |
| | **Gross profit/loss** | **710.0** | **(40.9)** |
| 2 | Sales and distribution costs | (647.7) | (704.1) |
| 2 | Administration costs | (161.3) | (150.0) |
| 3 | Other operating income | 221.9 | 260.4 |
| | **Operating profit/loss** | **122.9** | **(634.6)** |
| 4 | Financial income | 53.2 | 88.8 |
| 5 | Financial expenses | (44.3) | (132.7) |
| | **Profit/loss before tax** | **131.8** | **(678.5)** |
| 6 | Tax on profit/loss for the year | 39.8 | 30.6 |
| | **Net profit/loss for the year** | **171.6** | **(647.9)** |

| | 2015<br>DKK million | 2014<br>DKK million |
|---|---|---|
| **Proposed distribution of profit** | | |
| Proposed dividend for the year | 0.0 | 0.0 |
| Retained earnings | 171.6 | (647.9) |
| | **171.6** | **(647.9)** |

# Balance Sheet 31 December

## Assets

| Note | | 2015<br>DKK million | 2014<br>DKK million |
|---|---|---|---|
| | Land and buildings | 349.3 | 316.3 |
| | Technical installations and machinery | 489.5 | 493.0 |
| | Operating equipment and fixtures | 631.2 | 651.5 |
| | Assets under constructions | 146.5 | 74.7 |
| 7 | **Property, plant and equipment** | **1,616.5** | **1,535.5** |
| | | | |
| 8 | Investments in subsidiaries | 0.5 | 0.0 |
| 9 | Investments in associates | 3.8 | 3.2 |
| | Other receivables | 5.6 | 5.6 |
| | **Financial fixed assets** | **9.9** | **8.8** |
| | | | |
| | **Total fixed assets** | **1,626.4** | **1,544.3** |
| | | | |
| | Raw materials and consumables | 129.2 | 121.4 |
| | Finished goods and trading goods | 599.3 | 585.1 |
| | **Inventories** | **728.5** | **706.5** |
| | | | |
| | Trade receivables | 1,321.1 | 1,432.7 |
| | Receivables from affiliated companies | 420.5 | 299.5 |
| | Other receivables | 25.0 | 9.8 |
| 6 | Corporate tax | 56.9 | 40.2 |
| 10 | Prepayments | 41.9 | 38.4 |
| | **Receivables** | **1,865.4** | **1,820.6** |
| | | | |
| | **Total current assets** | **2,593.9** | **2,527.1** |
| | | | |
| | **Total assets** | **4,220.3** | **4,071.4** |

# Balance Sheet 31 December (continued)

## Liabilities and equity

| Note | | 2015 DKK million | 2014 DKK million |
|---|---|---|---|
| | Share capital | 251.4 | 251.4 |
| | Retained earnings | 1,525.2 | 1,353.6 |
| | **Total equity** | **1,776.6** | **1,605.0** |
| 11 | Other provisions | 44.8 | 47.9 |
| | **Provisions** | **44.8** | **47.9** |
| | Prepayments received from customers | 4.0 | 6.5 |
| | Trade payables | 271.2 | 522.8 |
| | Payables to affiliated companies | 1,600.9 | 1,396.2 |
| | Other payables | 522.8 | 493.0 |
| | **Current liabilities** | **2,398.9** | **2,418.5** |
| | **Total liabilities and equity** | **4,220.3** | **4,071.4** |

12 Contingent liabilities and other financial obligations
13 Related parties and group information
14 Interests in jointly controlled entities

# Statement of Changes in Equity

**DKK million**

| | Share capital | Retained earnings | Proposed dividend | Total |
|---|---|---|---|---|
| Equity at 1 January 2015 | 251.4 | 1,353.6 | 0.0 | 1,605.0 |
| Net profit/loss for the year | 0.0 | 171.6 | 0.0 | 171.6 |
| Proposed dividend to shareholders | 0.0 | 0.0 | 0.0 | 0.0 |
| **Equity at 31 December 2015** | **251.4** | **1,525.2** | **0,0** | **1,776.6** |

**Information about share capital**

2,513,500 shares at DKK 100

No shares carry any special rights.

**Specification of movements in share capital**
**DKK million**

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Share capital at 1 January | 251.4 | 251.1 | 251.0 | 250.8 | 250.3 |
| Capital increase | 0.0 | 0.3 | 0.1 | 0.2 | 0.5 |
| Capital decrease | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Share capital at 31 December** | **251.4** | **251.4** | **251.1** | **251.0** | **250.8** |

# Notes

## Note 1

**Revenue**

| | 2015 | 2014 |
|---|---|---|
| | DKK million | DKK million |
| Sales of energy and oil products at the Danish market | 8,497.4 | 11,128.3 |
| Export of oil products | 4,079.6 | 7,008.2 |
| **Total revenue** | **12,577.0** | **18,136.5** |

## Note 2

**Fees to appointed auditors**

Fee to auditors appointed at the general meeting has not been disclosed in accordance with section 96 (3) of the Danish Financial Statements Act. Reference is made to the Consolidated Financial Statements of Royal Dutch Shell plc.

**Number of employees**

| | 2015 | 2014 |
|---|---|---|
| Average number of employees | 403 | 415 |
| Number of employees at 31 December | 387 | 404 |

**Staff expenses are included in the income statement as follows:**

| | 2015 | 2014 |
|---|---|---|
| | DKK million | DKK million |
| Salaries | 357.1 | 332.9 |
| Pensions | 28.2 | 32.3 |
| Other social security expenses | 0.9 | 0.9 |
| Salaries, pensions, etc. recharged to affiliates | (61.0) | (57.0) |
| **Total** | **325.2** | **309.1** |

Similar to last year, the Board of Directors does not receive remuneration.

In accordance with the Danish Financial Statements Act section 98B (3), remuneration to the Executive Board has not been disclosed.

Shell has an incentive programme for employees and management. The programme offers employees and management the opportunity to buy shares in Royal Dutch Shell plc. Furthermore, the employees and management are eligible to a Performance Share Bonus Scheme.

# Notes (continued)

## Note 2 (continued)

**Depreciations are recognised in the following items:**

| | 2015 | 2014 |
|---|---|---|
| | DKK million | DKK million |
| Production costs | 116.1 | 109.0 |
| Sales and distribution costs | 70.6 | 71.9 |
| Administration costs | 1.7 | 1.7 |
| **Total** | **188.4** | **182.6** |

## Note 3

**Other operating income**

The item includes income from refining for other parties, the use of unloading facilities, the sale of electricity and waste heat, income from leasing out of service stations, commission income and various other incomes.

## Note 4

**Financial income**

| | 2015 | 2014 |
|---|---|---|
| | DKK million | DKK million |
| Other financial income | 0.3 | 0.0 |
| Exchange rate gains | 52.9 | 88.8 |
| **Total** | **53.2** | **88.8** |

## Note 5

**Financial expenses**

| | 2015 | 2014 |
|---|---|---|
| | DKK million | DKK million |
| Interest expenses to affiliates | 1.3 | 2.1 |
| Other financial expenses | 0.7 | 1.6 |
| Exchange rate losses | 42.3 | 129.0 |
| **Total** | **44.3** | **132.7** |

## Notes (continued)

### Note 6

**Tax**
**DKK million**

| | Payable/ (receivable) corporation tax | Deferred tax | Income Statement |
|---|---|---|---|
| Book value at 1 January | (40.2) | 0.0 | 0.0 |
| Received tax related to previous years | 37.9 | 0.0 | 6.1 |
| Tax from the year's profit/loss incl. prior year adjustments | (33.7) | 0.0 | 33.7 |
| Tax paid on account | (20.9) | 0.0 | 0.0 |
| **Book value at 31 December** | **(56.9)** | **0.0** | **39.8** |

The Company has a non-recognised deferred tax asset of DKK 199 million. Calculation of the non-recognised deferred tax asset is based on a corporation tax of 22 percent.

The deferred tax asset can be carried forward indefinitely and can be used to offset against future Danish taxable income, including the companies that are jointly taxed.

### Note 7

**Property, plant and equipment**
**DKK million**

| | Land and buildings | Technical installation and machinery | Operating equipment and fixtures | Assets under construc-tion | Total |
|---|---|---|---|---|---|
| Cost at 1 January | 1,002.1 | 1,966.4 | 1,992.2 | 74.7 | 5,035.4 |
| Acquisitions during the year | 34.7 | 82.0 | 24.3 | 135.3 | 276.3 |
| Disposals for the year | (14.7) | (2.9) | (23.5) | 0.0 | (41.1) |
| Transfer for the year | 21.1 | 11.7 | 30.7 | (63.5) | 0.0 |
| **Cost at 31 December** | **1,043.2** | **2,057.2** | **2,023.7** | **146.5** | **5,270.6** |
| Depreciation as at 1 January | 685.8 | 1,473.4 | 1,340.7 | 0.0 | 3,499.9 |
| Depreciation for the year | 19.2 | 96.7 | 72.5 | 0.0 | 188.4 |
| Reversal of depreciations of sold assets | (11.1) | (2.4) | (20.7) | 0.0 | (34.2) |
| **Depreciation at 31 December** | **693.9** | **1,567.7** | **1,392.5** | **0.0** | **3,654.1** |
| **Carrying amount at 31 December** | **349.3** | **489.5** | **631.2** | **146.5** | **1,616.5** |

# Notes (continued)

## Note 8

**Investments in subsidiaries**
**DKK million**

| | 2015 | 2014 |
|---|---|---|
| Cost at 1 January | 0.0 | 0.0 |
| Additions for the year | 0.5 | 0.0 |
| Disposals for the year | 0.0 | 0.0 |
| **Cost at 31 December** | **0.5** | **0.0** |
| **Carrying amount at 31 December** | **0.5** | **0.0** |

| Investments in subsidiaries include: | Place of residence | Equity interest | Equity | Net profit/loss for the year |
|---|---|---|---|---|
| Dansk Fuels.A/S | Copenhagen | 100% | 0.5 | 0.0 |

## Note 9

**Investments in associates**
**DKK million**

| | 2015 | 2014 |
|---|---|---|
| Cost at 1 January | 3.2 | 2.7 |
| Additions for the year | 0.6 | 0.5 |
| Disposals for the year | 0.0 | 0.0 |
| **Cost at 31 December** | **3.8** | **3.2** |
| **Carrying amount at 31 December** | **3.8** | **3.2** |

| Investments in associates include: | Place of residence | Equity interest | Equity | Net profit/loss for the year |
|---|---|---|---|---|
| Tank Reinsurance S.A | Luxembourg | 25.9% | 71.2 | 44.2 |

## Note 10

**Prepayments**
Prepayments consist of prepaid expenses relating mainly to rent and insurance.

# Notes (continued)

## Note 11

**Other provisions**
**DKK million**

| | Environmental and decommissioning obligations |
|---|---|
| Other provisions at 1 January | 47.9 |
| Additions for the year | 16.5 |
| Amounts charged against provisions | (19.6) |
| **Other provisions at 31 December** | **44.8** |

Other provisions include identified environmental obligations and provisions for decommissioning in connection with depots and service stations etc. on rented land.

## Note 12

**Contingent liabilities and other financial obligations**

| | 2015 | 2014 |
|---|---|---|
| | DKK million | DKK million |
| **Guarantees and contingent liabilities are specified as follows:** | | |
| Bank guarantees | 4.0 | 2.5 |
| Guarantee commitments | 148.2 | 156.8 |
| **Total** | **152.2** | **159.3** |
| **Future lease commitments under operating leases are as follows:** | | |
| Within 1 year | 9.5 | 9.1 |
| Between 1 and 5 years | 3.7 | 10.8 |
| **Total** | **13.2** | **19.9** |

**Lease obligations:**
Further to the above are lease obligations for rental of service stations where the rent depends on future revenues. The duration of the lease obligations are up to 31 December 2025.

**Pension obligations:**
In 2012 assets and liabilities in the Company's two pension funds' were transferred to CNP Assurances Danmark (CNP). In this respect, the Company has committed itself to indemnify CNP for losses resulting from changes in defined benefit obligations attributable to any future changes in the PAL tax rate, the state pension, the Danish Labour Market Supplementary Pension (ATP), and the current VAT rate (effect on administration expenses). These contingent liabilities are not quantifiable at the balance sheet date.

# Notes (continued)

## Note 13

### Related parties and group information

**Transactions with related parties**

According to the Danish Financial Statement Act section 98 c transactions with related parties are not disclosed as all transactions have been affected at arm's length.

**Group information**

A/S Dansk Shell's immediate parent company, The Shell Petroleum Company Limited, United Kingdom (100 percent ownership), does not present consolidated financial statements.

A/S Dansk Shell is included in the consolidated financial statements prepared by Royal Dutch Shell plc, the ultimate parent company. Royal Dutch Shell plc is based in The Hague, the Netherlands.

The consolidated financial statements of Royal Dutch Shell plc can be obtained by contacting A/S Dansk Shell or on:

www.shell.com/global/aboutshell/investor/financial-information/annual-reports-and-publications.html

## Note 14

### Interests in jointly controlled entities

The following participating interests in partnerships are included in the financial statements with a pro rata share of assets, liabilities, income and expenses:

| | **Place of residence** | **Equity interest** |
|---|---|---|
| Shell-Statoil-Total I/S | Tårnby | 33% |
| Brændstoflageret Københavns Lufthavn I/S | Tårnby | 21% |
| Shell-Statoil Refuelling (Billund) I/S | Billund | 50% |

| | **2015 DKK million** | **2014 DKK million** |
|---|---|---|
| Share of non-recognised liabilities with joint and several liability | 25.1 | 20.3 |

There are no material contingent liabilities of the jointly controlled entities.

# Accounting Policies

**Basis of Preparation**

A/S Dansk Shell's Annual Report 2015 is prepared in accordance with the Danish Financial Statements Act's provisions for accounting class C companies.

The accounting policies applied remain unchanged from last year.

The Annual Report is presented in million Danish kroner (DKK).

In accordance with Section 112 of the Danish Financial Statement Act, the Company does not prepare a consolidated report as the company and its subsidiary are included in the consolidated report of the Shell Group.

In accordance with Section 86(4) of the Danish Financial Statement Act, the Company does not prepare cashflow statements, as the company and its subsidiary are included in the consolidated cashflow statements of the Shell Group.

**Recognition and Measurement**

The Financial Statements are prepared under the historical cost basis.

Revenues are recognised in the income statement as earned. Revenue is considered earned when the following criteria are met:

- delivery has taken place before the end of the financial year
- a binding sales agreement exists
- the sales price is agreed, and
- payment at the time of sale has been received or may reasonably be expected received

On this basis, revenue is recognised in the income statement when realised. Furthermore value adjustments of financial assets and liabilities measured at amortised cost are recognised. Costs incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversal due to changes in accounting estimates of amounts previously recognised in the income statement.

Assets are recognised in the balance sheet when a future flow of economic benefits to the Company is probable, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when an outflow of future economic benefits is probable, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement take into account predictable losses and risks occurring prior to the presentation of the Annual Report, which confirms or invalidates affairs and conditions existing at the balance sheet date.

## Accounting Policies (continued)

Danish kroner (DKK) is used as the measurement currency. All other currencies are considered foreign currencies.

Reclassifications of a few comparatives has been done with no effect on net profit/loss and equity

**Leasing**
Leases of property, plant and equipment are divided into finance and operating leases.

The contracts where lessor retains a significant portion of the risks and rewards are classified as operating leases.

Leases currently in force are operational leases, and payments made under operating leases are recognised in the income statement over the leasing period.

**Foreign Exchange Translation**
Foreign currency transactions are translated using the exchange rate at the dates of the transactions. Gains and losses arising between the date of transaction and the date of payment are recognised in the income statement as a financial item.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the closing rate. Differences between the exchange rates at the balance sheet date and transaction date rates are recognised in the income statement as financial items.

**Derivative financial instruments**
Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as ”Other receivables” and ”Other payables”, respectively.
Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting.

**Segment Information**
Segment information is presented on revenue by business segments and geographical markets. Information on geographical segments is based on the Company's risks and returns, and its internal financial reporting system. Business segments include only the energy and oil products.

**Incentive Programme**
Management and employees are covered by the Shell Group's share plans.

**Discontinued operations and Assets held for sale**
Individual assets or groups of assets that are to be disposed of collectively are classified as assets held for sale, when the activities to carry out such a sale is highly probable and is expected to be completed within 12 months.

# Accounting Policies (continued)

## Income Statement

### Revenue

Revenue from the sale of goods is recognised in the income statement as earnings takes place in accordance with the above general criteria for revenue recognition. Only sales where risk and delivery is transferred to buyer before the end of the year are recognised as revenue. Revenue is recognised exclusive VAT, duties and discounts in connection with the sale.

### Production Expenses

Production expenses include costs incurred to generate revenue for the year. Cost includes raw materials, consumables, direct labour and indirect production costs such as maintenance and depreciation, etc. Furthermore, costs for operation, administration and management of the Fredericia Refinery are allocated.

### Selling and Distribution Expenses

Selling and distribution expenses include costs such as salaries for sales and distribution personnel, advertising and marketing costs, depreciation, etc.

### Administrative Expenses

Administrative expenses include costs of management, administrative personnel, office, depreciation etc.

### Other Operating Income and Expenses

Other operating income and expenses comprise items of a secondary nature in relation to the Company's core business.

Value adjustments at fair value of derivative financial instruments not qualifying as hedging instruments are recognized in the income statement.

### Income from Investments in Subsidiaries and Associates

Dividends from investments in subsidiaries and associates measured at cost are recognised in the income statement in the period in which they are declared.

### Financial Items

Financial items comprise interest income and expenses and realised and unrealised exchange differences.

### Taxation

Income tax for the year comprises current tax and changes in deferred tax. The tax attributable to the profit for the year is recognised in the income statement, and the tax attributable to equity transactions is recognised directly in equity.

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

## Accounting Policies (continued)

Deferred taxation is determined, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance Sheet.

Measurement of deferred tax is based on the statutory tax rules and rates prevailing at the time when deferred tax is expected to become current tax. Re-measurement of deferred tax as a consequence of changes to tax rates is recognised in the income statement. Discounting is not performed when measuring deferred tax.

A/S Dansk Shell is jointly taxed with the Danish affiliated companies.

A/S Dansk Shell acts as a management company towards the Danish tax authorities in relation to the joint taxation, and pays the total Danish tax on the Danish affiliated companies' taxable income.

The tax effect of joint taxation with the Danish affiliated companies is allocated to the profits and losses of the companies in proportion to their taxable income. The jointly taxed companies are included in the tax prepayment scheme.

### Balance Sheet

**Property, Plant and Equipment**
Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is ready for use. Assets are depreciated on a Straight-line basis over the expected useful lives of the assets as follows:

- Buildings 10-50 years
- Technical plants and machinery 8-20 years
- Operating equipment and inventory 3-8 years

Fixed assets are reviewed annually to determine whether there are indicators of impairment resulting in the recoverable value being lower than the carrying amount. An asset's recoverable amount is the higher of the net selling price and value in use. If it is not possible to determine the recoverable amount of an individual asset, the need for depreciation of the smallest group of assets for which it is possible to determine the recoverable amount is determined.

**Investments in Subsidiaries and Associates**
Investments in subsidiaries and associates are measured at cost. In cases where cost exceeds the recoverable amount it is written down to its recoverable amount.

**Investment in Joint Ventures**
Joint ventures are included by proportionate consolidation which means the Company's proportionate share of the jointly controlled assets, liabilities, income and expenses are recognised. Recognition and measurement are done in accordance with the Company's accounting policies. The notes include information about other liabilities for which the Company is liable in connection with the joint ventures as a consequence of joint and several liability.

## Accounting Policies (continued)

**Inventories**

Inventories are valued at cost using the FIFO method or net realisable value, whichever is lower. Net realisable value for inventory is calculated as the amount expected to be generated in the ordinary course of business less selling and completion costs. Calculating net realisable value, marketability, obsolete stocks and sales price development are taken into account.

Goods for resale, raw materials and consumables comprise the purchase price plus transportation costs.

The cost price of finished goods comprises the cost of raw materials, consumables, and direct labour plus production overheads. Indirect production overheads comprise indirect materials and wages, maintenance and depreciation of production machinery, plant and equipment as well as administration and management.

Exchange agreements with other oil companies form part of the balance for inventories.

**Receivables**

Receivables are measured at amortised cost or at a lower net realisable value, which essentially corresponds to the nominal value less provisions for bad and doubtful debts.

Provisions for bad debt and doubtful debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables a general provision is also made based on the Company's experience from previous years.

**Prepayments**

Prepayments recognised under assets comprise incurred costs pertaining to the subsequent financial years.

**Proposed Dividend for the Financial Year**

Dividend proposed by the Management for the financial year, is disclosed as a separate item under equity.

**Provisions**

Provisions are recognised when the Company as a result of events occurring before the balance sheet date has a legal or constructive obligation, and when an outflow of economic benefits is probable to settle the obligation.

Provisions are recognised and measured as the best estimate of the expenditure required to settle liabilities at the reporting date. Provisions with an expected maturity exceeding one year from the balance sheet date are discounted using the average bond yield.

**Financial liabilities**

Financial liabilities are measured at amortised cost, substantially corresponding to nominal value.

## Accounting Policies (continued)

### Ratios

Ratios are calculated as follows:

Return on assets:

$$\frac{\text{Operating profit/loss} \times 100}{\text{Total assets}}$$

Return on average working capital:

$$\frac{\text{Operating profit/loss} \times 100}{\text{Average working capital}}$$

((Total assets – current liabilities opening) + (Total assets – current liabilities closing))/2

Liquity ratio:

$$\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$$