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Shell plc

Q4 and Full-Year 2025 Results Analysis



Issuer-Level Market Commentary

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Introduction

Shell plc published its Q4 and full-year 2025 results on 5th February 2026. The numbers told two stories at once. Quarterly adjusted earnings of $3.3 billion represented the weakest print in nearly five years, missing the LSEG-compiled consensus of approximately $3.5 billion. At the same time, management announced a 4 per cent dividend increase and a further $3.5 billion share buyback, making this the 17th consecutive quarter of distributing at least $3 billion through repurchases.

That tension between a soft earnings quarter and unwavering shareholder returns defines what the results mean for UK equity investors. The question isn't whether Shell had a difficult Q4. It did. The question is whether the capital-return framework that underpins the London-listed equity case remains structurally intact. On the evidence of these results, it does.

This analysis examines what the numbers show, where the weaknesses sit, and what the results mean for portfolio positioning into 2026.

Q3 2025: The Baseline

Context matters. Shell's Q3 2025 results, published on 30th October 2025, established the baseline against which Q4 would be measured, and it wasn't a low bar.

Q3 adjusted earnings came in at $5.4 billion, comfortably above the company-provided consensus of $5.09 billion. Cash flow from operations reached $12.2 billion with free cash flow of $10.0 billion, a significant step up from $6.5 billion in Q2. Net debt fell to $41.2 billion with gearing at 18.8 per cent. Record deepwater production in Brazil and the Gulf of America, combined with strong LNG trading, drove the outperformance.

Shell declared a quarterly dividend of $0.358 per share and announced a $3.5 billion buyback programme, the 16th consecutive quarter at or above the $3 billion threshold. Trailing twelve-month shareholder distributions stood at 48 per cent of cash flow from operations, comfortably within the stated 40 to 50 per cent target range.

By any measure, Q3 set a high bar. It also shaped expectations for Q4 in a way that made a softer print more likely than a repeat.

The Q4 Trading Update: What the Market Already Knew

Shell released its Q4 trading update on 8th January 2026. The update reduced uncertainty around the earnings composition but confirmed that several headwinds were building. It wasn't a shock, but it set the tone for what followed.

Downstream Pressure

Indicative chemicals margins fell to approximately $140 per tonne, down from $160 per tonne in Q3. The Chemicals sub-segment was flagged as likely to report a significant loss, including the impact of a non-cash deferred tax adjustment in a joint venture. Refining margins moved in the opposite direction, improving to an indicative $14 per barrel from $12 per barrel in Q3, but this partial offset wasn't sufficient to compensate for the chemicals deterioration. Trading and optimisation within Chemicals and Products was expected to be significantly lower than the prior quarter.

Upstream and Integrated Gas

Upstream production guidance of 1.84 to 1.94 million barrels of oil equivalent per day incorporated the impact of the newly formed Adura joint venture with Equinor, which became operational on 1st December 2025 as the UK's largest independent North Sea producer. LNG liquefaction volumes were guided at 7.5 to 7.9 million tonnes, a modest improvement from 7.3 million tonnes in Q3, reflecting continued ramp-up at LNG Canada.

Cash-Flow Timing Effects

The update disclosed approximately $1.5 billion of cash outflows related to German BEHG emissions certificate payments and a further $1.2 billion for German mineral oil taxes. These are timing-related items that don't reflect underlying earnings power, but they represented a material drag on reported cash flow from operations in Q4.

London-listed shares fell approximately 1.7 per cent on the day. The reaction appeared driven less by surprise and more by confirmation that Q4 wouldn't match Q3's strength. The update did not, critically, signal any deviation from the capital-return framework.

Q4 2025 Results: What the Numbers Show

Adjusted Earnings

Shell reported Q4 adjusted earnings of $3.3 billion. Income attributable to Shell plc shareholders was $4.1 billion. The adjusted earnings figure fell short of the LSEG consensus of approximately $3.5 billion, making this the weakest quarterly print since early 2021.

The shortfall was concentrated in two areas. Chemicals posted a loss of $0.6 billion, reflecting the margin compression and deferred tax adjustment flagged in the trading update. The Products sub-segment contributed $0.5 billion in earnings, but the net Chemicals and Products segment result was negative. Separately, higher tax charges across the group weighed on the headline figure, with CEO Wael Sawan noting that tax adjustments were among the primary factors behind the miss.

Integrated Gas and Upstream continued to perform. Lower liquids prices were partially offset by higher volumes, and the Marketing division delivered one of its strongest quarters in over a decade. That's worth noting: even in Shell's weakest earnings quarter, the core businesses were doing their job.

Cash Flow

Cash flow from operations came in at $9.4 billion, a significant reduction from $12.2 billion in Q3. The decline reflected the tax and timing effects disclosed in the trading update, alongside softer earnings. Working capital movements contributed $1.3 billion of inflows, partially offsetting tax payments of $2.6 billion and $0.8 billion of net outflows related to emissions certificates and biofuel programme payments.

Free cash flow for the quarter was $4.2 billion, down from $10.0 billion in Q3. Cash capital expenditure rose to $6.0 billion from $4.9 billion in Q3.

Balance Sheet

Net debt increased to $45.7 billion from $41.2 billion at the end of Q3, with gearing rising to 20.7 per cent from 18.8 per cent. The increase reflected the combination of shareholder distributions totalling $5.5 billion in the quarter ($3.4 billion in buybacks and $2.1 billion in cash dividends), lease additions of $1.8 billion, and the timing effects on cash flow described above. That's a notable move in a single quarter, though management framed it as consistent with balance-sheet capacity and the distribution framework.

Full-Year 2025: The Bigger Picture

The full-year numbers provide a clearer view of Shell's underlying trajectory than any single quarter.

Adjusted earnings for 2025 totalled $18.5 billion, down from $23.7 billion in 2024. The decline reflects the normalisation of commodity prices from the elevated levels seen through 2022 to 2024, lower LNG and chemicals margins, and weaker trading and optimisation contributions. Revenue fell 3.3 per cent year on year in Q4, and the full-year earnings trajectory was consistently downward from Q1 through Q4.

Cash flow from operations for the full year was $42.9 billion. Free cash flow reached $26 billion. Cash capital expenditure was $20.9 billion, at the lower end of the $20 to $22 billion guidance range, suggesting continued discipline on investment spend.

Shareholder distributions over the full year amounted to approximately 52 per cent of cash flow from operations, above the upper bound of the 40 to 50 per cent target range. That figure's worth noting. It signals a willingness to stretch the distribution framework in the direction of shareholders during a year of declining earnings, rather than retreating to the bottom of the range. Whether that's sustainable at current commodity prices is one of the key questions for 2026.

The Capital-Return Framework: Still the Anchor

The single most important data point for UK equity investors in these results is the dividend increase. Shell raised the quarterly dividend by 4 per cent to $0.372 per share, having paid $0.358 per share in Q3. At a time when earnings are falling, a dividend increase of that magnitude is a statement of intent.

The $3.5 billion buyback announced alongside Q4 results is expected to be completed by the Q1 2026 results announcement. This is the 17th consecutive quarter at or above the $3 billion threshold. Since introducing the progressive buyback programme, Shell has retired a material portion of its outstanding share count: 5.72 billion ordinary shares remained outstanding at year-end 2025.

The combination of a dividend increase and a buyback commitment at the same level as prior quarters, delivered against the weakest earnings quarter in five years, is the clearest signal management could send about its priorities. The framework isn't being adjusted for the cycle. It's being maintained through it.

The Chemicals Problem

Chemicals remains the most visible weakness in Shell's portfolio. The segment posted a $0.6 billion adjusted earnings loss in Q4, and the structural challenges extend well beyond a single quarter.

At Shell's Capital Markets Day in March 2025, management disclosed that $45 billion of capital employed across the group was underperforming, with $25 billion of that sitting in chemicals. CEO Wael Sawan acknowledged on the Q3 earnings call that cost reduction efforts hadn't yet achieved free cash flow neutrality in the segment during what he described as a deep trough in the cycle.

The Q4 results confirmed the problem. Indicative chemicals margins of $140 per tonne are below the level required for the segment to break even. The non-cash deferred tax adjustment in a joint venture added to the reported loss but isn't the core issue. The core issue is that global chemicals capacity continues to outstrip demand growth, and Shell's exposure to this segment is a drag on group returns that management has yet to resolve.

Shell exited its Singapore Chemicals and Refinery operations during 2025 and swapped its Canadian oil sands interest for a larger stake in the Scotford upgrader and Quest carbon capture projects. These are moves in the right direction, but chemicals restructuring has further to run. Investors should expect continued commentary on cost preservation measures and potential asset closures through 2026.

Portfolio Simplification and Strategic Direction

Shell executed several significant portfolio actions during 2025 that are worth noting for what they reveal about strategic direction.

The company exited its Nigeria Onshore operations, completed the Canadian oil sands swap, and closed the Singapore chemicals and refinery disposal. Simultaneously, Shell strengthened its Integrated Gas and Upstream portfolios through the Pavilion Energy acquisition and equity increases across its deepwater positions in Brazil and the Gulf of America, where Q3 saw record production levels. The direction's clear: higher-quality assets, concentrated in segments where Shell has competitive scale.

The Adura joint venture with Equinor, operational from December 2025, created the UK's largest independent North Sea producer and restructured Shell's UK upstream exposure. Q1 2026 production guidance now incorporates Adura's contribution.

Structural cost reductions totalled $5.1 billion since 2022, with $2.0 billion delivered in 2025 alone. Shell had originally targeted $5 to $7 billion in cumulative savings by 2028. Reaching $5.1 billion by the end of 2025, well ahead of schedule, provides cost discipline that partially offsets the revenue impact of lower commodity prices. It's one of the few areas where execution has consistently exceeded guidance.

What This Tells UK Equity Investors

Shell enters 2026 with a capital-return framework that's survived a test. The weakest earnings quarter in five years did not produce a cut to buybacks or a dividend freeze. It produced a 4 per cent dividend increase and the 17th consecutive quarterly buyback at or above $3 billion. That track record isn't easily replicated by peers.

The risks are real. Net debt rose by $4.5 billion in a single quarter. Chemicals restructuring is incomplete. Full-year earnings declined by 22 per cent. If crude prices settle materially below $60 per barrel through 2026, the 52 per cent distribution ratio becomes harder to sustain without drawing on balance-sheet capacity.

Cash capital expenditure guidance for 2026 is $20 to $22 billion, consistent with 2025. LNG Canada continues to ramp, with the second train expected to contribute meaningfully through the year. Upstream production guidance of 1.7 to 1.9 million barrels of oil equivalent per day reflects a portfolio that's being simplified and concentrated on higher-return assets.

For investors who hold Shell as a cash-return story within UK equity allocations, these results confirm that the framework is intact. The earnings base is lower, the balance sheet carries more debt than it did three months ago, and the chemicals drag persists. But the distributions keep flowing, the buybacks keep reducing the share count, and the dividend keeps growing. That combination, sustained over 17 consecutive quarters through a meaningful earnings decline, is the substance of the investment case.

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