

Shell U.K. Limited

Strategic report for the year ended 31 December 2019 (continued)

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 45 to 79 of the Group Report and the key performance indicators through which the Group's performance is measured are as set out on pages 42 to 44 of the Group Report.

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 will have an impact on 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 subsidiary of Royal Dutch Shell plc ("Shell", and together with its subsidiaries, "Shell Group"), an organisation with subsidiary entities operating in some seventy countries. Shell and its subsidiaries follow a highly developed and formalised governance and oversight framework, which includes but is not limited to group wide 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.

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The strategic aims of the Company are considered to be derived from those of the Shell Group, which are discussed on pages 20 - 21 of the Royal Dutch Shell plc 2019 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 Board of Directors.

Principal decisions

We define principal decisions taken by the Board as those decisions in 2019, 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 five groups. Where appropriate, each group is considered to include both current and potential stakeholders.

Key stakeholder groups

- A. Investor Community Employees/Workforce/Pensioners
- B. Regulators/Governments/NGOs
- C. Communities
- D. Customers
- E. Counterparties /Strategic Partners

Principal decisions in 2019

In the table below we outline some of the principal decisions made by the Board during the year, explain how the Directors have engaged with, or in relation to, the different key stakeholder groups and how stakeholder interests were considered 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 the proposal being considered. Board decisions will not necessarily result in a positive outcome for all of our stakeholders, but by considering the Company's 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.

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Investing in New business and 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.

Shareholders' Distribution	Outcome
Periodically, the Board reviewed capital allocation and shareholder returns.	A dividend was paid without any reduction of the Company's share capital.

How were stakeholders considered.

The Board considered its primary fiduciary duties to the Company, whilst acknowledging requests for support from the wider Shell Group such as payment of dividends to support the ultimate parent company in paying distributions to its external shareholders. In making decisions, the Board gave consideration to the impact of reducing share capital on the ability of the Company to pay future dividends.

Equity Injection or payment of dividend.

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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.

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 Royal Dutch Shell plc (RDS) Annual Report.

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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 Royal Dutch 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.

The strategic aims of the Company are considered to be derived from those of the Shell Group, which are discussed on pages 20 to 21 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.

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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.

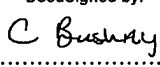
Human Rights

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 29 September 2020 and signed on its behalf by:

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C. Bushay
Authorised signatory for
Shell Corporate Secretary Limited
Company secretary