

Registration number: 00140141

Shell U.K. Limited

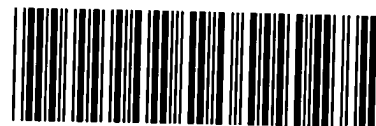
Annual Report

and

Financial Statements

For the year ended 31 December 2021

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Shell U.K. Limited

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Shell U.K. Limited

Strategic report for the year ended 31 December 2021

The Directors present their Strategic report on Shell U.K. Limited (also referred to as the "Company") for the year ended 31 December 2021.

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 Shell plc (formerly 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". 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 "Shell plc" are sometimes used for convenience where references are made to Shell plc 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 Shell U.K. Limited are exploration for, production and sale of crude oil and natural gas; the marketing of petroleum products; and to hold investments in subsidiary undertakings engaged in various branches of the oil and gas business. The principal activities of the Company is expected to continue for the foreseeable future. In support of Shell's energy transition strategy to low carbon and renewable sectors, the Company has investments in new energy business that supplies electricity directly to customers using battery storage technology.

The Company's turnover for the financial year was £5,101 million (2020: £3,461 million). This increase was mainly driven by an increase in the selling price of oil and gas as compared to the prior year. The loss after tax for 2021 amounted to £1,140 million (2020: £738 million) and was mainly driven by impairment of investments.

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

Shell U.K. Limited

Strategic report for the year ended 31 December 2021 (continued)

IBOR Reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, Shell has established a Group-wide LIBOR Transition Project, with oversight from the Group Treasurer. The project spans all business lines and has cross-functional senior governance which includes Legal, IT and Finance, including treasury, tax, and accounting experts. During 2021, Shell has put in place detailed plans, processes, and procedures to support the transition of the affected portfolio including making changes to systems, processes, and risk management, as well as related tax and accounting implications. Shell is confident that it has the operational capability to process the transitions to RFRs for those interest rate benchmarks such as USD LIBOR that will cease to be available after 30 June 2023.

In July 2021, the floating rate interest loan of 1,200 million GBP LIBOR loan, the floating rate interest loan of 439.5 million GBP LIBOR loan, and the floating rate interest loan of 560 million GBP LIBOR were transitioned to SONIA. The Company has applied the practical expedient of updating the effective interest rate prospectively since the change is a direct consequence of IBOR reform. Therefore, no gain or loss or change to the carrying value of the financial instrument has been recognised during the year.

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 Shell plc 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 22 to 33 of Shell's Annual Report for the year ended 31 December 2021 (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 New Energies, and the Downstream businesses of Oil Products and Chemicals. The Company's key performance indicators, that give an understanding of the development, performance and position of the business, are aligned with those of the Shell Group. The development, performance and position of the various businesses is discussed on pages 38 to 74 of the Group Report and the key performance indicators through which the Group's performance is measured are as set out on pages 36 to 37 of the Group Report.

Shell U.K. Limited

Strategic report for the year ended 31 December 2021 (continued)

Going concern

In determining the appropriate basis of preparation of the Financial Statements, the Directors are required to consider whether the Company can continue in operational existence over the period to 31 December 2023 (the 'going concern period'). The Directors have considered the potential risks and uncertainties relating to COVID-19 on the Company's business, credit, market, and liquidity position. Based on the above, together with the Directors knowledge and experience of the market, the Directors continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2021.

Section 172(1) statement/Statement of stakeholder interests

The Companies (Miscellaneous Reporting) Regulations 2018 ('2018 MRR') require Directors to explain how they considered the interests of key stakeholders and the broader matters set out in section 172(1) (a) to (f) of the Companies Act 2006 ('S172') when performing their duty to promote the success of the Company under S172. This includes considering the interest of other stakeholders which may affect the long-term success of the company.

This Section 172 Statement, explains how the Directors have acted in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (among other matters) to:

- the likely consequences of any decision in the long term and the impact of the Company's operations on the community and the environment,
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- employee interests, the need to foster the Company's business relationships with suppliers, customers, and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year.

Ahead of matters being put to the Company Board for consideration, significant levels of engagement are often undertaken by the broader business ahead of many of Shell projects or activities. This engagement is often governed by formulated policies, control frameworks, regulation, legislation and may differ by region. Dependent on the project or activity, Board members may participate in this engagement.

The Company is a member of the Shell Group, an organisation which follows a highly developed and formalised governance and oversight framework, which includes but is not limited to Group policies such as the Shell General Business Principles (which sets out the Shell Group's responsibilities to shareholders, customers, employees, business partners and society) and the Shell Code of Conduct.

The strategy of the Company is considered to be derived from those of the Shell Group, which is discussed on pages 10 - 15 of the Shell plc 2021 Annual Report. The Shell Group internally organises its activities principally along business and function lines but transacts its business through legal entities. This organisation structure is designed to achieve Shell's overall business objectives, whilst respecting the separate legal identity of the individual Shell companies through which it is implemented and the independence of each legal entity's Board of Directors.

Shell U.K. Limited

Strategic report for the year ended 31 December 2021 (continued)

PRINCIPAL DECISIONS

We define Principal decisions taken by the Board as those decisions in 2021, that are of a strategic nature and/or that are significant to any of our key stakeholder groups.

To remain concise, we have categorised our key stakeholders into seven groups. Where appropriate, each group is considered to include both current and potential stakeholders.

Key stakeholder groups

- A. Shareholders
- B. Employees/Workforce/Pensioners
- C. Regulators/Governments
- D. NGOs/civil society stakeholders/academia/think-tanks
- E. Communities
- F. Customers
- G. Suppliers /Strategic Partners

Principal Decisions in 2021

In the table below we outline some of the principal decisions made by the Board over the year under review. We also explain how the Directors have engaged with or considered the different key stakeholder groups and their interests over the course of decision-making.

The level of information disclosed on principal decisions in the table below is consistent with the size and the complexity of the business.

How were stakeholders considered

We describe how stakeholders were considered during the decision-making process by summarising the relevant discussions. The relevance of each stakeholder group's interests may differ depending on the nature of decisions being considered. Board decisions will not necessarily result in a positive outcome for all of our stakeholders, but by considering our purpose, values and business objectives, and having due regard for stakeholder relationships, the Board aims to ensure that its decisions promote the long-term success of the Company.

What was the outcome

See the table below.

Shell U.K. Limited

Strategic report for the year ended 31 December 2021 (continued)

Investing in New business developments and potential acquisitions

Outcome

Over the course of the year, the Board considered various potential investment opportunities and reviewed investment requests in respect of ongoing projects.

The Board provided its support to long-term projects by citing reference to the Company's purpose and strategy.

How were stakeholders considered

The Board examined expenditure requests and the impact of this on the Company's success in the longer term. Future value growth opportunities were balanced against any impact to budget and on any possible effects on the Company's various stakeholders. For example, with proposed equity injections, the creation of additional share capital which would reduce possible debt financing for stakeholders was considered. The Directors acknowledged that pursuing certain projects in partnership with other organisations would not only provide opportunities for collaboration with some existing or new stakeholders but could also in some circumstances decrease the Company's own cost exposure and increase access to additional infrastructure, whilst providing opportunities to build a presence in new markets.

Equity Injections were made in connection with existing Group projects and which had been approved in accordance with the Shell Group's organisational structure and control framework. An Investment Proposal for a project connected to the submission of a bid was approved.

Employee engagement

The principal route by which the Directors of the Company effect engagement with employees of the Company are the processes and practices of the Shell Group.

The Shell Group, of which the Company is a member, transacts its business through legal entities whilst internally organising its activities along business and function lines. This extends to Shell's engagement with its employees, where this is aligned to the businesses and functions of the Shell Group where those employees are engaged.

On a regular basis, Shell Group management engages with employees on a global, country, region, business or function basis through a range of formal and informal channels, including: emails from the Shell Group Chief Executive Officer, Country Chair and Senior Leader communications and blogs, webcasts, townhalls, team meetings, intranet articles, online publications and social media.

Employee Forums (organised by business and function line) are well established and meet on a quarterly basis. This is an additional mechanism through which management engages with employees on business decisions for provision of information, staff consultation purposes and for employees' views.

Shell U.K. Limited

Strategic report for the year ended 31 December 2021 (continued)

In addition, the annual Shell People Survey, which measures employee engagement, is an opportunity for employees to give their opinion on a series of topics ranging from leadership, business direction, communication, inclusion, and pride in the company. The purpose of the survey is to enable an ongoing, constructive dialogue between management and employees, enabling trends to be identified and areas for focus to deliver business outcomes.

The Shell Group operates a number of share plans designed to align employees' interests with performance through share ownership. These are discussed further within the Shell plc Annual Report.

Governance Controls

The Company is a subsidiary entity of a listed Company, RDS, which is subject to the UK Corporate Governance Code.

As a member of the Shell Group, the Company is part of an organisation which follows a highly developed and formalised governance and oversight framework. The Directors consider this a suitable corporate governance arrangement for the Company and have full confidence in its operating effectiveness.

The Shell Group internally organises its activities principally along business and function lines but transacts its business through legal entities. This organisation structure is designed to achieve Shell's overall business objectives, whilst respecting the separate legal identity of the individual Shell companies through which it is implemented and the independence of each Board of Directors. Each legal entity, for legal and tax purposes, exercises control of its own assets and employees. This is achieved by legal entities taking formal binding decisions or actions through corporate authorities. It is the task of the businesses and functions to provide prior advice to the legal entities with respect to such decisions and actions.

Shell has an integrated, consistent process to delegate authority from the Shell plc Board and other Shell company boards to organisations, individuals and committees. The objective of delegating authorities is to ensure that decisions are made at the appropriate level in the organisation and that transactions are carried out by the appropriate company. Support from the business or functional line is achieved through organisational authorities. Organisational support, as a general rule, precedes corporate approval.

Shell operates in an environment of uncertainty and significant volatility, that provides risks (upside and downside) to meeting individual Company and Group objectives. Shell has therefore adopted a risk-based approach to the overall design of the Shell Control Framework and its components. It requires management in businesses and functions to understand the relationship between the business environment, objectives, risks and performance, and to establish appropriate risk responses and assess their effectiveness.

The Board of RDS, Chief Executive Officer and Executive Committee have defined accountabilities and authorities and set the overall strategy, objectives and the boundaries within which these are achieved, which includes approval of the Shell Control Framework.

Shell U.K. Limited

Strategic report for the year ended 31 December 2021 (continued)

The strategic aims of the Company are considered to be derived from those of the Shell Group, which are discussed on pages 10 to 15 of the Group Report.

Ahead of each board meeting, Directors are asked to confirm that there is no conflict of interests between those of the Company and their own interests in the business being considered.

The Shell Group maintains a code of business conduct and ethics for all employees which are established in the Shell General Business Principles and the Shell Code of Conduct. Employees, contract staff, third parties with whom Shell has a business relationship (such as customers, suppliers and agents), and any member of the public (including shareholders) may raise ethics and compliance concerns (anonymously if preferred) through the Shell Global Helpline. This is a worldwide confidential reporting mechanism.

Remuneration policy for employees is set on a country by country basis but individual performance is rewarded by reference to the business or function in which the employee works. Individual directors are generally not remunerated in connection with the management of the affairs of the company on whose board they serve but rather in relation to the role they perform in their business or function.

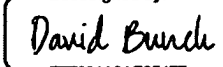
Legal entity directorships are allocated to individuals of sufficient seniority on the basis of business or functional expertise that reflects the operating requirements of the particular company. The level of activity and complexity of the company is also taken into account when considering the size and structure of the board.

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 21 September 2022 and signed on its behalf by:

DocuSigned by:

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D.L. Bunch
Director

Shell U.K. Limited

Directors' report for the year ended 31 December 2021

The Directors present their report and the financial statements for the year ended 31 December 2021.

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

Dividend

No dividends were paid during the year (2020: £nil).

Future Outlook

In support of Shell's energy transition strategy, the Company will continue to invest and manage new energy portfolio that delivers energy through low carbon and green technologies.

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

Research and development

The Company has available the services of Shell Research Limited, a fellow subsidiary undertaking of the Company, and other research companies of the Shell Group to carry out research and development where it is applicable in its businesses. The Directors regard the investment in research and development as integral to the continuing success of the business.

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:

E.C. Andrew (resigned 30 June 2022)

D.L. Bunch (appointed 15 June 2021)

J.T. Cameron (resigned 26 July 2022)

N.A. Hobson (resigned 31 July 2021)

M. Khullar

S.C. Lynch (resigned 18 June 2021)

S.R. Phimister (resigned 1 May 2021)

S.E. Roddy (appointed 14 June 2021)

B. Williamson

The following directors were appointed after the year end:

C.A. Crooks (appointed 1 February 2022)

R.M. Jory (appointed 1 February 2022)

A.L. Ward (appointed 26 July 2022)

M. Whitaker (appointed 25 April 2022)

Shell U.K. Limited

Directors' report for the year ended 31 December 2021 (continued)

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 202 to 204 and note 20).

Financial risks that are specific to the Company are discussed in note 4 of the Notes to Financial statements.

Streamlined Energy and Carbon Reporting

The directors are aware of the requirements for large UK companies to report on their UK energy use and carbon emissions. The company's energy usage and greenhouse gas emissions form part of the overall Shell Group results. The climate change and energy transition strategy and disclosures are discussed on pages 75 to 98 of the Group Report with greenhouse gas emissions and energy usage being set out on pages 97 to 98.

Events after the end of the reporting period

On January 21, 2022, the ultimate parent Company changed its name from Royal Dutch Shell plc to Shell plc.

Russia's recent invasion of Ukraine poses wide-ranging challenges. Given the evolving situation, there are many unknown factors and events that could materially impact our operations. These events have and continue to impact commodity prices, our supply chain, credit risks including those related to receivables, commodity trading, treasury and other factors. Any of these factors, individually or in aggregate, could have a material effect on investment carrying value, our earnings, cash flows and financial condition.

Qualifying third party indemnities

Certain Directors have been granted qualifying third-party indemnity under Section 234 of the Companies Act 2006 by BG Group Limited, which remains in force. The indemnity does not apply in the event the indemnified individual is proved to have acted fraudulently or dishonestly.

Shell U.K. Limited

Directors' report for the year ended 31 December 2021 (continued)

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 U.K. 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 U.K. 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. There are also schemes such as career breaks, six months paid parental leave and a range of childcare support initiatives to support employees with families.

Statement of employee engagement

Refer to the Employee engagement paragraph in the Strategic report set out on page 6.

Statement of corporate governance

Refer to the Governance controls paragraph in the Strategic report set out on page 6.

Statement of Directors' responsibilities

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

Shell U.K. Limited

Directors' report for the year ended 31 December 2021 (continued)

Statement of Directors' responsibilities (continued)

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

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

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

Disclosure of information to the auditor

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

Approved by the Board on 21 September 2022 and signed on its behalf by:

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David Bunch

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D.L. Bunch

Director

Independent Auditor's report to the Member of Shell U.K. Limited

Opinion

We have audited the financial statements of Shell U.K. Limited for the year ended 31 December 2021 which comprise the Profit and loss account, the Balance sheet, the Statement of changes in equity, and the related notes 1 to 26, 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 as applied to other entities of public interest, 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 Company's affairs as at 31 December 2021 and of its loss 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 as applied to other entities of public interest, 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We confirmed our understanding of management's going concern assessment process. We also engaged with management early to ensure all key risks and factors were considered in their assessment.
- We obtained management's going concern assessment which covers the period up to 31 December 2023. The Company has modelled an adverse scenario in their cash forecasts in order to incorporate unexpected changes to the forecasted liquidity of the Company.
- We tested the assumptions included in the cash forecast, including reductions in revenues, maintained cost profiles, reflecting macroeconomic factors, cash/non-cash movements and their impact on the working capital position of the Company and the impact of Covid-19. We considered the appropriateness of the methods used to calculate the cash forecast and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriately sophisticated to be able to make an assessment for the entity.

Independent Auditor's report to the Member of Shell U.K. Limited (continued)

- We agreed the credit facilities from other group companies available to the Company and the ability of those companies to provide such financing.
- We reviewed management's reverse stress test which adjusted revenue until the Company's liquidity headroom was removed entirely and identified and evaluated corroborative and contrary evidence to assess whether these adjustments to the assumptions was within a range of possible outcomes.
- We read the Company's going concern disclosures included in the financial statements in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period up to 31 December 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

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.

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 course of 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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the 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 the 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.

Independent Auditor's report to the Member of Shell U.K. Limited (continued)

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 11, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

Independent Auditor's report to the Member of Shell U.K. Limited (continued)

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework FRS 101 "Reduced Disclosure Framework", Companies Act 2006, Bribery Act 2010, Companies (Miscellaneous Reporting) Regulation 2018, Petroleum Act 1998, Oil & Gas Authority regulations, those laws and regulations relating to health and safety and employee matters and relevant tax compliance regulations in the jurisdictions in which the Company operates, including the United Kingdom.
- We understood how the Company is complying with those frameworks and Shell group policies by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through the review of the following documentation:
 - all minutes of board meetings held during the year;
 - the Shell group's code of conduct setting out the key principles and requirements for all staff in relation to compliance with laws and regulations;
 - any relevant correspondence with local tax authorities;
 - and any relevant correspondence received from regulatory bodies.
- We assessed that revenue was a judgemental area of the audit which might be more susceptible to fraud. We obtained an understanding of the controls over the process for the recognition of revenue and tested in particular the existence of the revenue recorded in the financial statements and any manual adjustments to the revenue.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company established to address risks identified by the entity or that otherwise seek to prevent, deter or detect fraud. We gained an understanding of the entity level controls and policies that the Company applies being part of the Shell group.
- Based on the results of our risk assessment we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved testing of journal entries, with a focus on journals indicating large or unusual transactions or meeting our defined risk criteria based on our understanding of the business, enquiries of legal counsel and management, review of internal audit reports and of the volume and nature of complaints received by the whistleblowing hotline during the year relevant to the Company.

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.

Independent Auditor's report to the Member of Shell U.K. Limited (continued)

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

.....
Paul Wallek (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: 26 September 2022

Shell U.K. Limited

Profit and loss account for the year ended 31 December 2021

Continuing operations

	Note	2021 £ million	2020 £ million
Turnover	4	5,101	3,461
Cost of sales		<u>(4,669)</u>	<u>(3,900)</u>
GROSS PROFIT/(LOSS)		432	(439)
Selling and distribution costs		(362)	(337)
Administrative expenses		(63)	(66)
Exploration expenses		(53)	(33)
Other income		<u>167</u>	<u>158</u>
OPERATING PROFIT/(LOSS)	7	121	(717)
Income from shares in subsidiary undertakings		3	22
Amounts provided against investments	13	(1,253)	(283)
Profit/(loss) on disposal of tangible fixed assets		6	(18)
Loss from disposals of investments		<u>(4)</u>	<u>-</u>
LOSS BEFORE INTEREST AND TAXATION		(1,127)	(996)
Interest receivable and similar income	5	19	29
Interest payable and similar charges	6	<u>(131)</u>	<u>(158)</u>
LOSS BEFORE TAXATION		(1,239)	(1,125)
Tax on loss	10	<u>99</u>	<u>387</u>
LOSS FOR THE YEAR		<u>(1,140)</u>	<u>(738)</u>


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

Shell U.K. Limited

(Registration number: 00140141)
Balance sheet as at 31 December 2021

	Note	2021 £ million	2020 £ million
Fixed assets			
Intangible assets	11	84	27
Tangible assets	12	3,031	3,392
Right of use assets	19	220	255
Investments	13	3,033	3,546
Deferred tax	10	839	715
		<u>7,207</u>	<u>7,935</u>
Current assets			
Stock	14	197	114
Debtors	16	5,650	4,307
Cash at bank and in hand	15	3	2
Derivatives	3	20	197
		<u>5,870</u>	<u>4,620</u>
Creditors: Amounts falling due within one year	17	<u>(6,356)</u>	<u>(4,716)</u>
Net current liabilities		<u>(486)</u>	<u>(96)</u>
Total assets less current liabilities		6,721	7,839
Creditors: Amounts falling due after more than one year	18	(1,853)	(2,409)
Provisions	21	<u>(2,177)</u>	<u>(2,338)</u>
Net assets		<u>2,691</u>	<u>3,092</u>
Equity			
Called up share capital	22	4,382	3,647
Profit and loss account		<u>(1,691)</u>	<u>(555)</u>
Total equity		<u>2,691</u>	<u>3,092</u>

The financial statements on pages 17 to 65 were authorised for issue by the Board of Directors on 21 September 2022 and signed on its behalf by:

DocuSigned by:

E7F231A9AE8547Z.....
 D.L. Bunch
 Director

Shell U.K. Limited

Statement of changes in equity for the year ended 31 December 2021

	Called up Share Capital £ million	Profit and loss account £ million	Total £ million
Balance as at 01 January 2020	3,491	184	3,675
Loss for the year	-	(738)	(738)
Total Comprehensive loss for the year	-	(738)	(738)
Share based payments - notional	-	6	6
Share based payments - charge from parent	-	(7)	(7)
Proceeds from shares issued	156	-	156
Balance as at 31 December 2020	3,647	(555)	3,092
Balance as at 01 January 2021	3,647	(555)	3,092
Loss for the year	-	(1,140)	(1,140)
Total Comprehensive loss for the year	-	(1,140)	(1,140)
Share based payments - notional	-	9	9
Share based payments - charge from parent	-	(5)	(5)
Proceeds from shares issued	735	-	735
Balance as at 31 December 2021	4,382	(1,691)	2,691

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021

General information

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

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

1 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with UK-adopted international accounting standards 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.

The principal accounting policies applied in the preparation of these financial statements are set out below. The accounting policies have been consistently applied to all the years presented.

Going concern

The balance sheet at 31 December 2021 reports net current liabilities of £486 million and net assets of £2,691 million. The financial statements have been prepared under the going concern concept, based on a detailed review by the Directors of the Company's cash-flow forecasts in comparison with committed facilities. Main drivers of future cash-flow are revenues generated from oil and gas production in Schiehallion and Shearwater fields. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and the financial statements have therefore been prepared under the going concern basis.

The Group sweeps cash from subsidiary companies to a central treasury company account on a daily basis. The Company shows the balance swept at the end of the year as an amount owed by a fellow subsidiary undertaking. The Directors consider that the Company will have access to the funds swept to these accounts when required by the Company.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

New standards applied

New and amended standards and interpretations

Interest Rate Benchmark Reform Phase II - Amendments to IFRS 4, IFRS 7, IFRS 9, IAS 39 and IFRS 16

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when risk-free reference rates (RFR) instrument is designated as a hedge of a risk component

Interest Rate Benchmark Reform Phase II - Amendments to IFRS 16

- A practical expedient is available when a lease liability is required to be remeasured as per paragraph 42 of IFRS 16, it will use the revised discount rate that reflects the change in interest rate.

Amendments to IFRS 16 Covid-19 Related Rent Concessions beyond 30 June 2021

On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted. The Company did not receive any Covid-19 related rent concessions and therefore the amendment had no material impact on the financial statements of the Company.

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:

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

- 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':
 - (i) 10(d), (statement of cash flows);
 - (ii) 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
 - (iii) 16 (statement of compliance with all IFRS);
 - (iv) 38A (requirement to present a minimum of two statements for each of the primary financial statements, including cash flow statements and related notes);
 - (v) 38B-D (additional comparative information);
 - (vi) 40A-D (requirements for a third balance sheet);
 - (vii) 111 (cash flow statement information); and
 - (viii) 134-136 (capital management disclosures)
- The following paragraphs of IFRS 15, 'Revenue from Contracts with Customers':
 - (i) the requirements of the second sentence of paragraph 110 (qualitative and quantitative information about contracts with customers, significant judgements, changes in judgements in applying this standard to those contracts, and assets recognised from the costs to obtain or fulfil a contract);
 - (ii) paragraph 113(a) (revenue recognised from contracts with customers);
 - (iii) paragraphs 114 and 115 (disaggregation of revenue);
 - (iv) paragraph 118 (changes in contract asset and liability);
 - (v) paragraphs 119(a) to (c) and 120 to 127 (performance obligations); and
 - (vi) paragraph 129 (practical expedients);
- IAS 7, 'Statement of cash flows';
- Paragraphs 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);
- Paragraphs 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.
- The following paragraphs of IFRS 16, 'Leases':

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

- (i) paragraph 58 (separate maturity analysis for lease liabilities);
- (ii) paragraphs 90 and 91 (table of lease income from operating leases, including separate disclosure of income from variable lease payments not dependant on an index or a rate);
- (iii) paragraph 93 (qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases).

Consolidation

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

The immediate parent company is Shell Holdings (U.K.) Limited.

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

The consolidated financial statements of Shell plc are available from:

Shell plc

Tel: +44 800 731 8888

email: order@shell.com

Registered office: Shell Centre, London, SE1 7NA

Income from shares in subsidiary and participating undertakings

Income from shares in subsidiary and participating undertakings represents dividends relating to the current year and prior periods. Dividends are recognised on a paid basis unless the dividend has been confirmed by a general meeting of the subsidiary and participating undertakings, in which case income is recognised on the date at which receipt is deemed virtually certain.

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.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

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 the 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. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation by Shell and tax authorities differently and establishes provisions where appropriate.

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.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and credits carried forward can be utilized.

Deferred tax assets and liabilities is measured at the using corporation 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.

Petroleum revenue tax

Current UK Petroleum Revenue Tax (PRT) is treated as an income tax and is deductible for UK corporation tax purposes. It is charged as a tax expense on chargeable field profits included in the profit and loss account.

Provision for deferred petroleum revenue tax is made on a field-by-field basis using the liability method. Provision is made for temporary differences in respect of capital and revenue expenditure and the decommissioning and restoration provision. The benefits of the oil allowance are assumed to accrue over field life.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

Tangible fixed assets and depreciation

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

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

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

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.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Platforms and infield pipelines are depleted from the date field production commences on a unit-of-production basis over the proved developed reserves of the field concerned. Successful exploration, appraisal, production and injection wells are depleted on a unit-of-production basis over the proved developed reserves of the field concerned. However, for certain Upstream assets, other approaches are applied to determine the reserves base for the purpose of calculating depreciation, such as using management's expectations of future oil and gas prices rather than the yearly average prices, to provide a phasing of periodic depreciation charges that more appropriately reflects the expected utilisation of the assets concerned.

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

Oil manufacturing and marketing fixed assets are depreciated on a straight line basis, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Long leasehold land and buildings	20 years
Oil manufacturing plant	20 years
Oil marketing retail plant	5 to 10 years

Exploration, appraisal and development costs

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

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

Decommissioning and restoration costs

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

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Environmental expenditure

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

Significant estimation techniques

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

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

Intangible fixed assets

Intangible assets are recognised at cost where it is probable that they will generate future economic benefits. Intangible assets represents biofuel tickets, which are carbon credits offset against emissions liabilities due by the Company at the time of settlement with the UK Government.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Impairment of Tangible and Intangible assets

The carrying amount of indefinite life intangible assets are tested for impairment annually. Tangible assets other than unproved properties are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable. On classification as held for sale, the carrying amounts of property, plant and equipment and intangible assets are also reviewed. 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 is 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. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices, market supply and demand, potential costs associated with operational GHG emissions, and forecast product and refining margins. In addition, management takes into consideration the expected useful lives of the refineries, and exploration and production assets, and expected production volumes. The latter takes into account assessments of field and reservoir performance and includes expectations about both proved reserves and volumes that are expected to constitute proved reserves in the future (unproved volumes), which are risk-weighted utilising geological, production, recovery and economic projections. Cash flow estimates are adjusted for risks specific to the asset and discounted at a post-tax rate based on Shell's post-tax weighted average cost of capital (WACC). When calculating value in use, using post-tax discount rates does not result in a materially different outcome of determining if an impairment is needed or related to the amount of the impairment than when using pre-tax discount rates.

Impairments, except those related to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed.

Impairment losses and reversals are reported within depreciation, depletion and amortisation.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Financial instruments

Financial assets

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

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

Impairment of financial assets

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

As a result of COVID-19, there continues to be uncertainty in the macroeconomic conditions with an expected negative impact on global economic environment. Therefore, this has an impact on our customers who are also exposed to the same macroeconomic changes. The Company however has Credit -risk policies in place to ensure that sales are made to customers with appropriate creditworthiness, and include detailed credit analysis and monitoring of customers against counterparty credit limits. Where appropriate, netting arrangements, credit insurance, prepayments and collateral are used to manage credit risk. Therefore, the Company's risk of exposure to bad debts is not significant.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Financial liabilities

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

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.

Derivative contracts

Derivative contracts are entered into by the Company for management of interest rate risk and foreign exchange risk and are carried at fair value. The gains or losses arising from changes in fair value are recognised in the profit and loss account within interest income or expenses in the period in which they arise.

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 an investment 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.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Stock

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

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Underlift and overlift of oil

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

Turnover

Recognition

Turnover from contracts with customers is recognised over time, or at a point in time, when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

For contracts that contain separate performance obligations the transaction price is allocated to those separate performance obligations by reference to their relative standalone selling prices. Turnover is recognised as the performance obligations are fulfilled.

Sale of goods

Turnover from sales of oil, natural gas, chemicals and other products is recognised at the price at which the Company is expected to be entitled to, after deducting sales taxes, excise duties and similar levies, and when the control of the products have been transferred, which is when the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits from the products.

Turnover from refining operations, it is either when product is placed onboard a vessel or offloaded from the vessel, depending on the contractually agreed terms.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Turnover from sales of oil products and chemicals, it is either at the point of delivery or the point of receipt, depending on contractual conditions.

Turnover from sales by Upstream and Integrated Gas operations generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism.

For turnover resulting from arrangements that do not meet the revenue from contract with customer criteria, turnover is classified as from other sources.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

Accounting as Lessee:

Classification and measurement:

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date for non-cancellable leases. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines the incremental borrowing rate representing the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate applied to each lease was determined taking into account the risk-free rate, adjusted for factors such as the credit rating of the Company and the terms and conditions of the lease.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Lease payments included in the measurement of the lease liability comprise the following:

1. fixed payments, including in-substance fixed payments;
2. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
3. amounts expected to be payable under a residual value guarantee; and
4. the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

Right of use assets are presented separately in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Subsequent Measurement

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see Note 19). The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

IFRIC 11 - lease accounting

Lease liabilities relating to contracts entered by the Company on behalf of an unincorporated venture, are recognised if the Company has the primary responsibility, which may be different from its share in the joint operation. When the arrangement with other joint operators qualifies as a sublease, a lease receivable is recognised and the related right of use asset is derecognised.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Provisions

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

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

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 Shell Overseas Contributory Pension Fund, 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.

Netting off policy

Balances with other counterparties 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.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

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 by issuing company to employing entities in the year of delivery. This entry is offset by recognising an adjustment to the equity.

Research and development

Development costs that are expected to generate probable future economic benefits are capitalised as intangible fixed assets. All other research and development expenditure is recognised in the profit and loss account as incurred.

Joint arrangements

The Company's exploration, development and production activities are generally conducted in joint arrangements with other companies. The Company recognises its assets and liabilities relating to its interests in joint operations, including its share of assets held jointly and liabilities incurred jointly with other parties.

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.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

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

Useful economic life of tangible fixed assets

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

Impairment of investments

Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable. 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, changes to net assets of investee entity, including the net present value of future cash flows. In computing the net present value, the estimated risk adjusted future cash flows are discounted to their present value using a post-tax discount rate that reflects Shell's post-tax WACC. The discount rate applied does not reflect specific local risks for which future cash flow estimates have been adjusted.

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.

Judgement, which is subject to change as new information becomes available, can be required in determining when an asset is classified as held for sale. A change in that judgement could result in impairment charges affecting income, depending on whether classification requires a write-down of the asset to its fair value less costs to sell.

Notes to the financial statements for the year ended 31 December 2021 (continued)

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 and refining margins. In addition, management uses other assumptions such as potential costs associated with operational GHG emissions and expected production volumes 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.

Group defined benefit pension scheme

Certain employees participate in a group defined benefit pension scheme with other companies in the region. Under the terms of the scheme, there is no policy for allocating the net defined benefit obligation amongst the participating members.

The scheme is therefore accounted for as a defined contribution scheme, see note 20 for further details.

Climate change and energy transition

In 2021, Shell launched its Powering Progress strategy to accelerate the transition of its business to net-zero emissions, including targets to reduce the carbon intensity of energy products sold (Scope 1, 2 and 3 emissions) by 6-8% by 2023, 20% by 2030, 45% by 2035, and 100% by 2050. In October 2021, Shell announced a new target to halve the absolute emissions from its operations and the energy it buys to run them by 2030, compared with 2016 levels on a net basis. This additional target will help Shell to step up the pace of change to become a net-zero emissions energy business. Shell plc's Annual Report in page 242 under note 4 describes how Shell has considered climate-related impacts in some key areas of the financial statements and how this translates into the valuation of assets and measurement of liabilities as Shell makes progress in the energy transition.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

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

Stock provision

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

Provision for expected credit losses of trade debtors

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

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.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

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

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.

Fair value of financial assets and liabilities

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

Determining lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

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

Determining lease discount rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Company estimates the IBR using observable inputs like the risk-free rate and adjusts it for factors such as the credit rating of the Company and the terms and conditions of the lease.

If the implicit interest rate can be determined from the lease contract then, the same should be used to measure the lease liability. Implicit interest rate is defined as the rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.

In practice, it is not easy to identify the implicit rate from a lease contract, therefore it is suggested to use the entity's incremental borrowing rate.

3 Financial instruments

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

	Derivative financial assets £ million	Derivative financial liabilities £ million
Current	8	(161)
Non-current	12	(24)
Balance at 31 December 2021	20	(185)
Current	49	(11)
Non-current	148	(10)
Balance at 31 December 2020	197	(21)

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

3 Financial instruments (continued)

The Company is party to certain long term contracts to sell and purchase gas and oil products which are required to be recognised at fair value because of pricing and delivery conditions, even though they are entered into to meet operational requirements. The key assumption used in valuing these contracts is the forward gas and bitumen prices, which are based on forward gas price formulae used in similar contracts.

The Company also holds a consideration receivable related to the sale of the Schiehallion, Bittern, Belinda and Gannet E fields and the Triton FPSO (floating production storage and offloading) which is required to be recognised at fair value because of pricing conditions. The key assumption used in valuing the derivatives is the forward oil price.

4 Turnover

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

	2021 £ million	2020 £ million
Oil supply and marketing	3,901	2,569
Oil and gas exploration and production	1,200	892
	<u>5,101</u>	<u>3,461</u>

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

	2021 £ million	2020 £ million
Europe	4,948	2,605
Asia Pacific	153	856
	<u>5,101</u>	<u>3,461</u>

Class of business

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

5 Interest receivable and similar income

	2021 £ million	2020 £ million
Interest from Group undertakings:		
Fellow subsidiary undertakings	11	11
Other interest income	8	18
	<u>19</u>	<u>29</u>

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

6 Interest payable and similar charges

	2021 £ million	2020 £ million
Interest on loans from Group undertakings:		
Parent undertakings	27	51
Fellow subsidiary undertakings	44	31
Interest on leases (note 19)	16	25
Loss on currency translation - financial items	5	3
Unwinding of discount on long term provisions (note 21)	39	48
	<u>131</u>	<u>158</u>

7 Operating profit

Arrived at after charging/(crediting):

	2021 £ million	2020 £ million
Depreciation:		
On owned assets	442	742
On lease assets	87	137
Net impairment loss on tangible fixed assets (note 12)	-	545

8 Staff costs

The aggregate payroll costs were as follows:

	2021 £ million	2020 £ million
Wages and salaries	185	195
Social security costs	22	24
Pension costs (note 20)	25	18
Share-based payment expenses (note 26)	9	6
	<u>241</u>	<u>243</u>

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

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

8 Staff costs (continued)

	2021 No.	2020 No.
Oil and gas exploration	1,572	1,664
Oil supply and marketing	<u>240</u>	<u>266</u>
	<u>1,812</u>	<u>1,930</u>

Contracts of employment for employees in the oil supply and marketing division are held by a fellow group company of Shell U.K. Limited. All costs in relation to these employees are included in the numbers above as Shell U.K. Limited is recharged in full.

9 Auditor's remuneration

	2021 £	2020 £
Audit of the financial statements	<u>256,602</u>	<u>185,065</u>
	<u>256,602</u>	<u>185,065</u>

The auditor's remuneration of £256,602 (2020: £185,065) in respect of the statutory audit was borne by the Company for both the current and preceding years.

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

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

10 Tax on loss

Tax credit in the profit and loss account

The tax credit for the year of £99 million (2020: £387 million) is made up as follows:

	2021 £ million	2020 £ million
Current taxation		
UK corporation tax	59	(15)
UK corporation tax adjustment to prior periods	5	33
Total current tax charge	<u>64</u>	<u>18</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(137)	(386)
Arising from changes in tax rates and laws	(27)	(7)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	3	(8)
Total deferred tax credit	<u>(161)</u>	<u>(401)</u>
Current petroleum revenue tax at 50% (2020: 50%)	(34)	(36)
Deferred petroleum revenue tax at 50% (2020: 50%)	32	32
Tax credit in the profit and loss account	<u>(99)</u>	<u>(387)</u>

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

10 Tax on loss (continued)

Reconciliation of total tax (credit)

The tax on loss before tax for the year differs from the standard rate of corporation tax in the UK of 19.00% (2020 - 19.00 %).

The differences are reconciled below:

	2021 £ million	2020 £ million
Loss before tax	(1,239)	(1,125)
Tax on loss calculated at standard rate (2021:19%) (2020:19%)	(236)	(214)
Effects of:		
Income exempt from taxation	(7)	(12)
Expenses not deductible	251	79
Adjustments in respect of prior periods	7	22
Tax decrease from utilisation of tax losses	(22)	(21)
Ring Fence/Non-Ring Fence tax rate differentials	(66)	(226)
Change in corporation tax rates	(27)	(7)
Dividends from UK companies	(1)	(4)
Corporation tax relief on petroleum revenue tax	2	(4)
Total tax credit	(99)	(387)

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%.

Deferred taxes on the balance sheet have been measured at 40% (ring fence corporation tax of 30% and supplementary charge of 10%) (2020 – 40%) applicable to oil and gas exploration and production, and 19% (2020 – 19%) for other than oil and gas exploration and production; which both represent the future tax rates that were enacted at the balance sheet date.

The Finance Act 2021 (enacted on 24 May 2021) increased the main rate of UK corporation tax to 25% with effect from 1 April 2023.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

10 Tax on loss (continued)

On July 14, 2022, the Energy (Oil & Gas) Profits Levy Act 2022 (EPL) was enacted in the United Kingdom which applies an additional tax on the profits earned by oil and gas companies from the production of oil and gas on the United Kingdom Continental Shelf. The new tax will be applied to income generated after May 26, 2022 and its introduction is expected to have a negative impact of some GBP 170 million on the deferred tax position recognized in the balance sheet at December 31, 2021.

Deferred tax assets/(liabilities) as at:

	Asset £ million	Liability £ million	Net deferred tax £ million
2021			
Tax losses carried forward	500	-	500
Accelerated tax depreciation	-	(611)	(611)
Provision for decommissioning and restoration not yet allowed for tax	966	-	966
Other items	-	(16)	(16)
	<u>1,466</u>	<u>(627)</u>	<u>839</u>

	Asset £ million	Liability £ million	Net deferred tax £ million
2020			
Tax losses carried forward	475	-	475
Accelerated tax depreciation	-	(790)	(790)
Provision for decommissioning and restoration not yet allowed for tax	1,060	-	1,060
Other items	-	(30)	(30)
	<u>1,535</u>	<u>(820)</u>	<u>715</u>

Deferred tax movement during the year:

	At 1 January 2021 £ million	Recognised in profit and loss account £ million	Recognised in other balance sheet items £ million	At 31 December 2021 £ million
Tax losses carried forward	475	30	(5)	500
Accelerated tax depreciation	(790)	143	36	(611)
Provision for decommissioning and restoration not yet allowed for tax	1,060	(58)	(36)	966
Other items	(30)	14	-	(16)
Net tax assets/(liabilities)	<u>715</u>	<u>129</u>	<u>(5)</u>	<u>839</u>

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

10 Tax on loss (continued)

Deferred tax movement during the prior year:

	At 1 January 2020 £ million	Recognised in profit and loss account £ million	Recognised in other comprehensive income £ million	At 31 December 2020 £ million
Tax losses carried forward	451	31	(7)	475
Accelerated tax depreciation	(1,066)	375	(99)	(790)
Provision for decommissioning and restoration not yet allowed for tax	1,025	(64)	99	1,060
Other items	(57)	27	-	(30)
Net tax assets/(liabilities)	<u>353</u>	<u>369</u>	<u>(7)</u>	<u>715</u>

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

	2021 £ million	2020 £ million
Deferred tax assets due more than 12 months	1,466	1,535
Deferred tax liabilities due more than 12 months	<u>(627)</u>	<u>(820)</u>
Total deferred tax	<u>839</u>	<u>715</u>

11 Intangible assets

	Other Intangibles £ million
Cost	
Balance at 1 January 2021	27
Additions	<u>57</u>
Balance at 31 December 2021	84
Accumulated amortisation and impairment	
Balance at 31 December 2021	<u>-</u>
Net book amount	
At 31 December 2021	<u>84</u>
At 31 December 2020	<u>27</u>

Intangible assets represents biofuel tickets, which are carbon credits offset against emissions liabilities due by the Company at the time of settlement with the UK Government.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

12 Tangible assets

	Oil and gas exploration and production £ million	Oil supply and marketing £ million	Assets under construction £ million	Total £ million
Cost or valuation				
Balance at 1 January 2021	13,657	1,388	754	15,799
Additions	53	-	285	338
Disposals and retirements of assets	(193)	(21)	(12)	(226)
Transfers	265	55	(320)	-
Change in estimates	(109)	-	19	(90)
Balance at 31 December 2021	13,673	1,422	726	15,821
Accumulated Depreciation				
Balance at 1 January 2021	(12,078)	(329)	-	(12,407)
Charge for the year	(521)	(44)	-	(565)
Disposals and retirements of assets	166	16	-	182
Balance at 31 December 2021	(12,433)	(357)	-	(12,790)
Net book amount				
At 31 December 2021	1,240	1,065	726	3,031
At 31 December 2020	1,579	1,059	754	3,392

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

12 Tangible assets (continued)

Aggregate net decommissioning costs included in tangible fixed assets of the Company as at 31 December 2021 were £158 million (2020: £343 million).

The net book value of land and buildings included in the tangible fixed assets is £810 million (2020: £807 million).

Capitalised costs relating to oil and gas exploration and production activities were as follows:

	2021	2020
	£ million	£ million
Gross capitalised costs:		
- proven properties	14,301	14,290
- unproven properties	29	43
	<u>14,330</u>	<u>14,333</u>
Accumulated depreciation, depletion, amortisation and impairment	(12,354)	(12,078)
Net book amount	<u>1,976</u>	<u>2,255</u>

Oil and gas price assumptions applied for impairment testing are reviewed and, where necessary, adjusted on a periodic basis. Reviews include comparison with available market data and forecasts that reflect developments in demand such as global economic growth, technology efficiency, policy measures and, in supply, consideration of investment and resource potential, cost of development of new supply, and behaviour of major resource holders. The near-term commodity price assumptions applied in impairment testing were as follows:

Commodity price assumptions [A]

	2022	2023	2024	2025
Brent crude oil (\$/b)	60	60	60	63
Henry Hub Natural gas (\$/MMBtu)	2.75	2.75	2.75	3.00

[A] Money of the day

For periods after 2025, the real-term long-term price assumptions applied were \$60 per barrel (/b) (2020:\$60/b) for Brent crude oil and \$3.00 per million British thermal units (/MMBtu) (2020: \$3.00/MMBtu) for Henry Hub natural gas, both at real term 2021.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

13 Investments

	Subsidiary undertakings shares £ million	Participating undertakings shares £ million	Participating undertakings loans £ million	Others loans £ million	Total £ million
Cost					
Balance at 1 January 2021	5,547	12	5	8	5,572
Additions	740	-	3	-	743
Disposals	-	(3)	-	-	(3)
Balance at 31 December 2021	6,287	9	8	8	6,312
Amounts provided					
Balance at 1 January 2021	(2,021)	-	(5)	-	(2,026)
Additions	(1,253)	-	-	-	(1,253)
Balance at 31 December 2021	(3,274)	-	(5)	-	(3,279)
Carrying amount					
At 31 December 2021	<u>3,013</u>	<u>9</u>	<u>3</u>	<u>8</u>	<u>3,033</u>
At 31 December 2020	<u>3,526</u>	<u>12</u>	<u>-</u>	<u>8</u>	<u>3,546</u>

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

13 Investments (continued)

Impairment reviews have been performed on investments with an impairment trigger. Investments have been written down where appropriate to their recoverable amounts.

The Directors believe that the carrying value of the investments is supported by their underlying net assets/discounted cash flows.

During the year, the Company recorded an impairment of £1,253 million in investments in subsidiaries due to downward revision in the value in use of underlying assets held within the investments. This has been driven predominantly by the change in OP21 plan assumptions, including the production profiles of the assets and the economic reservoir potential.

For the purposes of determining whether impairment of investments in subsidiaries has occurred, and the extent of any impairment loss or its reversal, the key assumptions management uses in estimating risk-adjusted future cash flows for value-in-use measures include 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.

In 2021, the Company has applied a post-tax WACC as the basis to discount the estimated risk adjusted future cash flows. The post-tax WACC applied in 2021 was 6.5% for all businesses except for Power (5%). Prior to 2021 the rate used by Shell was based on a pre-tax discount rate reflecting the marginal cost of debt, current market assessments of the time value of money and residual risk (2021:6%; 2020: 6%).

Following change in impairment methodology, systematic risks are covered in the WACC discount rate. Asset specific risks, including sovereign risks and climate change risks, remain to be captured in the cash flows prior and post January 1, 2021.

Oil and gas price assumptions applied for impairment testing are reviewed and, where necessary, adjusted on a periodic basis. Reviews include comparison with available market data and forecasts that reflect developments in demand such as global economic growth, technology efficiency, policy measures and, in supply, consideration of investment and resource potential, cost of development of new supply, and behaviour of major resource holders. The near-term commodity price assumptions applied in impairment testing were as follows:

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

13 Investments (continued)

Commodity price assumptions [A]

	2022	2023	2024	2025
Brent crude oil (\$/b)	60	60	60	63
Henry Hub Natural gas (\$/MMBtu)	2.75	2.75	2.75	3.00

[A] Money of the day

For periods after 2025, the real-term long-term price assumptions applied were \$60 per barrel (/b) (2020:\$60/b) for Brent crude oil and \$3.00 per million British thermal units (/MMBtu) (2020: 3.00/MMBtu) for Henry Hub natural gas, both at real term 2021.

Details of the subsidiaries as at 31 December 2021 are as follows:

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

13 Investments (continued)

Name of subsidiary	Registered office and County of incorporation	Class of shares	% of ownership
Schiehallion Oil & Gas Limited	Whitehall House, Grand Cayman KY1-1102, Cayman Islands	Ordinary	100%
Shell North Sea Holdings Limited*	Ugland House, Grand Cayman, KY1-1104, Cayman Islands	Ordinary	100%
Beryl North Sea Limited*	Whitehall House, Grand Cayman KY1-1102, Cayman Islands	Ordinary	100%
Shell Service Station Properties Limited	Queensway House, St. Helier, JE1 1ES, Jersey	Ordinary	100%
Shell Ep Holdingselskab Danmark Aps*	Midtermolen 3, 4, Copenhagen, 2100, Denmark	Ordinary	100%
Enterprise Oil Limited	8 York Road, London, SE1 7NA, United Kingdom	Ordinary	100%
Enterprise Oil Middle East Limited*	8 York Road, London, SE1 7NA, United Kingdom	Ordinary	100%
Enterprise Oil U.K. Limited*	8 York Road, London, SE1 7NA, United Kingdom	Ordinary	100%
GOGB Limited	8 York Road, London, SE1 7NA, United Kingdom	Ordinary	100%
Murphy Schiehallion Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Octane Properties Limited*	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Saxon Oil Limited*	8 York Road, London, SE1 7NA, United Kingdom	Ordinary	100%

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

13 Investments (continued)

Name of subsidiary	Registered office and County of incorporation	Class of shares	% of ownership
Saxon Oil Miller Limited*	8 York Road, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell Clair UK Limited*	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell Club Corringham Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell Distributor (Holdings) Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell Direct (U.K.) Limited*	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell Ep Offshore Ventures Limited*	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell Gas Holdings (Malaysia) Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell Trustee Solutions Limited*	1 Altens Farm Road, Aberdeen, AB12 3FY, United Kingdom	Ordinary	100%
Shell Upstream Overseas Services (I) Limited*	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell U.K. North Atlantic Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell New Energies UK Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Telegraph Service Stations Limited	8 York Road, London, SE1 7NA, United Kingdom	Ordinary	100%
B-Snug Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

13 Investments (continued)

Name of subsidiary	Registered office and County of incorporation	Class of shares	% of ownership
Walton-Gatwick Pipeline Company Limited	5-7 Alexandra Road, Herts, HP2 5BS, United Kingdom	Ordinary	52%
Woodlea Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Shell Mds (Malaysia) Sendirian Berhad*	8, Bandar Utama Selangor Darul Ehsan, 47800, Malaysia	Ordinary	72%
Shell Egypt N.V.*	Carel van Bylandtlaan 30, The Hague, 2596 HR, Netherlands	Ordinary	100%
Machine Max Limited	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	100%
Machine Max India Private Limited*	H No. 8-2-203/82/A/73 2, Suit 302, Sasi Icon, Road no.36, Jubilee Hills, Hyderabad, Telangana TG 500033, India	Ordinary	100%

* indicates indirect investment of the Company.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

13 Investments (continued)

Details of the participating undertakings as at 31 December 2021 are as follows:

Name of participating undertaking	Registered office and County of incorporation	Class of shares	% of ownership
Autogas Limited	Athena House, Warwick, CV34 6RL, United Kingdom	Ordinary	50%
British Pipeline Agency Limited	5-7 Alexandra Road, Herts HP2 5BS, United Kingdom	Ordinary	50%
Eastham Refinery Limited	8 York Road, London, SE1 7NA, United Kingdom	Ordinary	50%
Manchester Airport Storage and Hydrant Company Limited	50 Broadway, London, SW1H 0BL, United Kingdom	Ordinary	25%
United Kingdom Oil Pipelines Limited	5-7 Alexandra Road, Herts, HP2 5BS, United Kingdom	Ordinary	48%
West London Pipeline and Storage Limited	5-7 Alexandra Road, Herts, HP2 5BS, United Kingdom	Ordinary	38%
Shell-Mex and B.P. Limited *	Shell Centre, London, SE1 7NA, United Kingdom	Ordinary	20%

* indicates indirect investment of the Company.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

14 Stock

	2021 £ million	2020 £ million
Raw materials and consumables	59	21
Finished goods and goods for resale	123	77
Other inventories	15	16
	<u>197</u>	<u>114</u>

15 Cash and cash equivalents

	2021 £ million	2020 £ million
Cash at bank and in hand	<u>3</u>	<u>2</u>

16 Debtors

Debtors: amounts due within one year

	2021 £ million	2020 £ million
Trade debtors	384	293
Amounts owed by Group undertakings:		
Parent undertakings	416	412
Subsidiary undertakings	2,603	2,558
Fellow subsidiary undertakings	1,940	865
Amounts owed by participating undertakings	1	1
Prepayments and accrued income	35	13
Other debtors	201	137
	<u>5,580</u>	<u>4,279</u>

Included within Other debtors is underlift of £59 million (2020: £21 million).

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

16 Debtors (continued)

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand, except the balances with Shell Treasury which are interest bearing and the interest free loan given to Enterprise Oil Limited which has been fair valued and has a fixed date of repayment in 2025.

The impairment provision required under IFRS 9 was calculated using 12 month ECLs. Receivables have been impaired for amount of £0.05 million.

The Company has recorded all financial assets at amortised cost.

Debtors: amounts due after one year

	2021 £ million	2020 £ million
Other debtors	69	28
Prepayments and accrued income	1	-
	<u>70</u>	<u>28</u>

The Company has recorded all financial assets at amortised cost.

17 Creditors: amounts falling due within one year

	2021 £ million	2020 £ million
Trade creditors	451	384
Amounts owed to Group undertakings		
Parent undertakings	949	948
Subsidiary undertakings	3,417	2,635
Fellow subsidiary undertakings	775	185
Amounts due to participating undertakings	11	14
Derivative liabilities (note 3)	161	11
Tax liability	99	56
Accrued expenses	166	194
Other creditors	244	168
Lease liabilities	83	121
	<u>6,356</u>	<u>4,716</u>

Included within Other creditors is overlift of £48 million (2020: £10 million).

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

17 Creditors: amounts falling due within one year (continued)

Amounts owed to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand except for a loan of amount £802 million owed to the parent undertaking, which incurs interest at the rate of 2.20% above LIBOR and is repayable by January 2022 and a loan of amount £560 million owed to the fellow subsidiary undertaking, which incurs interest at the rate of 2.12% above SONIA and is repayable by June 2022.

The Company has recorded derivative liabilities at FVTPL and other financial liabilities at amortised cost.

18 Creditors: amounts falling due after more than one year

	2021 £ million	2020 £ million
Amounts due to Group undertakings		
Parent undertakings	440	440
Fellow subsidiary undertakings	1,200	1,760
Trade and other payables	26	5
Derivative liabilities (note 3)	24	10
Lease liabilities	163	194
	<u>1,853</u>	<u>2,409</u>

	2021 £ million	2020 £ million
Amounts falling due after more than five years		
Lease liabilities	9	61

Loan agreements exist between the Company and Group undertakings to finance oil and gas exploration and production activities as below:

Group Undertakings:	Currency	Interest % (SONIA plus)	Repayable	2021 £ million	2020 £ million
Fellow subsidiary undertaking	GBP	2.66	25-06-2024	1,200	1,200
Fellow subsidiary undertaking	GBP	2.12	25-06-2022	-	560
Parent undertaking	GBP	1.89	01-10-2023	440	440
				<u>1,640</u>	<u>2,200</u>

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

18 Creditors: amounts falling due after more than one year (continued)

The loan amount of £560 million owed to the parent undertaking which is repayable as on June 2022 has been reclassified to amounts falling due within one year.

19 Leases

Right of use assets

The Group has lease contracts for various items of plant, machinery, buildings and other equipment used in its operations.

Set out below are the carrying amounts of right of use assets recognised and the movements during the period:

	Total £ million
Balance at 1 January 2021	255
Additions during the year	56
Depreciation charge for the year	(89)
Derecognition during the year	<u>(2)</u>
Balance at 31 December 2021	<u>220</u>

Amounts recognised in profit and loss account

	Notes	2021 £ million	2020 £ million
Interest expense (included in finance cost)	6	<u>16</u>	<u>25</u>
		<u>16</u>	<u>25</u>

Total cash outflow for right-of-use assets during the 2021 financial year was £133 million (2020: £163 million).

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

20 Pension and other schemes

Shell Contributory Pension Fund

The Company is a Member Company of the Shell Contributory Pension Fund ("SCPF"), a defined benefits pension scheme, which provides pensions and other post-retirement benefit entitlements to eligible United Kingdom employees. Apart from the contributions from employee members, which have a fixed maximum rate, the SCPF is funded entirely by contributions from Member Companies at rates certified from time to time by Aon Hewitt Limited, the SCPF's actuary. On 1 March 2013, the SCPF was closed to new entrants. At the same time, the Shell Group established the UK Shell Pension Plan ("UKSPP"), a defined contribution scheme, to provide benefits to new employees.

Aon Hewitt Limited carried out the triennial actuarial valuation of the SCPF as at 31 December 2020 using the projected unit method. The value of the SCPF's assets taken into account for the funding valuation at that date was £16,940 million and the value of the liabilities was £16,461 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 a term dependent risk premium which had an initial level of 2.65% per annum at 31 December 2020, and reduces to 0.5% per annum linearly over the period from 2021 to 2034 inclusive; 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 set as nil in year 1 and then fixed at 2.5% per annum. The funding surplus (excess of assets compared to the value of pension liabilities) was £479 million. This corresponded to a funding ratio (assets as a percentage of liabilities) of 103%.

A valuation was performed for accounting purposes at 31 December 2021 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 1.94%, a rate of general salary increases of 0.00-2.5% for 2021 onwards, and a price inflation rate of 3.20%. The value of the SCPF's assets as at that date was £17,492 million and the value of the liabilities on this accounting basis was £15,433 million, meaning the surplus measured for accounting purposes was £2,059 million.

The plan assets of the scheme were invested mainly in quoted equities (18%) and debt instruments (55%), with the remainder (27%) 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 SCPF as a defined contribution scheme. The Company's contributions to the SCPF for the year amounted to £15.3 million (2020: £8.3 million). As a result of changes enacted to the funding of the SCPF during 2014, Company contributions are held in a Contribution Reserve Account ("CRA") to which the SCPF Trustee will have access under certain circumstances. Contributions were 10% to 30 June 2021 and 30% from the 1 July 2021, and will be 30% for 2022.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

20 Pension and other schemes (continued)

The cost of contributions to the UKSPP for the year amounts to £8.2 million (2020: £8.2 million).

Shell Overseas Contributory Pension Fund

The Company is a Member Company of the Shell Overseas Contributory Pension Fund ("SOCPF"), a defined benefits pension scheme, which provides pensions and other post-retirement benefit entitlements for expatriate employees whose base country is the United Kingdom. Apart from the contributions from employee members, which have a fixed maximum rate, the SOCPF is funded entirely by contributions from Member Companies at rates certified from time to time by Aon Hewitt Limited, the SOCPF's actuary. On 1 March 2013, the SOCPF was closed to new entrants. At the same time, the Shell Group established the UK Shell Pension Plan ("UKSPP"), a defined contribution scheme, to provide benefits to new employees.

Aon Hewitt Limited carried out the triennial actuarial valuation of the SOCPF as at 31 December 2020 using the projected unit method. The value of the SOCPF's assets taken into account for the funding valuation at that date was £4,930 million and the value of the liabilities was £4,974 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 a term dependent risk premium which has an initial level of 3.35% per annum as at 31 December 2020 and reduces to 0.5% per annum linearly over the period from 2026 to 2034 inclusive 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 set as nil in year 1 and then fixed at 2.5% per annum. The funding deficit excess of Pension liabilities compare to the value of pension assets) was £45169 million. This corresponded to a funding ratio (assets as a percentage of liabilities) of 99%.

The plan assets of the scheme were invested mainly in quoted equities (42%) and debt instruments (28%), with the remainder (30%) 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 were 55% of members' pensionable salaries and amounted to £nil (2020: £nil). Contributions changed from 30% to 55% of members' pensionable salaries on 1 January 2021.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

21 Provisions

	Decommissioning and restoration £ million	Others £ million	Total £ million
Balance as at 1 January 2021	2,269	69	2,338
Increase in existing provisions	-	13	13
Decrease through disposals	(3)	-	(3)
Utilisation of provision	(78)	(16)	(94)
Released to the profit and loss account	-	(2)	(2)
Unwinding of discount (note 6)	39	-	39
Changes in estimates	(114)	-	(114)
Balance as at 31 December 2021	2,113	64	2,177

At 31 December 2021, the Company has provided £2,113 million (2020: £2,269 million) in respect of the decommissioning of its oil and gas fields and related infrastructure and the restoration of the sites. It is anticipated that decommissioning and restoration costs will be incurred over the next 27 years. The exact timing of these costs is dependent upon a number of factors such as reservoir performance, new near field developments and the oil price. The provision has been estimated using existing technology, at current prices and discounted using a nominal discount rate of 2% (2020: 1.75%).

The Company has also provided £22 million (2020: £23 million) in respect of environmental provisions, which is included in "Other provisions" above. This represents the estimated environmental restoration and remediation costs required for various sites as a result of past activities. The provision has been estimated using existing technology, at current prices and has not been discounted. Other provisions also include £13 million (2020: 14 million) in respect of redundancies and is expected to be utilised in 2022, £21 million (2020: £24 million) in respect of decommissioning and restoration costs of Oil supply and marketing retail plant, expected to be incurred over the next 22 years and the balance of £8 million (2020: £8 million) is for other provisions.

Discount rate impact on Decommissioning provision

The discount rate applied for provisions at 31 December 2021 was 2% (31 December 2020: 1.75%). Compared with 31 December 2020, non-current decommissioning and restoration provisions increased by £56 million as a result of the change in the discount rate.

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

22 Called up share capital

Allotted, called up and fully paid shares

	No.	2021 £ million	No.	2020 £ million
Allotted and fully paid of £1 each	<u>4,382,212,422</u>	<u>4,382</u>	<u>3,646,905,669</u>	<u>3,647</u>

New shares allotted

During the year 735,306,753 ordinary share capital having an aggregate nominal value of £1 were allotted for an aggregate consideration of £735,306,753.

23 Directors' emoluments

The Directors' emoluments for the year were as follows:

	2021 £ '000	2020 £ '000
Emoluments	<u>2,755</u>	<u>2,370</u>

The number of Directors who were receiving benefits as at 31 December 2021 are as follows:

	2021 No.	2020 No.
Shares receivable by Directors	9	9
Accruing benefits under defined benefit pension scheme	<u>8</u>	<u>7</u>

In respect of the highest paid Director:

	2021 £ '000	2020 £ '000
Emoluments	716	741
Defined benefit accrued pension entitlement at the end of the period	57	-

During the year the highest paid Director received or was entitled to receive shares under a long term incentive scheme.

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

Shell U.K. Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

24 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £34 million (2020 - £54 million).

25 Events after the end of the reporting period

On January 21, 2022, the ultimate parent Company changed its name from Royal Dutch Shell plc to Shell plc.

Russia's recent invasion of Ukraine poses wide-ranging challenges. Given the evolving situation, there are many unknown factors and events that could materially impact our operations. These events have and continue to impact commodity prices, our supply chain, credit risks including those related to receivables, commodity trading, treasury and other factors. Any of these factors, individually or in aggregate, could have a material effect on investment carrying value, our earnings, cash flows and financial condition.

26 Share-based payments

Conditional awards of Shell plc shares are made under a long-term incentive plan (the 'Performance Share Plan') when making awards to employees who are not Executive Directors of 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. On June 18, 2021, Shell plc granted all eligible employees a single Powering Progress shares award with vesting date in June 2022.

For awards granted in 2021 and 2022, 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. 10% of the award is linked to free cash flow factor relative to internal operating plans over the remeasurement period, 10% of the award is linked to the energy transition and remaining 30% is linked to the relative performance compared to four of its competitors in TSR, cash flow from operations and return on actual capital employed. The other half of the award is linked to the Shell scorecard results.

The weighted average market price for exercises in 2021 was £14.52 (2020: £17.58) for Shell plc Class A shares, £13.80 (2020: £17.39) for Shell plc Class B shares, and £27.70 (2020: £35.43) for Shell plc Class A ADRs. For the performance shares which were outstanding as at 31 December 2021, the weighted average exercise price is £ nil (2020:£ nil) and the weighted average remaining contractual life is 1.12 year (2020: 1.07 year).

The profit and loss charge for 2021 is £9 million (2020: £6 million).