

COVER SHEET

1 4 8 2 9

S.E.C. Registration Number

P I L I P I N A S S H E L L P E T R O L E U M  
C O R P O R A T I O N

(Company's Full Name)

1 5 6 V A L E R O S T S A L C E D O V I L L A G E  
B A R A N G A Y B E L - A I R M A K A T I C I T Y

(Business Address, No. Street City/Town/Province)

Contact Person

816-65-01

Company Telephone Number

1 2

Month

3 1

Day

1 7 - A

FORM TYPE

0 4

Month

1 6

Day

Fiscal Year

Annual General  
Meeting as per By-  
Laws

Secondary License Type, If  
Applicable

C F D

Dept. Requiring this  
Doc.

Amended Articles Number/Section

359

Total No. of Stockholders

Total Amount of Borrowings

44,550,000,000

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

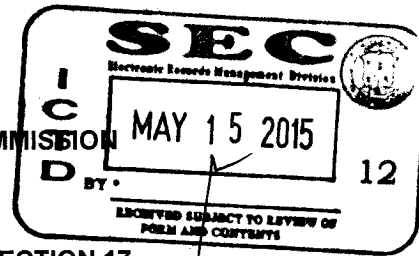
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Cashier

STAMPS

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended
2. Commission identification number
3. BIR Tax Identification Number
4. Exact name of issuer as specified in its chapter
5. Province, country, or other jurisdiction of incorporation or organization
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office   Postal code
8. Issuer's telephone number, including area code
9. Former name, former address, and formal fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or sections 4 and 8 of RSA

<i>Title of Class</i>	<i>Number of shares common stock outstanding and amount of debt outstanding</i>
<input type="text" value="N/A"/>	<input type="text" value="N/A"/>
<input type="text"/>	<input type="text"/>

11. Are any or all of the securities listed on a Stock Exchange? Yes ☐ No ☒
12. Indicate by check mark whether the registrant
- (a) has filed all reports required to be filed with Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
- Yes ☒ No ☐
- (b) has been subject to such filing requirements for the past ninety (90) days
- Yes ☒ No ☐

## **PART I – BUSINESS and GENERAL INFORMATION**

### **Item 1. BUSINESS**

#### **(A) Description of Business**

##### **(1) Business Development**

###### **Pilipinas Shell Petroleum Corporation**

Pilipinas Shell Petroleum Corporation (PSPC) is part of Shell, a global group of energy and petrochemicals companies employing approximately 93,000 people and operating in more than 90 countries and territories. Shell helps meet the world's growing demand for energy, aiming to do so in economically, environmentally and socially responsible ways.

For 100 years, Shell has helped the Philippines embrace the future of energy through its numerous investments in the exploration of natural gas, an oil refinery, and the distribution of smarter petroleum products. It has brought a diversified energy portfolio and significant market contributions that have helped buoy the overall economic growth of the country.

The story of Shell in the Philippines was a result of the oil trading opportunity brought by the shortened travel of British merchants to the Far East through the Suez Canal. This opportunity prompted British trader Marcus Samuel, considered the father of Royal Dutch Shell group of companies, to begin kerosene trading in the Philippines, which led to the establishment of Shell's corporate presence in 1914, through the Asiatic Petroleum Co. (Philippine Islands) Ltd.

In 1959, the Shell Refining Company (Philippines) Inc. (SRCP) was incorporated under Philippine law. It was established with Filipino shareholding participation to engage in the manufacturing and refining of petroleum products. Shell started its refining operations in the country in 1962 with a single 30,000 barrels per day (bpd) process train (distiller and platformer). A second process train added in 1967 boosted capacity to 60,000 bpd. The subsequent revamping of the facility in 1988 contributed to better energy efficiency and raised total primary distilling capacity to around 70,000 bpd.

By 1969, SRCP became a fully integrated oil company when it absorbed the marketing functions of the Shell Company of the Philippines (SCPL). In 1973, the company became known as Pilipinas Shell Petroleum Corporation (PSPC).

By the early 1990s, demand for Pilipinas Shell's refined products exceeded refining capacity. Growing environmental concerns further strained the refinery's capabilities. Hence, in 1992, construction of a new 110,000 bpd refinery commenced. The upgrade also represented Pilipinas Shell's response to heightened environmental concerns, particularly the call for "cleaner" fuel products such as unleaded gasoline and low sulphur diesel.

In September 2011, Pilipinas Shell signed a sale and purchase agreement (SPA) with Isla Petroleum & Gas Corporation (IP&G) for the sale of Shell's LPG interests in the Philippines. Pilipinas Shell completed the sale of its LPG marketing business in the Philippines to IP&G in January 2012. The deal specifically covered the business operating as Shell Gas LPG Philippines Inc. (SGLPI).

The registered office of Pilipinas Shell is located at Shellhouse, 156 Valero Street, Salcedo Village, Barangay Bel-Air, Makati City 1227.

## **Operating highlights**

### Market Performance

Total volume sold for the year 2014 was at 5.6 billion liters, which was more than last year's performance at 5.3 billion liters. The increase in volumes is due to various initiatives i.e., Coke and LEGO promotions, introduction of two new products in lubricant segment Helix Ultra Pureplus and Diala S4 GTL.

Pilipinas Shell's market share from the Department of Energy- an overall 25.5% market share<sup>1</sup> in 2014, compared to the full year shares of 24.3% in 2013 and 24.4% in 2012.<sup>2</sup>

### Trading & Supply

With the continued shutdown of the white oil pipeline coupled by the collapse of the Batangas Calumpang Bridge due to Typhoon Glenda, plus severe weather conditions, transport costs and risks increased significantly for Pilipinas Shell in 2014. To address this Pilipinas Shell invested in facilities to augment current supply of petroleum products.

Pilipinas Shell identified and activated alternative supply points in North Harbor, Clark, Pandacan and Bauan. This enabled the company to continue to meet demand, especially the increased demand for fuel oil due to power shortages in Luzon between July and August caused by the damages brought by Typhoon Glenda.

In an effort to help the country secure a more sustainable energy future, the company has put up a multi-billion peso fuel import facility in Cagayan de Oro that is expected to cater to the power and energy needs of millions of residents, motorists and other end-users and consumers in Visayas and Mindanao. Dubbed the North Mindanao Import Facility (NMIF), the project, which will be completed in the second half of 2015, is aligned with the policy thrust of the Department of Energy (DOE) to promote investment in the energy sector.

The project will contribute toward two of the Department of Energy's directives under the Philippine Development Plan 2011-2016, which are: to promote development and upgrade of the downstream infrastructure, and to update the Oil Supply Contingency Plan through the establishment of oil stockpile. The NMIF provides an additional source point for fuels that can be distributed to depots in the Visayas and Mindanao. The facility will contribute to increased security of energy supply as it will provide additional storage capacity of finished petroleum products. At the same time, the facility will help reduce maritime risks as source of petroleum products is closer to the intended distribution points.

### Manufacturing

It was a challenging year for the Manufacturing segment, as the refinery experienced lower overall margin for the year. The refinery experienced unplanned shutdowns in the second half of the year resulting in higher costs and lower margins. This was unfortunately compounded by the declining oil prices in the latter part of 2014, impacting refining margins and the Pilipinas Shell's overall financial performance.

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<sup>1</sup> Oil Supply Demand Report FY 2014 (<http://www.doe.gov.ph/downstream-oil-industry/547-fy-2014>)

<sup>2</sup> Oil Supply Demand Report (<http://www.doe.gov.ph/downstream-oil/344-oil-supply-demand-report>)

It was also a story of resilience for the group. The refinery was able to sustain its outstanding safety performance and garner its 8<sup>th</sup> consecutive Global Process Safety Award and 2nd consecutive Global Personal Safety Award from the Shell group.

#### Retail

Pilipinas Shell significantly increased its market position compared to 2013. Pilipinas Shell's Retail market share was at 33.3% as of end 2014, having grown volume by 11% against 2013 performance. To sustain growth, a total of 66 stations were commissioned in 2014 – 10 company-owned (CO) and 56 dealer-owned (DO). The various marketing activities and promotions throughout the year, such as the Coke and LEGO promotions, helped deliver growth and volume. Lower fuel prices also encouraged higher consumption among customers.

#### Commercial

Pilipinas Shell's Commercial businesses exhibited strong growth in 2014 due to strengthened customer bases and enhanced customer value propositions.

The Commercial Fuels business closed the year with a strong performance despite logistics challenges caused by recent calamities. Volume grew by 7% against 2013 figures mainly due to winning new businesses in key geographic locations, securing contracts with key strategic customers and employing innovative solutions to support the current logistics complement. Pilipinas Shell retained its market leadership in the mining and transport sectors while gaining market share in power and manufacturing.

Lubricants ended 2014 with a 7% growth in margin while holding volume at the same level as 2013. Pilipinas Shell continued to demonstrate its passion for innovation by introducing two new products in 2014: Helix Ultra Pureplus and Diala S4 GTL.

Bitumen ended the year 19% better than total industry. Unit margins grew by 19% despite the 55% decline in demand faced by the Bitumen industry in 2014. Market share grew by 400 basis points and reached 44% with more customers in the Visayas Region. Pilipinas Shell's advocacy campaigns with the Department of Public Works and Highways (DPWH), Department of Transportation and Communications (DOTC), select local governments and key conglomerates showed positive results and indicate strong improvement in demand.

Aviation's 2014 profitability continued to improved driven by effective location strategy implementation leading to contract renewals and organic volume growth with Philippine Airlines and business volume gains from Cebu Pacific.

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

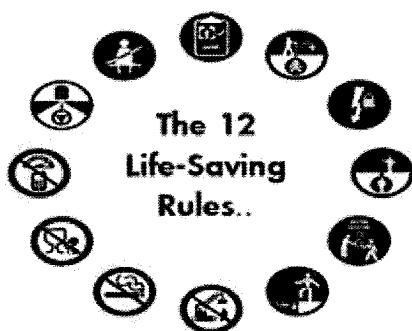
Safety is Pilipinas Shell's first priority and the core of its operations. The aim is to have zero fatalities and no incidents that harm people, or put our neighbors or facilities at risk.

To prevent accidents, safety is managed in a systematic way and introduced into simpler and clearer requirements that are easier for people to understand and follow.

Pilipinas Shell and its joint ventures are required to manage safety in line with Shell's Commitment and Policy on Health, Safety, Security and Environment (HSSE) and Social Performance (SP), or materially equivalent policy. It sets high level aims and is supported by a comprehensive set of company-wide requirements covering Health, Safety, Security and Environment (HSSE) and Social Performance (SP). The Health, Safety, Security and Environment (HSSE) and Social Performance (SP)

Control Framework was launched in 2009 to clarify requirements in these areas. It includes a set of manuals covering topics such as road and process safety, and working at heights or in confined spaces.

Pilipinas Shell's mandatory 12 Life-Saving Rules (LSR) reinforce what employees and contractors must know and do to prevent serious injury or fatality: for example, wear seat belts and do not speed or use mobile phones – even hands-free while driving. A strong safety culture also depends on a competent workforce. We check that everyone responsible for tasks with a significant HSSE risk has the necessary training and skills. If they break the rules, employees face disciplinary action up to termination of employment, while contractors can be removed from the site and barred from future work with Pilipinas Shell.



Process safety means making sure facilities are well designed, safely operated and properly maintained. For both new and existing projects, Shell continues to make progress in simplifying and standardising our requirements for process safety across the company in a program spanning several years.

In addition, Pilipinas Shell partners with local communities and stakeholders for its various safety initiatives. Some of these initiatives have received recognition from award-giving bodies.

Pilipinas Shell stepped up the safety and security of its retail stations through a stronger partnership with government. Memorandum of Understanding (MOU) with the Philippine National Police in efforts to maintain peace and order at Pilipinas Shell dealerships and surrounding areas, as well as strengthen cooperation between Pilipinas Shell dealers and local police in law enforcement and active community support was signed.

Project KALSADA (Kabataang Ligtas sa Sakuna at Disgrasya) is Pilipinas Shell's Road Safety Program for students of schools located along the roads in the Tabangao to Libjo area, which are traversed by lorry trucks to and from the Pilipinas Shell Refinery and the Malampaya On-shore Gas Plant. The success of this road safety programme has led to the reduction of road safety incidents in the area and was replicated in other sites including Pandacan, Manila, Palawan, and Bacolod. Project KALSADA received an Anvil Award of Excellence from the Public Relations Society of the Philippines (PRSP) in the Youth and Children's Welfare category.

Pilipinas Shell received national citation from the Department of Labor and Employment (DOLE) at the 9th Gawad Kaligtasan at Kalusugan (GKK) Awards, for the outstanding safety performance of its refinery in Tabangao. The refinery was recognized with the Silver Award for its programmes on occupational health and safety.

Pilipinas Shell's programs recognized and awarded during the 2014 International Association of Business Communicators (IABC) Philippine Quill Awards: Shell Safety Day (Safety Communication

category), Road Safety Camp for Children (Safety Communication and Corporate Social Responsibility categories), Re-energizing the Life-Saving Rules (Internal Communication category), and Senior Management as Safety Ambassadors (Leadership Communication category).

Pilipinas Shell Aviation team in Manila was also awarded the Perfect Safety Record for achieving 136,948 safe man-hours without lost time accident from January 1, 2012 to September 30, 2014 by Safety Organization of the Philippines (SOPI).

### **Corporate Social Responsibility**

Pilipinas Shell advocates for efficient use of energy as the simplest and most cost-effective way to reduce emissions, and mitigate climate change—through driver education, fuel efficient driving behavior, and smarter mobility collaboration and strategic partnerships with relevant organizations to fuel the country's progress. As Pilipinas Shell aims to meet the world's future energy needs with a diversified energy mix and cleaner energy, it enjoins consumers and businesses to use energy better, to do more with less, and make energy conservation a way of life.

Pilipinas Shell was the first to move from tin cans to plastic containers for lubricants; first to introduce the match blending plant and the use of double-hull vessels; and even the first to campaign for the use of seat belts among drivers in the early 1980s.

Moreover, in continuing its leadership on corporate social responsibility, Pilipinas Shell partners actively with Pilipinas Shell Foundation Inc. (PSFI). The partnership has over 30 years experience in spearheading and managing award-winning social development programs of national and local scales ranging from leadership enhancement and attitude development; technical, vocational and agricultural skills development, training and employment; healthcare and services, sanitation, and safety; livelihood and entrepreneurship development; to environmental stewardship.

Below are the more recent endeavors of Pilipinas Shell in partnership with PSFI:

In 2014, Pilipinas Shell and PSFI continued to provide support to the survivors of Typhoon Yolanda (Haiyan) through valuable livelihood assistance for the rehabilitation of affected families, and mobilisation of volunteerism activities.

Fishing boats (22) and solar lamps (1,100) were donated to the local communities near the Pilipinas Shell Anibong depot in Tacloban, Leyte to help them recover from the devastation brought by Typhoon Yolanda.

Pilipinas Shell in partnership with PSFI also collaborated with the San Antonio Formation and Enhancement Centre (SAFEC) to facilitate a rehabilitation programme for the affected fishermen of Barangay Macatunao in Concepcion, Iloilo. Pilipinas Shell donated PhP2 million to help the affected fishermen through the procurement of 133 fishing boats and 160 solar lamps for use of the fishermen, the barangay day care centre, and the community church. A total of 380 family packs assembled from in-kind donations collected and repacked by Pilipinas Shell volunteers were also distributed.

Pilipinas Shell through PSFI later partnered with the Jesse M. Robredo Foundation (JMRF), donating PhP3 million for the procurement of 120 motorized fishing boats to support the livelihood rehabilitation of fishermen who lost their boats during the onslaught of Typhoon Yolanda (Haiyan). Moreover, Pilipinas Shell via PSFI turned over a PhP4.5 million donation to Philippine Business for Social Progress, Inc. (PBSP) in support of the Pinoy Relief Fund and its recovery and rehabilitation projects in Guiuan, Eastern Samar.

The foreign business community recognized Pilipinas Shell and PSFI for its relief and rehabilitation efforts following the devastation brought about by Typhoon Yolanda by awarding the Big Tick Award from the UK Business in the Community (BITC) Responsible Business Awards under the International Disaster Relief category. The award was announced at the BITC National Awards Gala Dinner in London, in the presence of BITC President, HRH The Prince of Wales.

The recognition was also an affirmation of Pilipinas Shell's Country Disaster Relief and Rehabilitation Plan, which guide decisive and quick actions critical to saving lives and properties. Shell companies in each country prepare this plan as part of their Social Performance to support a country or community in times of disasters and help them rebuild lives and economic stability.

### **Awards and External Recognitions**

In today's age of dynamic tri-media and digital technology, it is not enough that businesses practice good governance and corporate social responsibility—keeping stakeholders effectively informed of such initiatives is just as important as the initiatives themselves. Business communication excellence has been an important thrust of the global power, energy and gas technology leader in recent years. In 2014, Pilipinas Shell was recognized by several prestigious organizations for excellence in business communications.

At the 2014 Philippine Quill Awards of the IABC, Pilipinas Shell dominated the annual tilt across a wide spectrum of categories, including marketing and brand communication, employee engagement, internal communications, safety communications, media and community relations, publications, CSR, advocacy, special events, and writing—thereby earning the group the additional overall citation of Company of the Year. The awards fittingly recognize various campaigns and activities carried out during the centennial celebration of Pilipinas Shell last year.

Pilipinas Shell bagged the Top Award in the Communication Skills category for its overall Centennial campaign, and a number of Quill Awards of Excellence for related activities. The Shell Eco-marathon and Powering Progress Together forum were both recognized with Awards of Excellence in special events and advocacy communication, respectively. Other Awards of Excellence and Merit were handed out to Pilipinas Shell's many other programs related to road safety, social investment and consumer engagement, such as the impactful Pilipinas Shell retail rewards program with SM Advantage card.

Pilipinas Shell was also feted by IABC in its prestigious Gold Quill Awards during the annual IABC World Conference as its seminal Movement against Malaria community health program was cited with a merit award in the Corporate Social Responsibility (CSR) category, while the Pilipinas Shell consumer reward retail promo tie-up with Coca-Cola also received a merit award in the Marketing Communications category. Pilipinas Shell bagged two Gold Quill awards given to Philippine companies who vied in the international communications tilt. It is the first Gold Quill win for the power, energy and gas technology leader in the Philippines, which is marking its centennial anniversary this year.

Pilipinas Shell also bagged the most number of awards during the 50th Anvil Awards, which includes a Hall of Fame Anvil Award, four Gold Anvil Awards, and nine Silver Anvil Awards. The Hall of Fame Anvil Award was given to the Shell National Students Art Competition programme for winning five Awards of Excellence over the past years.

Lastly, epitomizing the Pilipinas Shell's innovative leadership, Edgar O. Chua, country chairman of Pilipinas Shell, was given the highest and most prestigious honor at the 2014 Asia Pacific SABRE



(Superior Achievement in Branding Reputation and Engagement) Awards held in Beijing, China. Chua was named CEO of the Year for his outstanding and effective use of communications to advance the reputation of the energy and gas technology company in the Philippines, as well as for his strategic use of communications and public relations as a management function.

## **(2) Business of Pilipinas Shell**

### **(A) Description**

#### **(i) Principal products or services and their markets**

Pilipinas Shell is made up of a number of different business activities, part of an integrated value chain, that collectively turn crude oil into a range of refined products, which are moved and marketed around the world for domestic, industrial and transport use. The products include gasoline, diesel, heating oil, aviation fuel, marine fuel, lubricants and bitumen.

Our refining activities comprise Manufacturing, Trading & Supply. Marketing includes Retail and Global Commercial. We also trade crude oil, oil products and petrochemicals, primarily to optimise feedstock for Manufacturing and Chemicals and to supply our Marketing businesses.

Pilipinas Shell refines, blends, transports and sells a wide range of high quality fuels, lubricants, bitumen and other specialty oil-based products. It operates a 110-thousand-barrels-per-day refinery, 22 oil distribution terminals/depots across the country and about 1,000 retail stations nationwide.

#### **(ii) Percentage of sales or revenue contributed by foreign sales**

Below is the summary of the percentage of sales and revenues of domestic and foreign sales:

<b>Gross Proceeds</b>	<b>Domestic</b>	<b>Exports</b>	<b>Total</b>
2014, in million pesos	212,002	12,083	224,085
2014, in percentage	95%	5%	100%
2013, in million pesos	183,927	14,921	198,848
2013, in percentage	92%	8%	100%
2012, in million pesos	173,788	15,061	188,849
2012, in percentage	92%	8%	100%

*Includes exports of lubricants, aviation fuels and marine fuels and lubes*

Over the last three years, majority of foreign sales were made to Singapore. Other destinations included Malaysia, Hong Kong, and Taiwan.

#### **(iii) Distribution methods of the products**

The twenty-two (22) distribution facilities throughout the country ensure the quick and efficient distribution of petroleum products from the Pilipinas Shell's refinery in Tabangao, Batangas to the various Pilipinas Shell installations and depots and finally to customers.

Main fuel products and hydrocarbon solvents are transported from the Tabangao refinery through barges and lorries to supply Luzon demand. Barges also transport products from the refinery to supply the rest of the country.

Pilipinas Shell contracts a fleet of time-chartered and guaranteed sea-worthy ocean vehicles that meet international safety standards.

Delivery trucks contracted from private professional haulers are used for inland distribution of products. In the case of lubricants, most of the volume is blended in Pandacan. All greases are manufactured in Pandacan.

In line with its HSSE standards, Pilipinas Shell emphasizes high safety consciousness in the storage and handling of products. Both Pilipinas Shell staff and contractors undergo proper training on HSSE procedures. Likewise, a strong environmental orientation pervades the design and operation of storage facilities and safeguards against possible contamination and spillage. HSSE audits are conducted regularly. Environmental impact assessments are similarly done as necessary.

#### **(iv) New products**

Two new products were introduced in 2014: Helix Ultra Pureplus and Diala S4 GTL

Pilipinas Shell PurePlus Technology is a revolutionary process that converts natural gas into crystal-clear base oil with virtually none of the impurities found in crude oil. Base oil makes up approximately 75-90% of a motor oil and so this is a significant step-change in the composition. It produces base oil that provides enhanced viscosity, friction and volatility performance compared to more prominently used traditional base oils. This means it helps extend engine life, reduce maintenance costs, reduce oil consumption, enhance fuel economy and enable better engine cleanliness.

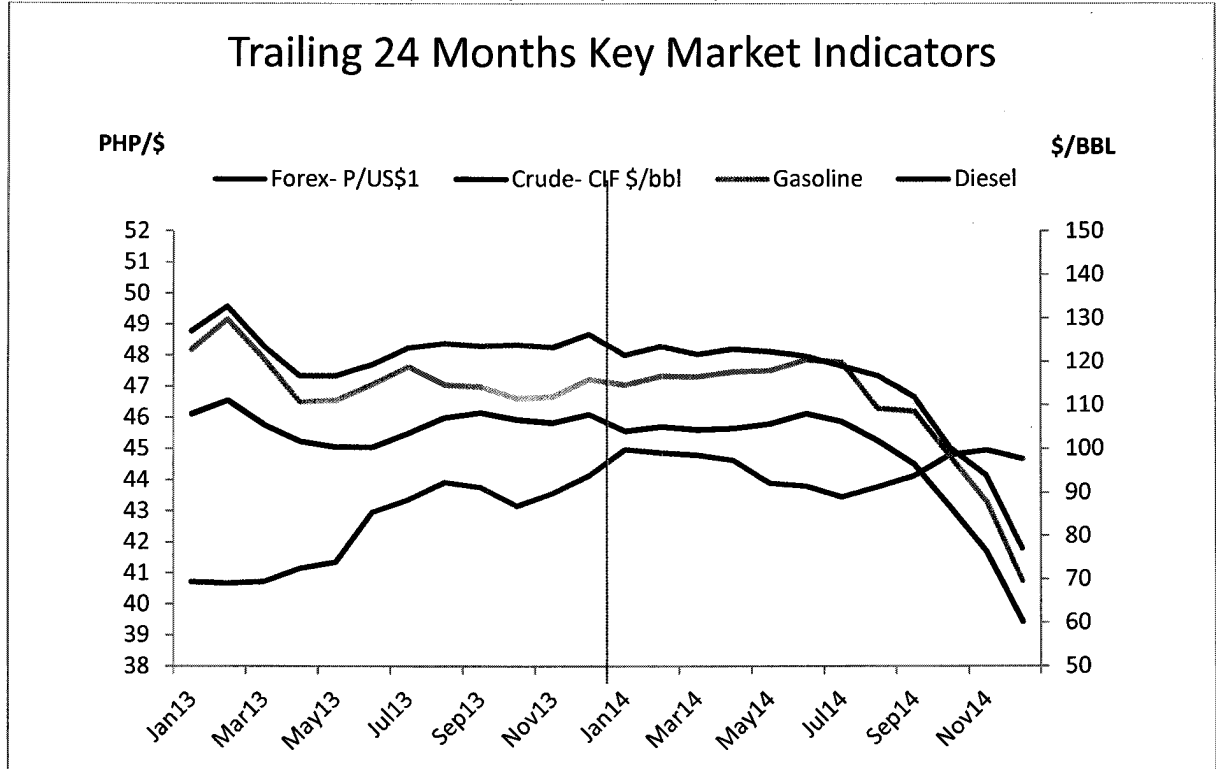
Pilipinas Shell Diala S4 ZX-I has been engineered to cope with the severe stresses imposed by the higher voltages and harsher operating conditions of the latest transformers. Shell Diala S4 ZX-I helps to keep transformers working more efficiently and for longer than conventional oils do. It offers improved transformer reliability due to its resistance to degradation as well as having effectively zero sulphur, which removes the risk of oil-related copper corrosion. In addition, Shell Diala S4 ZX-I can enhance your transformer's operation with its excellent thermal properties under conditions of overload and also low temperature start up.

#### **(v) Competition**

**Pilipinas Shell conducts business under a deregulated oil industry.** Prior to 1998, when the oil industry was still regulated, the government set the prices using a formula of direct cost recovery based on refining crude, benchmarked by Dubai. At that time, there were only three industry players, each one having their own refinery. Most of the petroleum products sold then came from locally refined crude. Since deregulation, the local oil industry landscape has dramatically changed. The proportion of imported finished products has increased significantly, which are valued based on Mean of Platts Singapore (MOPS) and not based on crude costs. Local refiners base their pricing on MOPS to ensure that they are competitive vis-a-vis international refineries, i.e. pricing of locally produced products is at par with imported finished products. This also helps ensure that if local refinery production costs are higher, these are not unnecessarily passed on to the local consumer. Pilipinas Shell conducts its petroleum business in compliance with stringent environmental, health, safety and security requirements under Philippine law as exercised by regulatory agencies which include the DOE, Department of Environment and Natural Resources (DENR), Department of Labor and Employment (DOLE), Department of Health (DOH), Department of Interior and Local Government (DILG).

**International and Market Forces Exert Pressure on the Philippines.** The downstream oil industry is heavily impacted by market fluctuations and economic, as well as, political developments overseas. Some of these include: the economic contraction and recession experienced by the western economies to some extent; foreign exchange volatilities; social and political tensions in regions

where primary crude oil supplies are drawn such as the Middle East and North Africa (MENA); and, sustained economic activities in Asia-Pacific economies such as China and India. Being a net oil importer, Pilipinas Shell is highly vulnerable to volatilities of world oil prices and foreign exchange. Increasing and decreasing local oil prices is primarily driven by these two factors.



**Source: Mean of Platts Singapore**

**Deregulation Fosters Competition.** The entry of new and independent players across the stretch of the entire country has stimulated market competition in the oil industry. Competitive pricing coupled with innovative marketing and customer value added services has driven competition for brand loyalty and preference.

Marketing strategies to retain and gain market share of the downstream oil industry is supported heavily by innovation in advertising and promotions across fuel and lubricants products as well as classes of business, particularly Retail and Commercial.

Pilipinas Shell has around 1,000 retail stations strategically spread across major urban centers, key cities and identified key growth areas in the country. This network of retail stations is supplied and supported by a distribution network consisting of 22 facilities to assure customers and clients of a reliable and steady supply of products. The Tabangao Refinery in Batangas serves as the hub of Pilipinas Shell's distribution operations.

Based on the market share data available from DoE – Pilipinas Shell had 25.5% market share in 2014 while the other two major oil players account for almost half of the market while a quarter is made up of various small players. The market share is maintained through Pilipinas Shell's efficient retail network and superior differentiated products and services. The technological advantage of its differentiated fuels portfolio providing both economy and performance driven formulas combined

with innovative and highly competitive promotions as well as aggressive marketing assures Pilipinas Shell's momentum for growth in an extremely competitive fuels market.

Pilipinas Shell leverages on the worldwide supply and distribution chain and manufacturing assets of the Shell global organization to ensure its business operations in the Philippines are well-supported. The strength of the organization also lies in the stringent processes that assure safety, operational excellence and world-class standards.

**(vi) Sources and availability of raw materials and the names of principal suppliers**

Pilipinas Shell's crude and product import requirements are coursed through Shell International Eastern Trading Co. (SIETCO).

The bulk of Pilipinas Shell's crude comes from Middle East countries such as United Arab Emirates and Qatar. Other countries from which Pilipinas Shell has imported crude include Russia, Malaysia, Singapore and Brunei. Finished products, on the other hand, are sourced from Asian countries like Singapore, Korea, China, and Taiwan.

**(vii) Major customers**

The motoring public that patronizes Pilipinas Shell-branded fuels is served through the company's network of Pilipinas Shell-branded stations operated by retailers. Sales from this network of around 1,000 stations strategically located across the country contributed significantly to Pilipinas Shell's total sales.

Pilipinas Shell's Commercial Fuels business continues to supply major industries that sustain the bullish performance of our economy, including those from power, mining, transport, marine, & manufacturing. The Power Sector Assets and Liabilities Management (PSALM) Corporation of the government remained the single largest commercial customer of Pilipinas Shell over the past three-year period. PSALM accounted for nearly 18% of the Pilipinas Shell's commercial fuels sales and volumes in 2014. Another government affiliate, the National Power Corporation, also accounted for significant sales and volume in 2014.

**(viii) Transactions with and/or dependence on related parties**

In the normal course of business, the Group transacts with companies, which are considered related parties under PAS 24, "Related Party Disclosures". Transactions with related parties consist of (a) importation of crude oil, petroleum products, materials and supplies; (b) exportation of locally refined petroleum products; (c) reimbursement of expenses; (d) lease agreements; (e) short-term placements; and royalty fees. Purchases from and sales to related parties are consummated at competitive market rates. Settlement and collection of outstanding related party payables and receivables are generally made within 30 to 60 days from the date of each transaction.

**(ix) Trademark Ownership and License Agreement**

Trademark Ownership

The trademark 'SHELL' and other trademarks of the Shell Group of companies ("Shell Group") are, in general, held in the name of Shell Brands International AG. Such intellectual properties are considered to be the Shell Group's assets rather than the properties of individual companies, such as Pilipinas Shell.

License Agreements

The use of trademarks and trade name by Pilipinas Shell is regulated by an agreement which provides for termination of the right to use the marks in the event of outside interference, for

example, if the management of Pilipinas Shell or its shareholding changes to the point where the company ceases to be a member company of the Shell Group.

#### Administration and Management of Trademarks

Since the SHELL and other important trademarks are used internationally, it is important that there is consistency in their use. Accordingly, the Shell Group has an Intellectual Property Services (IPS) that is charged with the responsibility for the administration and co-ordination of trademarks in behalf of the Shell Group and all matters affecting trademarks should be referred to it. To ensure that the Shell Group's trademarks are not allocated to different products or services and that the valuable rights to the said trademarks are maintained, it is the policy that IPS be consulted prior to the adoption of any new mark and that all cases of suspected infringements are immediately reported to IPS.

Once a year, as part of its services, IPS carries out a review of trademarks in which the Shell Group companies, like Pilipinas Shell, are required to provide information concerning the trademarks currently in use in their particular business. As well as being an invaluable source of data for IPS in deciding which trademark registrations should be maintained, this exercise provides an opportunity for the Shell Group to ensure that all trademarks used are protected by registration where appropriate.

#### **(x) Government approvals needed for principal products**

Government regulations require the following: Fire Safety Inspection certificates; Certificates of Conformance of facilities to national or accepted international standards on health, safety and environment; Third Party Liability Insurance and the Environmental and Compliance Certificate issued by the DENR for service stations and for environmentally-critical projects. These certificates have to be submitted to the DOE for monitoring (not regulation) purposes.

DOE, through its Department Circular DC 2003-1 1-010, otherwise known as the Retail Rules, requires that all gasoline retail stations should at least have a minimum lot area of 100 square meters to ensure that all vehicles being serviced should at all times be inside the business premises. Liquid petroleum products should only be transferred from underground tanks by means of fixed pumps designed and equipped to allow the control of the flow and prevent leakage or accidental discharge. Liquid Petroleum Products shall not be dispensed from above-ground tanks, portable tanks, tank vehicles, drums, barrels or similar containers, e.g. bote-bote, into the fuel tanks of motor vehicles or containers.

The Downstream Oil Industry Deregulation Act of 1998 (Republic Act 8479) requires the registration with the DOE of any fuel additive prior to its use in a product. Product specifications have to comply with the requirements of the Department of Trade and Industry (through the Bureau of Product Standards). Pilipinas Shell produces unleaded gasoline kerosene, jet fuel, diesel and fuel oil; all of which comply with the Philippine National Standards ("PNS"), which are aligned with existing laws, rules and regulations. The company renews its Certificate of Accreditation as Oil Industry Participant in the Fuel Bioethanol Program annually.

#### **(xi) Effect of existing or probable governmental regulations on the business**

##### The Clean Air Act

In keeping with the worldwide trend for cleaner fuels, the Philippines has been progressively moving towards adopting more stringent fuel quality standards, largely patterned after those enforced in the EU ("Euro Standards"). In 1999, Republic Act 8749, otherwise known as the Philippine Clean Air Act of 1999, was signed into law, providing a legal framework by which air quality in the country

could be improved via a combination of fuel specifications and motor vehicle standards. The Implementing Rules and Regulations (IRR) were finalized in 2000.

Following the implementation of the Clean Air Act, limits were imposed on sulphur dioxide, nitrogen dioxide and particulate emissions from manufacturing facilities. Continuous emissions monitoring systems (CEMS) were installed in Tabangao in 2001. The Corporation conducts a Relative Accuracy Test Audit of its CEMS as part of the regular self-monitoring reports to the EMB, which is the prescribed method.

Pilipinas Shell imports blending components (purchased chiefly from other Shell companies in the region) in order to meet the Clean Air Act and Philippine National Standards' requirements for aromatics and benzene contents in finished grade gasoline products.

Republic Act No. 8749, mandates the following fuel standards:

A.	Gasoline	
	Tetra-ethyl lead	Unleaded
	Aromatics, vol.%	35
	Benzene, vol.%	2
B.	Auto Diesel Oil	
	Sulfur, wt.%	0.05
C.	Industrial Diesel Oil	
	Sulfur, wt.%	0.3

#### Biofuels Act

The Biofuels Act of 2006 (Republic Act 9367) was implemented with the aim of reducing dependence on imported fuels. It also aimed to develop and utilize indigenous renewable and sustainable clean energy sources to reduce dependence on imported oil; to mitigate toxic and greenhouse gas (GSG) emissions; to increase rural employment and income; and to ensure the availability of alternative and renewable clean energy without any detriment to the natural ecosystem, biodiversity and food reserves of the country.

Pilipinas Shell currently blends diesel with 2% coco methyl ester (CME) and gasoline with 10% ethanol.

#### Euro IV-Equivalent Specifications

On September 7, 2010, the DENR issued a Department Order (DAO 2010-23) on Revised Emission Standards for Motor Vehicles Equipped with Compression Ignition and Spark Ignition Engines, mandating compliance of all new passenger and light duty motor vehicles with Euro IV (P) emission limits subject to fuel availability, starting January 1, 2016.

Euro IV vehicle emission technology requires a more stringent fuel quality i.e. 50 ppm sulfur content for both diesel and gasoline. In 2012, the DOE spearheaded discussions on the development of a Euro IV-PH fuel specification to support DENR DAO 2010-23. Pilipinas Shell, as a regular permanent member of the Technical Committee on Petroleum Products and Additives (TCPPA), was actively involved and supportive of the development of Euro IV (P) fuel specifications.

The DTI promulgated and released the Philippine National Standards (PNS) for gasoline and diesel which mandates the introduction of Euro IV-PH fuels not later than January 1, 2016. Modifications

to the Tabangao Refinery are underway in order for the asset to produce Euro IV (P)-compliant fuels by the said timeline.

#### Clean Water Act.

Republic Act No. 9275, otherwise known as the Philippine Clean Water Act of 2004, aims to protect the country's water bodies from pollution from land-based sources (industries and commercial establishments, agriculture and community/household activities). All owners or operators of facilities that discharge wastewater are required to get a permit to discharge from the DENR or the Laguna Lake Development Authority, and to report the quality of effluents on a regular basis.

#### Parity Tax Treatment Between Indigenous and Imported Fuel Sources For Power Generation

The Electric Power Industry Reform Act (EPIRA) provides for parity tax treatment among imported oil and indigenous fuels. Prior to the law, indigenous fuels were imposed with higher taxes largely due to royalties to the government.

#### Compensation for Oil Pollution Damage.

The Oil Pollution Compensation proposes the imposition of liability for oil pollution damage. It proposes to require entities, which receive more than 150,000 tons of oil in a year from all ports or terminals in the Philippines to contribute to the International Oil Compensation Fund (IOPC) in accordance with the provisions of the 1992 Fund Convention. Republic Act No. 9483, otherwise known as the Oil Pollution Compensation Act of 2007 proposes to collect a fee of ten (10) centavo/liter from owners and operators of tankers and barges hauling oil and/or petroleum products in Philippine waterways and coast wise shipping routes. This new fund, named the Oil Pollution Management Fund ("OPMF"), will be on top of the requirement under the 1992 CLC and 1992 Fund Conventions and will be administered by the Maritime Industry Authority ("MARINA").

#### Oil Spill Prevention and Control.

This seeks to require oil companies to install oil spill prevention and control liabilities in their tankers and to undertake immediate cleaning operations in the event of oil spill within the country's territorial waters

#### **(xii) Amount spent on research and development**

Under existing agreements with Shell International Petroleum Company (SIPC) of the United Kingdom and Shell Global Solutions International B.V. (SGS) of The Netherlands, an entity under common control, SIPC and SGS provide research and development and technical support services to Pilipinas Shell.

<b>R &amp; D Costs</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Amount (in Million PhP)	81.30	23.19	21.62
Revenue/Net Sales	224,084.83	198,848.86	188,848.71
	3.62%	1.17%	1.14%

#### **(xiii) Costs and effects of compliance with environmental laws**

Compliance with the various environmental laws entails costs on the part of Pilipinas Shell, resulting in higher production costs and operating expenses. In 2014 Pilipinas Shell spent a total of PhP217.8 million for treatment of wastes, monitoring and compliance.

#### **(xiv) Manpower**

Pilipinas Shell has a total of 765 employees as at December 31, 2014. This includes senior executives, junior executives, junior staff and operatives. Pilipinas Shell has no plans of significantly changing the number of its employees for the coming year.

The junior staff and operatives belong to either of two labour organizations/unions, namely the Kapisanan Ng Mga Manggagawa sa Shell (KMS), whose members comprise the rank and file workers assigned to Pilipinas Shell's network of depots and installations, and the Tabangao Shell Refinery Employees Association (TASREA), covering rank and file workers at the Tabangao refinery.

The current Collective Bargaining Agreement (CBA) with KMS is effective from 16th January 2014 to 15 January 2017, while that with TASREA, is effective from 1 May 2013 to 30 April 2016.

In addition to the statutory benefits and, reference to Pilipinas Shell's policies defining eligibility and implementation rules, the Pilipinas Shell provides 14th month pay, Club Membership Allowance, Location Allowance, Meal Allowance, Depot Housing allowance, Driver's Allowance, Relocation and housing allowance, Gas allowance, Car Expense Reimbursement Fixed (for field staff), Maternity Assistance, Funeral Assistance, Sick Leave encashment, Group Hospitalization and Out-patient Insurance, Emergency Loan without interest, and various performance-related incentives. Pilipinas Shell sponsors a non-contributory retirement gratuity plan (Plan) for the benefit of its regular employees.

**(xv) Major risks involved/Risk management**

**Risk and Internal Control Policy & Responsibilities**

Pilipinas Shell's Risk and Internal Control Policy explicitly states that management is responsible for implementing, operating and monitoring the system of internal control, which is designed to provide reasonable but not absolute assurance of achieving business objectives. The approach to internal control includes a number of general and specific risks management processes and policies. The primary control mechanisms are self-appraisal processes in combination with strict accountability for results.

**A. Board of Directors Responsibility (via Board Audit Committee)**

- Evaluate Pilipinas Shell's Management "control culture"
- Evaluate Pilipinas Shell's business risks and management processes, including the adequacy of the overall control environment, and controls in selected areas representing significant financial and business risks
- Assess (with internal and external auditors) any fraud, illegal acts, deficiencies in internal controls or other similar issues
- Assess and monitor Management's implementation of internal control recommendations made by internal and external auditors

**B. Executive Management Responsibility**

- Establish clear objectives, identify and evaluate the significant risks to the achievement of those objectives, set boundaries for risk taking, and apply fit-for-purpose risk responses
- Incorporate risk responses into a system of internal control which is designed to address opportunities, protect company assets, facilitate effective and efficient operations, and help to ensure reliable reporting and compliance with applicable laws and regulations
- Monitor the effectiveness of the system of risk and internal control management
- Implement relevant Shareholders guidelines and standards which relate to particular types of risk
- Provide annual assurances regarding the extent of compliance with Shareholders' Risk & Internal Control Policy



C. Line management Responsibility

- Design, resource, operate and monitor the system of internal control
- Ensure that a risk based approach to internal control is communicated to staff, embedded in business processes, and responsive to evolving risks
- Assign accountability for managing risks within agreed boundaries
- Report the results of balanced assessments regarding the effectiveness of the risk based internal control system, including identified weaknesses or incidents, to executive management.

**Risk Response Strategies & Accountabilities**

Risk response strategies are then decided upon to best address the significant risks assessed to achieving the business objective. Possible responses include any/all of the following: take, transfer, terminate, and treat.

**Take Risks**

To some extent, there is a degree of TAKE in the response to most significant risks. Many cannot be avoided and few can be practically and affordably reduced to zero likelihood/zero impact. Risks which are inherent to Pilipinas Shell's operations will often be accepted, particularly those which are reasonably predictable. Management actions include: establishing/monitoring key risks indicators; set reward/loss targets and tolerance levels; build in contingencies and develop recovery plans, etc.

**Transfer Risks**

For those risks that can be transferred, management actions include insurance; share via JV/partnerships; spread; etc.

**Terminate Risks**

For those risks that cannot be taken or transferred, management actions include cessation of such activities/businesses; divestments; reduce scale or pull out of the market.

**Treat Risks**

Because the response to most significant risks will be active rather than passive, there will be some degree of TREAT in response to most significant risks. Options for risk treatment include Organization, People & Relationship, Direction, Operational, and Monitoring.

**Accountabilities for Risks**

Market/Operational/Business risks are mostly the accountabilities of business/line managers. Corporate risks such as Foreign Exchanges risks, Interest Rate risks, Liquidity risks, etc. are under the responsibility of the Finance Division in coordination with business and function managers.

**Major Risks & General Responses**

**A. Market / Operational / Business Risks**

Risks under this category include the following (in no particular order):

1. Volatile global crude & product prices  
During periods of increasing crude and product prices, margins are squeezed due mainly to Pilipinas Shell's inability to timely reflect these changes in market prices.
2. Product losses in-transit  
This continues to be a concern. Securing Government assistance is key, along with other possible means of transporting products.
3. Non-level playing field/Unfair & Illegal practices

Unfair and illegal practices, and non-level playing field, e.g., fuel smuggling and pilferage, proliferation of new retail outlets which do not conform with Health, Safety, Security & Environmental standards remained as key concerns, particularly due to the impact on sales and safety. To counteract these market pressures, Pilipinas Shell, in coordination with key industry players and government, has sustained its campaign to promote brand protection and consumer awareness. Moreover, industry and government have intensified the drive against illegal refilling activities.

4. Operational risks

Impact of unanticipated or prolonged shutdowns in key facilities such as depots and the refinery could have a severe impact on Pilipinas Shell's ability to meet customer requirements.

5. Regulatory risks

Abrupt changes in laws and regulations can pose detrimental results on Pilipinas Shell's financial and business operations. Changes in site zoning ordinances, tax regulations, customs rules and licensing procedures can make it difficult to sustain viable business operations in some segments. Long-run trends of the Philippines investment climate have significant impact on the financial condition and cash flows of Pilipinas Shell.

**B. Corporate Risks**

(I) Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or the prices of crude oil and refined products will adversely affect the value of Pilipinas Shell's assets, liabilities or expected future cash flows.

1. Foreign currency exchange risk

Pilipinas Shell operates internationally and is exposed to foreign currency exchange risk arising from currency fluctuations, primarily with respect to the importations of crude and finished products denominated in US dollar. Foreign currency exchange risk may also arise from future commercial transactions and recognized assets and liabilities denominated in a currency other than Pilipinas Shell's functional currency.

Foreign exchange currency risks are not hedged and Pilipinas Shell does not enter into derivative contracts to manage foreign currency risks. . Since foreign currency exposure is significantly concentrated on purchase of crude, the Company manages foreign currency risk by planning the timing of its importation settlements with related parties.

For the year ended 31 December 2014, if the Philippine Peso had weakened/strengthened by 5% (assessment threshold used by management) against the US dollar with all other variables held constant, equity and post-tax profit for the year would have been P375 million (2013 - P486 million; 2012 - P480 million) lower/higher, as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and payables as at balance sheet dates.

2. Cash flow and fair value interest rate risk

Cash flow and fair value interest risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Pilipinas Shell has no significant exposure to fair value interest rate risk as the

Company has no significant interest-earning assets and liabilities subject to fixed interest rates.

Pilipinas Shell's interest-rate risk arises from its borrowings. Borrowings issued at variable rates expose Pilipinas Shell to cash flow interest-rate risk. At 31 December 2014, 2013 and 2012, Pilipinas Shell's short-term borrowings and loans payable carry floating rates based on a certain index plus applicable premium.

Pilipinas Shell does not enter into any hedging activities or derivative contracts to cover risk associated with borrowings.

For the year ended 31 December 2014, if interest rates on Philippine peso-denominated borrowings had been 100 basis points (assessment threshold used by management) higher/lower with all other variables held constant, post-tax profit for the year would have been P312 million (2013 - P326 million; 2012 - P261 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. Management uses 100 basis points as threshold in assessing the potential impact of interest rate movements in its operations.

### 3. Price risk

The Company is not significantly exposed to price risk on equity securities and proprietary club shares because of investments held by the Company classified in the balance sheet as available-for-sale financial assets are not considered material in the financial statements.

## (II) Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to trade and non-trade receivables.

Pilipinas Shell maintains cash and certain other financial instruments with various major financial institutions. To minimize this risk, Pilipinas Shell performs periodic evaluations of the relative credit standing of these financial institutions and where appropriate, places limits on the amount of credit exposure with any one institution. Additional information is presented in Note 5 of the Audited Financial Statements.

Pilipinas Shell has policies in place to ensure that sales of products are made to customers with acceptable creditworthiness. Counterparty credit risk is managed within a framework of individual credit limits with utilization being regularly reviewed. Credit checks are performed by a department independent of sales department, and are undertaken before contractual commitment. Where appropriate, cash on delivery terms are used to manage the specific credit risk.

There is no concentration of credit risks as at balance sheet dates as the Company deals with a large number of homogenous trade customers. Additional information is presented in Note 6 of the Audited Financial Statements.

## (III) Liquidity risk

Liquidity risk is the risk that suitable sources of funding for Pilipinas Shell's business activities may not be available. Pilipinas Shell has access to sufficient external debt funding sources (banks credit lines) to meet currently foreseeable borrowing requirements. The Treasury group centrally monitors bank borrowings, foreign exchange requirements and cash flow position.

Surplus cash is invested into a range of short-dated money market instruments, time deposits and money funds, which seek to ensure the security and liquidity of investments while optimizing yield.

Management monitors rolling forecasts of Pilipinas Shell's liquidity reserve on the basis of expected cash flow.

## Item 2. PROPERTIES

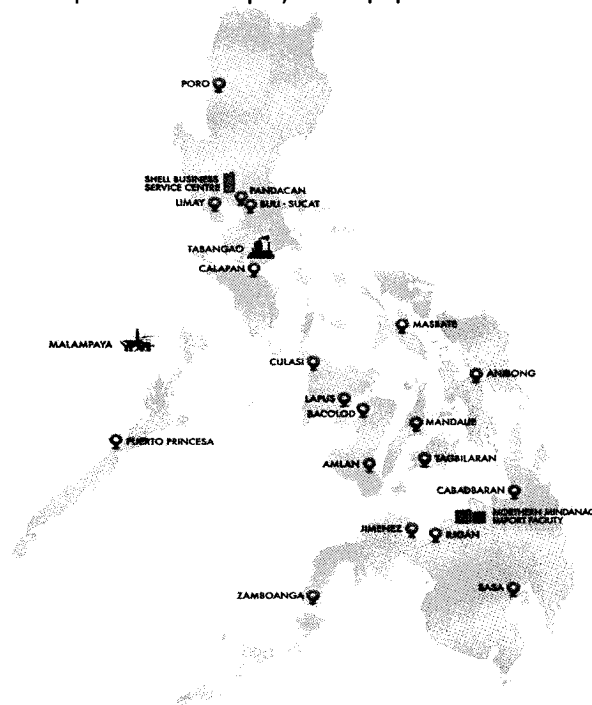
Pilipinas Shell operates on various leased property for its refinery, storage installations, depots and various retail service stations located throughout the Philippines.

Pilipinas Shell's refinery is situated in Tabangao, Batangas City, 121 kilometers south of Manila. The refinery was built in 1962 on 4,200,000 square meters of land. Consisting of 55 Product & Component tanks, 11 Crude Tanks, 5 LPG Spheres and 4 jetties, the refinery can process and refine an average of 110,000 barrels a day.

Pilipinas Shell has an existing sub-lease for a vacant plot of land adjacent to the Pilipinas Shell Cagayan de Oro (CDO) terminal with a size of 25,000sqm where the existing cargoline from the CDO terminal to the jetty passes through. The land is owned by Batangas Land Corporation. This is where the North Mindanao Import Facility is located.

Aside from the Tabangao refinery, Pilipinas Shell also has a network of installations, depots and Field Sales Offices (FSO) scattered all over the islands. These are situated in the National Capital Region (Pandacan and Sucat/Buli), Luzon (Tabangao, Calapan, Poro, Bataan, Pasacao, Masbate and Puerto Princesa) and the Southern Islands (Mandaue, Sasa, Bacolod, Lapus, Culasi, Anibong, Tagbilaran, Amlan, Cabadbaran, Cagayan, Iligan, Jimenez, and Zamboanga).

These installations and depots have a variety of tanks, lorries, machinery, building structures (Lube Oil Blending Plant in Pandacan is a premiere example) and equipment.



By year-end of 2014, Pilipinas Shell had a total of 973 service stations broken down into 444 company-owned and 529 dealer-owned. Pilipinas Shell also shares joint storage facilities in NAIA. Pilipinas Shell also leases several parcels of land and property (including the Shell House building).

Pilipinas Shell's future minimum rental commitment to its leases is as follows:

• Less than 1 year	3.2 billion
• More than 1 year but less than 5 years	4.7 billion
• More than 5 years	3.9 billion

Pilipinas Shell anticipates leasing additional lots from third parties for the expansion of its retail network in the coming year. In the coming year, Pilipinas Shell also plans to spend for the regular repairs, maintenance, and replacement of its current properties and equipment.

### **Item 3. LEGAL PROCEEDINGS**

#### **Tax cases**

*(a) Excise tax on Importations of Catalytic Cracked Gasoline(CCG) and Light Catalytic Cracked Gasoline (LCCG)*

**Pilipinas Shell Petroleum Corporation vs. Commissioner of Customs, Collector of Customs of the Port of Batangas, Bureau of Customs and Bureau of Internal Revenue**

CTA Case Nos. 8004 and 8121, Court of Tax Appeals, 2nd Division

CTA Case No. EB 1007/1003, Court of Tax Appeals En Banc

Filed December 03, 2009

**Matter Summary:** The Bureau of Customs assessed the Company, more than **PHP7.3 Billion** for claimed excise taxes on the importation of Catalytic Cracked Gasoline and Light Catalytic Cracked Gasoline (CCG/LCCG) components from 2004-2009.

Pilipinas Shell filed a Petition for Review with the Court of Tax Appeals to contest the ruling of the BOC. This case was consolidated with a petition against a ruling by the Commissioner of Internal Revenue dated 15 December 2009, which requires double taxation on CCG/LCCG.

The Government later accepted Pilipinas Shell's offer to post a surety bond to answer for any damage that a Suspension Order might cause to the government. The posting of the bond was approved by the CTA which prevented the BOC from implementing further seizures of Pilipinas Shell's importations.

**Status:** In a Resolution dated 27 November 2012, the Court granted Pilipinas Shell's Motion for Summary Judgment and ruled that the government is enjoined from collecting the alleged unpaid excise taxes and VAT on Pilipinas Shell's CCG/LCCG importations for the periods in 2004 to 2009. The government filed a Petition for Review with the CTA En Banc. Meanwhile, Pilipinas Shell filed its own Petition for Review with the CTA En Banc because the CTA did not invalidate the 15 December 2009 Ruling of the CIR with respect to double taxation. The parties' memoranda were filed in November 2013. Awaiting resolution by the CTA En Banc.

#### *(b) Batangas Local Tax Case*

**Batangas City, Maria Teresa Geron, in her capacity as City Treasurer of Batangas City and Teodulfo A Deguito in his capacity as City Legal Officer of Batangas City vs. Pilipinas Shell Petroleum Corporation**

SC-G.R. No. 187631, Supreme Court, 3<sup>rd</sup> Division  
Filed in SC May 08, 2009

**Matter Summary:** In 2003, the City of Batangas assessed Pilipinas Shell, Php4,000,000 for Mayor's permit and Php405,029,973.04 as business taxes on the basis of the volumes of petroleum products manufactured and distributed thru Pilipinas Shell's Tabangao refinery located within Batangas City. It is Pilipinas Shell's position that it is not liable for said amounts since petroleum products are exempt from local taxes under the Local Government Code. Batangas City, on the other hand, posits that what are being taxed are the businesses of manufacturing and distribution, and not the petroleum products themselves.

The 2nd Division of the CTA rendered a decision finding Pilipinas Shell not liable for these taxes and further declared that the amount assessed as mayor's permit fees was excessive. The City was further precluded from imposing taxes on the manufacture and distribution of petroleum products and was ordered to refund the excessive mayor's permit fees. The City of Batangas filed a Petition for Review with the CTA *en banc* which also affirmed the decision of the 2nd. Hence, the appeal by the City of Batangas to the Supreme Court.

**Status:** Awaiting action by the Supreme Court.

*(c) Claim for Refund of Excise Taxes*

**Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation**

SC-G.R. No. 188497, Supreme Court  
Filed September 7, 2010

**Matter Summary:** Pilipinas Shell filed for refund of excise taxes on petroleum products sold to international carriers covering October 2001 to June 2002 in the amount of Php95,014,284. CTA Division level and En Banc granted the refund and BIR appealed to the Supreme Court. The Supreme Court First Division reversed the Decision of the Court of Tax Appeals.

Other similar claims for refund are pending.

**Status:** On 22 May 2012, the company filed its Motion for Reconsideration of the Supreme Court Decision. The CIR and OSG filed their Comments to this Motion for Reconsideration. Pilipinas Shell also filed a motion for leave of court to admit a supplement to the Motion for Reconsideration, which the Supreme Court approved.

On 19 February 2014, the First Division of the Supreme Court abandoned its earlier decision and directed the Commissioner of Internal Revenue to refund or issue a tax credit certificate to Pilipinas Shell in the amount of P95,014,283 representing the excise taxes it had paid on products sold to international carriers from October 2001-June 2002. The Commissioner of Internal Revenue filed a Motion for Reconsideration dated 28 March 2014. On 9 June 2014, the Supreme Court maintained its Resolution dated 19 February 2014, and denied with finality the Commissioner's motion asking the Court to reconsider said resolution.

*(d) Excise tax on Importations of Alkylate*

**Pilipinas Shell Petroleum Corporation vs. Commissioner of Internal Revenue et al.**

CTA Case No. 8535, Court of Tax Appeals, 1<sup>st</sup> Division  
Filed August 24, 2012

**Matter Summary:** The Bureau of Internal Revenue held that Alkylate, a raw material imported by Pilipinas Shell, is subject to excise taxes upon importation. The BIR ordered the collection of Php1,994,500,677.47 in alleged excise taxes for importations of Alkylate in the period from January 2010 to June 2012.

**Status:** On 22 October 2012, the CTA issued a Suspension Order which means that while the case is pending, the government cannot enforce the collection of the alleged unpaid excise taxes on Alkylate importations from 2010 to June 2012. After the submission by Pilipinas Shell and the Government of arguments and counter-arguments, the CTA resolved to deny the Government's Motion to Dismiss and the subsequent motion for reconsideration. Following the denial of the Motion to Dismiss, the Bureau of Customs appealed to CTA En Banc, while the Bureau of Internal Revenue (BIR) brought the matter to the Supreme Court. In a Resolution dated 10 February 2014, the CTA En Banc dismissed the appeal filed by the Bureau of Customs which the Bureau of Customs later on elevated to the Supreme Court.

On 2 June 2014, Pilipinas Shell filed a Petition for Certiorari with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the SC questioning the denial of its application for the issuance of a suspension order against the assessment and collection of excise taxes on its March 2014 alkylate shipment.

On 7 July 2014, the Supreme Court consolidated the petitions which stemmed from this issue and are now pending before said court, to wit: (1) appeal filed by the Bureau of Customs raising the question of jurisdiction (SC G.R. No. 211294), (2) appeal filed by PSPC challenging the denial of its application for Suspension Order for its March 2014 alkylate shipment (SC G.R. 212490), and (3) appeal filed by the Bureau of Internal Revenue likewise raising the issue of jurisdiction (SC G.R. No. 210501). The Supreme Court also issued a temporary restraining order enjoining the CTA and the tax-collecting agencies of the government from imposing excise taxes on incoming alkylate importations of the Pilipinas Shell.

Meanwhile, the main case on the merits continue with the CTA. On 13 February 2015, the court denied Pilipinas Shell's Motion for Judgment on the Pleadings. Pilipinas Shell filed a Motion for Reconsideration of this resolution of the CTA.

*(e) Tax Credit Certificates Cases*

**1. Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation**

SC GR No. 204119-20, Supreme Court 2<sup>nd</sup> Division

Filed 5 December 2012

**Matter Summary:** This is an appeal from the Decision of the Court of Appeals which affirmed the Court of Tax Appeals in setting aside the CIR's demand for payment of the sum of Php1,705,028,008.06 as Pilipinas Shell's excise tax liabilities for the years 1992, 1994-1997, which were paid by Pilipinas Shell through TCCs and TDMs.

**Status:** Awaiting action by the Supreme Court.

**2. Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation**

SC-G.R. No. 197945, Supreme Court

Filed October 04, 2011

**Matter Summary:** From 1988 to 1997, Pilipinas Shell paid some of its excise tax liabilities with Tax Credit Certificates duly assigned and transferred to it by other BOI-registered entities. In 1998, the BIR sent a collection letter to Pilipinas Shell demanding payment of allegedly unpaid excise taxes. This became the subject of several protests which led to various cases before the CTA.

This is an appeal from the Decision dated 22 February 2011 of the Court of Tax Appeals in CTA EB Case No. 535 which denied the CIR's petition for lack of merit and ruling that Pilipinas Shell has duly settled its excise tax liabilities by utilizing valid and genuine TCC/TDMs, obtained in good faith and for value, and in accordance with the applicable laws and rules.

**Status:** Awaiting further action by the court.

**3. Republic of the Philippines rep. by Bureau of Customs vs. Pilipinas Shell Petroleum Corporation & Filipino Way Industries**  
SC-G.R. No. UDK 14908, Supreme Court

**Matter Summary:** Sometime in March 1996, TCCs were issued to Filway Industries for customs duties and taxes allegedly paid on raw materials used in the manufacture, processing or production of knitted fabrics. In 1997, Filway executed a deed of assignment over the TCCs in favour of Pilipinas Shell. Pilipinas Shell then utilized said TCCs to settle its customs duties and taxes on oil importations. According to the government, it was discovered that the said credit memos were fake and spurious as they did not conform to the records. Thus, the TCCs were cancelled and BOC is demanding anew for the payment of custom duties and taxes for Pilipinas Shell's importations.

This is an appeal by the government from the decision of the Court of Appeals affirming the orders of RTC Manila Branch 49 that dismissed the case

**Status:** Awaiting action by the Supreme Court.

#### **Pandacan Zoning Ordinance**

**Social Justice Society (SJS) Officers VS Alfredo S. Lim, in his capacity as Mayor of the City of Manila and Jose L. Atienza, Jr. et.al. VS Mayor Alfredo S. Lim, et. al (Ordinance 8187)**  
SC-G.R. No. 187836 consolidated with Case No. 187916, Supreme Court  
Filed June 01, 2009

**Pilipinas Shell Petroleum Corp. vs. City of Manila, et al. (Re: Ordinance No. 8283), Case No. 13-1034, Regional Trial Court of Makati City**  
Filed on 29 August 2013

**Matter Summary:** On 28 May 2009, the Mayor of Manila approved Ordinance No. 8187, which repeals or amends the zoning ordinances (Ordinance No. 8027 and 8119) that earlier required the closure of the Pandacan depots. Social Justice Society and former Manila Mayor Joselito Atienza separately filed their respective Petitions before the Supreme Court challenging the validity of Ordinance No. 8187.

Pilipinas Shell intervened in the cases and asked the Supreme Court to assign a special court or commission to receive evidence on the factual issues such those on safety and environment. The Supreme Court has ordered the consolidation of the cases.



**Status:** On 29 August 2013, Pilipinas Shell filed a Petition for Declaratory Relief to challenge the validity of Ordinance No. 8283. This Ordinance re-classifies the area of the Pandacan Terminal into a Commercial/Mixed Use Zone and requires the removal of the oil terminal by January 2016. In view of this, Pilipinas Shell informed the Supreme Court that the pending matter regarding Ordinance No. 8187 should be dismissed.

On 25 November 2014, the SC decided to declare Ordinance No. 8187 unconstitutional and invalid with respect to the continuing stay of the Pandacan depots. The Court gave the oil companies 45 days to submit a comprehensive plan and relocation schedule and then six (6) months to implement the said plan. On 5 January 2015, Pilipinas Shell filed its Motion for Reconsideration.

In a Resolution dated 10 March 2015, the Supreme Court denied Pilipinas Shell's Motion for Reconsideration. The Court ordered the observation of the prescribed timelines indicated in its decision and the proscription against the filing of further pleadings, motions or papers.

#### **Cases Filed by the West Tower Condominium Corporation**

**(a) West Tower Condominium Corp., on behalf of the residents of West Tower Condominium and in representation of Barangay Bangkal, and others, including minors and generations yet unborn vs. First Philippine Industrial Corporation, First Gen Corporation and their respective Board of Directors and Officers, John Does and Richard Does (Writ of Kalikasan Case)**

SC-G.R. NO. 194230, Supreme Court

Filed November 21, 2010

**Matter Summary:** This is a petition for the permanent closure of the 117km white oil pipeline (WOPL) that transports finished products from the refinery to the fuel depot in Manila. First Philippine Industrial Corporation (FPIC) owns and operates the WOPL and Pilipinas Shell is one of FPIC's customers.

In 2010, it was discovered that the WOPL had a leak which caused fuel products to seep into the basement of West Tower Condominium. The petitioners filed the present case and applied for a Writ of Kalikasan or an environmental protection order. Since the filing of the case in 2010, the court has ordered the continued shut down of the WOPL. The issue before the court now is whether the shut down should be made permanent.

**Status:** In August 2013, the Supreme Court adopted the recommendations of the Court of Appeals, requiring the submission of a certification from the Department of Energy that the pipeline is safe for commercial operation. On 29 October 2013, the pipeline company submitted the required certification.

**(b) West Tower Condominium Corp. et al. vs. Judge Elpidio R. Calis et al.**

CA-GR SP No. 125104 (Appeal of Civil Case—Civil Case No. 11-256), Court of Appeals, 6<sup>th</sup> Division

Filed June 11, 2012

**Matter Summary:** Pilipinas Shell is a respondent in this Petition for Certiorari filed by West Tower Condominium Corp, et al. to challenge the ruling of Judge Calis requiring the payment of filing fees in the civil case for damages earlier brought by WTCC in connection with the leak in White Oil Pipeline. The issue is whether the case filed with the lower court is exempt from payment of filing fees. The trial court judge earlier ruled that the claim is an ordinary claim for damages.

**Status:** In a Decision dated 30 June 2014, the Court of Appeals affirmed the ruling of the Regional Trial Court requiring the payment of filing fees. FPIC and its Board of Directors and Officers asked the Court of Appeals to reconsider the part of its Decision retaining the party-complainants previously dropped as parties to the case arguing that the court has no jurisdiction to reinstate these party-complainants. West Tower Condominium Corporation, et al. filed its Motion for Reconsideration arguing that they have satisfied all the requirements in order that this case may be treated as an environmental case which does not necessitate the payment of the filing fees. On 26 September 2014, Pilipinas Shell asked the Court of Appeals to deny the motion for reconsideration filed by West Tower Condominium Corporation, et al. for lack of merit. In its Resolution dated 11 December 2014, the Court of Appeals denied the motion for reconsideration filed by the West Tower Condominium Corporation, et al. The latter elevated the case to the Supreme Court and the same has been docketed as SC G.R. SP-No. 215901.

**(c) West Tower Condominium Corp. vs. Garde, et al (Criminal Negligence)**

NPS No. XV-05-INV-11J-02709 , Department of Justice  
Filed October 2, 2011

**Matter Summary:** This is a complaint for criminal negligence against 11 Directors of Pilipinas Shell and 2 Officers of the company who are also directors of FPIC. Aside from the other Directors and Officers of FPIC, also charged were Directors of First Gen Corp. and Directors of Chevron.

Each of Pilipinas Shell's Directors (11) and Officers (2) filed their respective Counter-affidavits on the 19th of January 2011. The Directors asserted that there is no basis to find them culpable for negligence. The City Prosecutor will make a determination as to the existence of probable cause, which is necessary before the Respondents can be indicted.

**Status:** The case is pending resolution.

**Others**

**Cecilio Abenion, et al vs. Dow Chemical Co, et al.**

SC G.R. No. 202295, Supreme Court, 1<sup>st</sup> Division  
SC-G.R. Case 199182-89, Supreme Court, 2<sup>nd</sup> Division  
Filed December 23, 2011

**Matter Summary:** In 1996, an action for damages was filed against several U.S. corporations, including Shell Oil Company, alleged to be manufacturers and users of pesticides used in plantations in Davao City. A global compromise agreement was reached between Shell Oil Company (among others) and the claimants.

In August 2009, a Davao City trial court issued a Notice of Garnishment of Pilipinas Shell's funds in a bank supposedly to enforce the compromise agreement. Pilipinas Shell sought and obtained protective relief from the courts on the basis that it was not a party to the case or to the compromise agreement subject of the case.

The Court of Appeals voided the orders of execution and ordered the judge to recuse from further presiding in the proceedings in the trial court.

**Status:** Two separate petitions for review of the Court of Appeals' decision were filed by the claimants with the Supreme Court. One of the petitions was dismissed by the Supreme Court 1st Division (SC G.R. No. 202295). The other petition is still pending with the 2nd Division (SC G.R. No. 199182-89).

#### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No special stockholders' meeting was held during the fourth quarter of the fiscal year, thus no matters were submitted to a vote through the solicitation of proxies or otherwise.

### **PART II – OPERATIONAL AND FINANCIAL INFORMATION**

#### **Item 5. MARKET FOR ISSUER'S COMMON EQUITY and RELATED STOCKHOLDER MATTERS**

1. Market information – Pilipinas Shell's securities are not listed in the stock exchange, therefore there is no public trading. Since the securities are not listed, there is no information on high or low bids. Transfer of shares is usually within related shareholders.

2. Holders – There are three hundred Fifty-nine (359) common stockholders, the top twenty (20) of which are:

	<b>Name</b>	<b>No. of Shares Held</b>	<b>% of Shares Held</b>
1	SHELL OVERSEAS INVESTMENTS B.V.	463,988,998	67.12%
2	INSULAR LIFE ASSURANCE CO., LTD.	134,702,822	19.49%
3	SPATHODEA CAMPANULATA INC.	34,991,752	5.06%
4	RIZAL COMMERCIAL BANKING CORP.	12,538,713	1.81%
5	SAGITRO, INC.	4,658,894	0.67%
6	LOURDES T. ARROYO, INC.	3,211,366	0.46%
7	CAROSAL DEVELOPMENT CORPORATION	3,183,000	0.46%
8	BPI/MS INSURANCE CORPORATION	1,972,022	0.29%
9	SEVERO A. TUASON & CO., INC.	1,465,692	0.21%
10	AYALA LIFE ASSURANCE, INC.	1,342,198	0.19%
11	PAN MALAYAN MANAGEMENT & INVESTMENT CORPORATION	1,268,536	0.18%
12	SAHARA MANAGEMENT AND DEVELOPMENT CORPORATION	992,132	0.14%
13	ARAGON, MA. LOURDES G.	985,228	0.14%
14	DE LEON, MANUEL P., JR.	817,572	0.12%
15	ESCALER, NARCISA L.	817,450	0.12%
16	DE LEON, MIGUEL P.	817,447	0.12%
17	DE LEON, VICTORIA P.	817,379	0.12%
18	FRANCISCO ORTIGAS SECURITIES, INC.	812,311	0.12%
19	ABOITIZ & COMPANY RETIREMENT PLAN	805,781	0.12%
20	ZARCON DEVELOPMENT CORPORATION	750,000	0.11%

3. Dividends

a) For the years 2012 and 2013, the dividends declared and paid out were Php 4.86 million and Php 0.47 million, respectively. For the year 2012, dividends in the amount of Php 7.04 per share

were declared and paid out on 17 May 2012. For the year 2013, dividends in the amount of Php 0.689 per share were declared and paid out on 16 May 2013.

No Dividends were declared in 2014.

b) There are no restrictions that may limit the ability of Pilipinas Shell to pay dividends on common equity. To the extent feasible, it is the policy of the Corporation to declare its unrestricted retained earnings as dividends to shareholders. The payment of dividends in the future will depend on the Corporation's earnings, cash flow, investment program and other factors.

4. There have been no recent sales of unregistered or exempt securities.

## **Item 6. MANAGEMENT'S DISCUSSION and ANALYSIS**

The financial statements (Statements of Income & Balance Sheets) are for the years 2014, 2013 and 2012 are shown in Million Philippine Pesos.

### **2014 vs. 2013 Financial Condition**

**Cash and Cash equivalents** decreased by 23% from Php6.2 billion in 2013 to Php4.7 billion in 2014. Php7.4 billion cash was generated from operational activities, Php5.6 billion cash used for investing (purchase of assets) activities, and Php3.2 billion used to pay interest and loan.

**Receivables** decreased by 11% from Php15.7 billion in 2013 to Php14.0 billion in 2014 mainly due to lower value of sales brought about by lower product prices (USD108 per barrel in 2013 vs. average of USD61 per barrel in 2014).

**Inventories** decreased by 43% from Php28.5 billion in 2013 to Php16.3 billion in 2014 due to better working capital management and reduction in oil prices.

**Prepayments and other current assets** increased by 28% from Php9.5 billion in 2013 to Php12.2 billion in 2014 mainly due to increase in input VAT and creditable withholding tax.

**Property and equipment** increased by 26% from Php14.8 billion in 2013 to Php18.6 billion in 2014 due to investments in the refinery and as well as the North Mindanao Import Facility.

**Deferred income tax assets** increased by 256% from Php1.5 billion in 2013 to Php5.3 billion in 2014 due to the loss suffered during the year.

**Other Assets** decreased by 19% from Php1.2 billion in 2013 to Php1.0 billion in 2014 mainly due to pension asset revaluation (PAS19 on Employee Benefits).

**Account Payable and accrued expenses** increased by 39% from Php14.3 billion in 2013 to Php19.9 billion in 2014 that is attributable to the long holidays at end of the year that pushed payment and check pick up in January 2015.

**Short term Borrowings** decreased by 39% from Php35.5 billion in 2013 to Php21.6 billion in 2014 mainly due to repayment of the loans from funds sourced via long term loans.

**Current portion of loans payable** increased by 100% from Nil balance in 2013 to PhP11 billion in 2014 due to reclass from short term borrowings which becomes payable in 2015.

**Loans payable** increased by 9% from PhP11.0 billion in 2013 to PhP12.0 billion in 2014 to meet the working capital requirements and repay part of short term borrowings.

**Stockholder's Equity** decreased by 69% from PhP12.6 billion in 2013 to PhP3.8 billion in 2014 due to the recorded net loss for the year.

#### **2013 vs. 2012 Financial Condition**

**Cash and Cash equivalents** decreased by 11% from PhP6.9 billion in 2012 to PhP6.2 billion in 2013. PhP4.9 billion cash was used for operational activities, PhP3.4 billion cash used for investing (purchase of assets) activities, and PhP1.6 billion used to pay interest and dividend, offset by PhP9 billion cash borrowed for the above activities.

**Inventories** increased by 5% from PhP27 billion in 2012 to PhP28.5 billion in 2013 due to unplanned refinery shutdown resulting to higher inventory volumes at year-end.

**Prepayments and other current assets** increased by 35% from PhP7.1 billion in 2012 to PhP9.5 billion in 2013 mainly due to increase in input VAT and creditable withholding tax.

**Other Assets** increased by 33% from PhP0.9 billion in 2012 to PhP1.2 billion in 2013 mainly due to pension asset revaluation (PAS 19 on Employee Benefits).

**Account Payable and accrued expenses** decreased by 23% from PhP18.6 billion in 2012 to PhP14.3 billion in 2013 that is attributable to the decrease on importation from SIETCO – when the refinery had to do unplanned shutdown, offset by products being purchased locally.

**Dividend Payable** increased by 10% from PhP0.009 billion in 2012 to PhP0.01 billion in 2013 due to cheques not claimed by shareholders – later on becoming staled.

**Short term Borrowings** increased by 35% from PhP26.3 billion in 2012 to PhP35.5 billion in 2013 due to increase in refinancing of matured loan during 2013 compared to 2012.

**Stockholder's Equity** decreased by 9% from PhP13.9 billion in 2012 to PhP12.6 billion in 2013 due to the recorded net loss, payment of dividend slightly offset by revaluation of pension assets (PAS 19 on Employee Benefits).

#### **2014 vs. 2013 Results of Operation**

**Net loss after tax** for the year 2014 was registered at PhP(8.5) billion down from the results of 2013 amounting to PhP(0.9) billion. External business environment during the latter half of 2014 remained challenging and largely unfavorable – characterized by the continuous slide in the crude prices in the international market. This resulted to higher cost of sales over net sales that translated to a negative gross profit margin. Operating expenses and other non-operating expenses also increased in 2014 which was slightly offset by the decrease in the finance cost.

**Net sales** increased by 13%, from PhP198.8 billion in 2013 to PhP224.1 billion in 2014. Increased sales revenues are due to the increased sales volume from 5,309M liters in 2013 to 5,627M liters in

2014. These were aided by wholesale volumes and the success of various national promotions i.e., Coca Cola, SM Advantage Card loyalty program, etc. and also the increased demand from power sector.

**Cost of Sales** increase by 20% from PhP187.2 billion in 2013 to PhP225.4 billion in 2014 is mainly due to the increase in the sales volume partially offset by lower crude prices by the second half of the year.

Poor refining margin environment, steep decrease in crude prices, increase in primary transport cost from Tabangao refinery to Pandacan depot due to pipeline shutdown, operational issues (such as off spec diesel and transport challenges from bridge collapse and unplanned refinery shut down) contributed to the gross loss this year.

Pilipinas Shell registered PhP1.3 billion **Gross loss** as of December 2014 from PhP11.6 billion **gross profit** for the same period in 2013.

**Operating expenses** increased to PhP9.4 billion in 2014, from PhP8.8 billion in 2013 due to higher repairs and maintenance cost as well as higher depreciation for Pandacan.

**Other non-Operating Expense** decreased to PhP0.02 billion in 2014 from PhP1.2 billion in 2013. This is mainly due to the settlement of claim made to local company in 2013.

**Finance expenses decreased** from PhP2.4 billion in 2013 to PhP1.6 billion in 2014, mainly due to realized foreign exchange gain as compared to realized foreign exchange losses as a result of peso appreciation.

#### **2013 vs. 2012 Results of Operation**

**Net income/(loss) after tax** for the year 2013 was registered at PhP(0.9) billion down from the results of 2012 amounting to PhP4.8 billion. Net sales increased in 2013 that translated to a higher gross profit margin. Operating expenses, finance costs and other non-operating expenses also increased in 2013. On a normalized basis however, net income after tax (NIAT) for 2012 was at PhP1.2B, if the one-off contribution of the sale of the LPG business is taken out. Similarly during the current year, NIAT would be at PhP0.4B, if the one-off settlement for claims of a local company is taken out – i.e., in October 2013, the local company which bought the Pilipinas Shell's shares over SGLPI in 2012 filed for claims in relation to the supply chain of SGLPI that was adversely affected by a supervening event. As such, the Pilipinas Shell entered into a new agreement to settle the claims of the local company amounting to P1.2 billion. The said amount was settled in December 2013.

**Net sales** increased by 5%, from PhP188.8 billion in 2012 to PhP198.8 billion in 2013. Increased Sales revenues are due to the increased sales volume from 5,056 million Liters in YTD Dec 2012 to 5,309 million Liters in YTD Dec 2013. These were aided by the success of various national promotions i.e., Coca Cola, SM Advantage Card loyalty program, V-Power Trip to Italy Promotion, increase in volumes from deals with PSALM, Therma Marine and also the increased demand from Power sector and the favorable impact of the government's anti-smuggling measures.

**Cost of Sales** increase by 5% from PhP178.1 billion in 2012 to PhP187.2 billion in 2013 is mainly due to the increase in the volumes coupled by the higher average cost of crude by USD3 per barrel in 2012 (higher beginning inventory prices/value) vs. 2013 (lower ending inventory price/value).

**Gross profit margin** increased from PhP10.7 billion in 2012 (6% of net sales) to PhP11.6 billion in 2013 (6% of net sales). Increase in margins were due to higher sales volumes and the average crude price being lower in 2013 by USD3 as compared to 2012 prices, offset by steep decrease in Supply and Manufacturing business margins mainly due to unplanned refinery shut down in November.

**Operating expenses** increased to PhP8.8 billion in 2013, from PhP8.5 billion in 2012 due to the higher level of operations increasing general and administrative and selling expenses.

**Other non-Operating Income/ (Expense)** – from other non-operating income in 2012 of PhP4.6 billion, PhP1.1 billion non-operating expense was registered in 2013. This is mainly due to the gain on sale of Shell Gas (LPG) Philippines Inc in 2012 vs. settlement of claim made to local company in 2013.

**Finance expenses** has increased from PhP0.7 billion in 2012 to PhP2.4 billion in 2013, mainly due to foreign exchange losses as a result of peso depreciation and higher interest charges due to increased borrowings.

#### **2014 vs. 2013 Capital Employed**

**Return on average capital employed** is at -16% for 2014 compared to -2% in 2013. Average capital employed decreased by 3% to PhP53.7 billion in 2014 from PhP55.1 billion in 2013 due to decrease in inventories offset by increase in trade and other payables, increase in fixed asset investment and increase in deferred tax asset due to incurred losses as well as increase in input VAT.

**Net working capital** decreased from PhP45.6 billion in 2013 to PhP27.3 billion in 2014, with major decrease in inventory due to falling crude prices.

**Long term assets** increased by PhP7.4 billion in 2014, owing to an increase in Property, Plant and Equipment (refinery and terminal investments) and deferred tax assets.

**Net cash flow generated/(used) from operating activities** before working capital changes amounted to PhP(5.1) billion in 2014, which reflects the net operating loss for the year. Incorporating the decrease in current assets, increase in liabilities other than provisions, dividends payable, short-term borrowings and loans payable resulted in net cash generated from operating activities to PhP7.4 billion.

#### **2013 vs. 2012 Capital Employed**

**Return on average capital employed** is at -2% for 2013 compared to 11% in 2012. Average capital employed increased by 24% to PhP55 billion in 2013 from PhP44 billion in 2012 that is mainly due to higher short-term borrowings to finance a higher net working capital in 2013.

**Net working capital** increased by PhP8 billion in 2013, mainly due to increase in volume of the inventory, increase in input VAT prepayments and decrease in payables to related parties because of refinery shut down and products being purchased locally.

**Long term assets** increased by PhP0.5 billion in 2013, owing to an increase in Pension plan asset and Property, Plant and Equipment.

**Net cash flow generated/(used) from operating activities** amounted to PhP(5) billion in 2013, which reflects the net operating loss for the year, increase in current assets other than cash, decrease in liabilities other than provisions, dividends payable, short-term borrowings and loans payable.

## **Item 7. FINANCIAL STATEMENTS**

### **STATEMENTS OF INCOME:**

PhP Million	2014	2013	2012 (as restated)
Net Sales	224,085	198,849	188,849
Cost of Sales	-225,394	-187,219	-178,111
Gross (loss)/profit	-1,309	11,630	10,738
Operating Expenses, net	-9,429	-8,780	-8,481
(Loss)/Income from Operations	-10,738	2,850	2,256
Other non-operating income	-18	-1,170	4,579
Finance Income (costs), net	-1,629	-2,411	-748
Income/(loss) before provision for income tax	-12,385	-731	6,087
Benefit from/(Provision for) Income Tax	3,896	-181	-1,287
Net (loss)/Income for the Year	-8,489	-912	4,799
Earnings Per Share	-12.28	-1.32	6.94



**BALANCE SHEETS:**

PhP Million	2014	2013	2012 (as restated)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4,722	6,161	6,925
Receivables, net	14,005	15,664	15,538
Inventories, net	16,336	28,514	27,048
Prepayments and other current assets	12,160	9,532	7,089
Total current assets	47,223	59,871	56,600
<b>NON-CURRENT ASSETS</b>			
Long-term receivables, advance rentals and investments	1,390	1,409	1,442
Property, plant and equipment, net	18,631	14,777	14,551
Deferred income tax assets	5,294	1,489	1,480
Other assets	965	1,187	894
Total non-current assets	26,280	18,862	18,367
<b>TOTAL ASSETS</b>	<b>73,503</b>	<b>78,733</b>	<b>74,967</b>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable & accrued expenses	19,893	14,292	18,572
Dividends payable	10	10	9
Short-term borrowings	21,550	35,537	26,316
Current portion of loans payable	11,000	0	0
Total current liabilities	52,453	49,839	44,897
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans payable	12,000	11,000	11,000
Provisions and other liabilities	5,219	5,334	5,216
Total non-current liabilities	17,219	16,334	16,216
Total Liabilities	69,672	66,173	61,113
<b>STOCKHOLDERS' EQUITY</b>	3,831	12,561	13,853
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>73,503</b>	<b>78,733</b>	<b>74,967</b>

**KEY PERFORMANCE INDICATORS:**

	2014	2013	2012
Current Ratio	0.90	1.20	1.26
Earnings per Share	(12.28)	(1.32)	6.94
Debt-to-Equity	11.34	3.70	2.69
Return on Assets (%)	(11.54%)	(1.19%)	6.89%
Return on Equity (%)	(108%)	(6.91%)	34.90%

Figures are based on Audited Financial Statements.

- Current ratios are computed by dividing current assets over current liabilities.
- Earnings per share are computed based on the net income for the year divided by the weighted average number of shares outstanding during the period.
- Debt-to-equity ratio resulted by dividing net debt (short-term and long-term borrowings less cash) over stockholder's equity (exclusive of other reserves).
- Return on assets is computed as net income after taxes divided by total assets.
- Return on equity percentage is computed by dividing net income over average stockholder's equity (exclusive of other reserves).

**Known trends, demands, developments, commitments, events or uncertainties that will have a material impact on the issuer's liquidity**

Pilipinas Shell has reviewed the known trends, demands, developments, commitments, events or uncertainties during the reporting period and is of the opinion that there are no items which will have a material impact on the issuer's liquidity. Please refer to note 3.1.3 of the Audited Financial Statements.

**Capital Expenditures Commitments**

For the year 2015, a budget of PhP3.5 billion has been approved for capital expenditures. Bulk of the capital expenditures will be allocated mainly for the new import facility in North Mindanao, Refinery upgrade to handle Euro IV compliance project, its maintenance work and the expansion of service stations and the support of its retail businesses.

**Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.**

There are no material or significant events during the reporting period that will trigger direct or contingent financial obligation that is material to the company except for the cases enumerated under the section 'Legal Proceedings'. Pilipinas Shell, however, is confident that the liability, if any that may result from the outcome of these cases and investigations will not materially affect the financial position or results of the operations of the company.

**All material off-balance-sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the reporting period.**

There are no material off-balance-sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

**Known trends, events, or uncertainties that have had or that are reasonably expected to have a material favourable or unfavourable impact on Net Sales/Income from continuing operations**

The Department of Energy (DOE) issued Department Circular DC2013-09-0021, mandating standard specifications for gasoline, in line with Republic Act 8749 or the Philippine Clean Air Act of 1999. All oil companies must distribute and sell gasoline blended with 10% ethanol with the following specifications: regular grade with at least a 91 research octane number (green); premium, 95 RON minimum (red); and premium plus, 97 RON minimum (blue). The circular was signed by DOE Secretary Carlos Jericho Petilla last September 19, 2013; retailers have until January 1, 2014 to comply with the new standards.

**Any significant elements of income or loss that did not arise from the registrant's continuing operations**

There are no material elements of income or loss that did not arise from the registrant's continuing operations during the period.

**Any seasonal aspects that had material effect on the financial condition or results of operations**

There are no seasonal aspects that have material effect on the financial condition or results of operations during the period.

**Item 8. CHANGES IN and DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

The accounting firm of Isla Lipana & Co. (PriceWaterhouseCoopers - Philippines) [formerly known as Joaquin Cunanan & Co.] has been the principal accountants and external auditors of Pilipinas Shell for the current and previous fiscal years. There are no changes in and disagreements with mentioned accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

**PART III – CONTROL and COMPENSATION INFORMATION**

**Item 9. DIRECTORS and EXECUTIVE OFFICERS**

*The following are the directors elected in 2014:*

*Edgar O. Chua* (58 years old, Filipino) – has been a Director of the Corporation since 1998. He is the current Chairman and President of the Corporation. He is also a director and the President of the various Shell companies in the Philippines. He served the Corporation as: GM – Consumer Markets (Commercial OP East) from 2001 to 2003; GM – Commercial Marketing (ASEAN+) from 1999 to 2000; VP – Marketing from 1998 to 1999; GM – Marketing in 1998; GM of the Shell Company of Cambodia from 1995 to 1997; Energy Demand Analyst, Group Planning for SIPC from 1993 to 1995; Supply Planning & Trading Manager from 1991 to 1993; Lubricants Manager from 1989 to 1991; Consumer Development & Services Manager in 1988; Economics Assistant in the Supply Trading Department from 1986 to 1988; Inventory Management & Manila Movements Assistant from 1985 to 1986; General Auditor in 1985; Internal Auditor from 1983 to 1985. He is a director of joint venture companies wherein the Corporation has investment. He is currently an Independent Director at Energy Development Corporation (EDC) and Integrated Micro Electronics Inc. at IMI (IMI). He also serves in the Advisory Board of Coca-Cola FEMSA Philippines, Globe Telecom, Inc. and Mitsubishi Motors Philippines, Inc. He received a Bachelor of Science in Chemical Engineering degree from the De La Salle University in 1978. He was born on the 9<sup>th</sup> of October 1956.

*Fernando Zobel de Ayala* (55 years old, Filipino) – has been an Independent Director of the Corporation for more than five years. He is the Vice Chairman, President, and COO of Ayala Corporation. He is also: Chairman of Ayala Land, Inc., Manila Water Company, Inc., AC International Finance Ltd., Ayala International Pte Ltd., Ayala DBS Holdings, Inc., Alabang Commercial Corporation, AC Energy Holdings, Inc., and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc.; Co-Vice Chairman of Mermac, Inc.; Director of Bank of The Philippine Islands, Globe Telecom, Inc.,

Integrated Micro-Electronics, Inc., Livelt Investments, Ltd., Asiacom Philippines, Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America, Inc., Vesta Property Holdings Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation and Manila Peninsula; Member of The Asia Society, World Economic Forum, INSEAD East Asia Council, and World Presidents' Organization; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; Vice Chairman of Habitat for Humanity International; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, Kapit Bisig para sa Ilog Pasig Advisory Board and National Museum. He received a Bachelor of Arts in Liberal Arts degree from Harvard College in 1982. In 1993, he received a Certificate in International Management (CIM) Programme from INSEAD. He was born on the 14<sup>th</sup> of March 1960.

*Cesar A. Buenaventura* (85 years old, Filipino) – has been an Independent Director of the Corporation for more than five years. He is the Chairman of Buenaventura, Echauz and Partners, Inc. He is the Vice Chairman of DMCI Holdings, Inc. He is a Director of Phil. American Life Insurance Co., PetroEnergy Resources Corporation, Semirara Coal Company, and Manila International Airport Authority. He was founding Chairman of the Pilipinas Shell Foundation Inc. and founding member of the Board of Trustees of the Makati Business Club. He was a recipient of many awards, among which are Management Man of the Year in 1985, Outstanding Fulbright scholar in the field of business by the Fulbright Association in 2008. He was also awarded as one of the Top Alumni Engineering Graduates of the University of the Philippines. In 1991, he was personally granted the award of Honorary Officer of the Order of the British Empire by her Royal Majesty Queen Elizabeth II. He received a Bachelor of Science in Civil Engineering from the University of the Philippines in 1950. In 1954, he received a Master of Science in Civil Engineering from the Lehigh University in Pennsylvania as a Fulbright Scholar. He was born on the 18<sup>th</sup> of December 1929.

*Cesar B. Bautista* (77 years old) – has been an Independent Director of the Corporation for more than five years. has been a Founding Trustee of the Institute of Corporate Director and the Institute of Solidarity for Asia. He is a Director of Steel Asia (Phil) Inc., Philratings Services Inc., D&L Industries, Inc., First Philippine Holdings Corporation, Phinma, Inc. and Maxicare Healthcare Inc. He is also Chairman of CIBI Information Inc. and St. James Ventures, Inc. He was Chairman and President of Unilever (Philippines), Chairman of Biocon (Philippines), International Starch Corp. (an affiliate of U.S. National Starch Corp.) and Director of ABS CBN Communications, Inc., Chartist Insurance Inc., and Bayan Telecommunications, Inc. After his career with Unilever, he also served the government as: Secretary of the Department of Trade and Industry; Chairman of the Board of Investments, the Presidential Economic Monitoring and Mobilization Task Force, Export Development Council, Industry and Development Council, WTO/AFTA Advisory Commission, the National Development Corporation, The Presidential Committee on National Museum Development, Cabinet Committee on Tariff and Related Matters, Economic Growth Areas/Zones; Monetary Board Member, representing the President and the Cabinet Man in charge of Region III. He was also appointed: Ambassador to the United Kingdom, Ireland, Iceland and Permanent Representative to the International Maritime Organization and also as Special Envoy to Europe. Upon his return from Europe, he was tasked to establish the National Competitiveness Council, the Task Force for Competitive Services & Industries, and appointed to be the country contact to the U.S. Millenium Challenge Corporation. He was also named to represent the country in the ASEAN-ROK Eminent Persons Group, and in the ASEAN Masterplan for Connectivity. He received a Bachelor of Science in Chemical Engineering from the University of the Philippines in 1958. In 1959, he received a Master of Science in Chemical Engineering from the Ohio State University. He completed the graduate management program from IMEDE of Switzerland in 1983. He is the chairman of the International Chamber of Commerce (Phil), the English Speaking Union (U.K), and the competitiveness committee of MAP. He is in the Board of the Foundation for Global Concerns, European IT Services Corp., and

Adviser Emeritus to the Secretary of Trade & Industry on Strategic Roadmaps. He is a Multisectoral Governance Councilman of the Armed Forces of the Philippines Transformation. He was born on the 19<sup>th</sup> of December 1937.

*Vicente R. Ayllon* (84 years old, Filipino) – has been a Director of the Corporation since 1985. He is Chairman of the Board and CEO of The Insular Life Assurance Co., Ltd.; Chairman of the Board and President of Insular Life Property Holdings, Inc. (formerly Vigan Realty, Inc.); Chairman of the Board of Insular Investment Corporation, Insular Health Care, Insular Foundation, ILMADECO, Home Credit Mutual Building & Loan Association; Vice Chairman of Union Bank of the Philippines and Mapfre Insular Insurance Corporation; Director of Shell Co. of the Philippines, Ltd., The Palms Country Club and Rockwell Land Corporation. He was also: Chairman of Asian Hospital, Inc., Insular Life Savings & Trust Co., Insular General Insurance Co., Inc., FGU Insurance Corporation, Universal Reinsurance Corporation, Filipinas Life, China Underwriters Life & Gen. Insurance Co. (Hongkong), Asian Institute of Management Council of Presidents, Madrigal Business Park Commercial Estate Association and Tabangao Realty, Inc.; President of Shell Chemical Co. of the Philippines, The Insular Life Assurance Co., Ltd. and Association of Insurers and Reinsurers of Developing Countries; He was Director of Philippine Hoteliers, Inc., Purefoods Corporation, Bank of the Philippine Islands, Ayala Land, Inc., Engineering Equipment, Inc., Filipinas Foundation, Inc., Family Bank, Filinvest Credit Corporation, Insurance Institute for Asia & the Pacific, Globe Telecom (GMCR, Inc.), Keppel Phils. Holding, Inc., Kepphil Shipyard, Inc., Insular Century Hotel, Davao, Araneta Properties, Inc. and LIMRA International; Trustee of Life Underwriting Training Council. He received a Bachelor of Science in Commerce degree from the University of the East in 1952. In 1969, he received a Certificate in International Management from the Waterloo University. He also attended the following courses: Harvard Advance Management Program in the Far East in 1963, Agency Management at the LIAMA in Chicago in 1965 and the Top Management Program at the Asian Institute of Management in 1979. He was born on the 23rd of January 1931.

*Mayo Jose B. Ongsingco* (64 years old, Filipino) – has been a Director of the Corporation since 2002. He is President and Chief Operating Officer of The Insular Life Assurance Co., Ltd. He is also: Chairman of Insular General Insurance Agency, Inc. and Insular Life Employees' Retirement Fund; Vice Chairman of Insular Life Health Care, Inc.; President and Vice Chairman of Insular Life Management & Development Corp.; Vice Chairman, Board & Excom of Home Credit Mutual Building & Loan Assoc. and Vice Chairman Excom of Unionbank of the Philippines; Director of Insular Investment Corporation, Insular Life Foundation, Insular Life Property Holdings, Inc., Mapfre-Insular Insurance Corporation, Pilipinas Shell Petroleum Corporation, Keppel Philippines Holdings, Inc., and Pamplona Realty, Inc. He is also a trustee of the De La Salle College of St. Benilde, DLSU Parents of University Students Organization, DLSU PUSO Foundation and Foundation for Carmelite Scholastics. He received an AB Economics and Bachelor of Science in Commerce degree, major in Accounting (Magna Cum Laude) from the De La Salle University in 1974. In 1977, he received a Master of Business Administration from the University of the Philippines. He also completed an Advance Investment Banking Course from INSEAD in 1996. In 1999, he received a Master of National Security Administration degree from the National Defense College of the Philippines, graduating Class Valedictorian. He also completed the Naval Command and General Staff Course at the Philippine Navy Naval Education & Training Command in 2001. He was born on the 8<sup>th</sup> of May 1951.

*Carlos R. Araneta* (70 years old, Filipino) – has been a Director of the Corporation since 1986. He is a Director of Araneta Properties, Inc. and Chairman of Spathodea Campanulata Inc. He received a Bachelor of Science in Business Administration degree from Boston University in 1967. In 1971, he received a Bachelor of Law degree from the Ateneo de Manila University. He was born on the 24<sup>th</sup> of March 1945.

*Shaiful B. Zainuddin (49 years old, Malaysian)* – is the Vice-President for Finance and Treasurer of Pilipinas Shell. He joined Shell in 1988 in Retail Development and Network Planning and then undertook various assignments in Shell companies in Malaysia in Finance and LNG business. He spent 4 years in Melbourne as Planning & Appraisal lead for the Oceania Cluster Downstream businesses until Sep 2000. Thereafter he returned to Malaysia and took on the role as the Finance Manager of Shell Refining Company in Port Dickson as well as the Cluster Manufacturing, Supply & Distribution Finance Manager for Malaysia & Thailand. He was next appointed as the Controller/Finance Director for Shell Oman Marketing Company in Feb 2004, a position he held until June 2008. He then assumed the role as the Downstream Finance Implementation Manager for East & Canada, responsible for rolling out the Streamline Finance processes and delivery of the Finance Functional Plan for multiple countries in East region and Canada. In 2011 December he took the assignment here in Manila as Vice President for Finance. Shaiful graduated from the University of Kent at Canterbury, B.A. with Honours in Accounting with Computing and also took the Executive Business Leadership Programme in INSEAD Singapore. He was born on January 21, 1966.

*Anthony Lawrence D. Yam (50 years old, Filipino)* - is the Vice-President for Retail Business in Pilipinas Shell. He joined Shell in August 1986 and has served the company as Operational Excellence Manager for the Customer Service Center from mid-2010 to mid-2011. He has been the Retail Pricing Manager from late 2009 to mid-2010, Interim General Manager for LPG Business from May-October 2009 and Retail District Manager for Metro Manila from 2005 to 2009. He was assigned in Vietnam for a cross-posting assignment as General Manager for LPG from 2001-2005. Prior to his cross-posting assignment, he was the Southern Regional Sales Manager for LPG (Phil). from 1997-2001 and has served Shell in various support roles from 1993-1997, that included stints in Corporate Brand, Customer Service Center, Lubricants and Internal Audits. He started his career as a sales representative for Retail from 1986-1993. He received his Bachelor of Science in Industrial Management Engineering minor in Mechanical Engineering degree from the De La Salle University in 1985. He was born on December 20, 1964.

*Sebastian Cortez Quiniones, Jr (55 years old, Filipino)* - is currently the General Manager/Managing Director of Shell Philippines Exploration BV, appointed into the position in 2009. He served as: General Manager Distribution of Philippines and North Pacific Islands from 2001 to 2009-during that period he was also a Director and Chairman of the Board of Pandacan Depot Services, Inc; Vice President Supply of Pilipinas Shell Petroleum Corporation from 2000 to 2001-during that period he was also a Director of the Batangas Bay Carriers, Inc and First Philippines Holding Corporation; Refinery Superintendent of the Pililla Refinery from 1995 to 2000; Operations Shift Manager, Start-up Team member and Process A Manager from 1991 to 1995; Site Focal for STAR BDEP in Shell Internationale Maatschappij BV in the Hague Netherlands from 1989 to 1991; Process Manager of the Shell Tabangao Refinery 1986 to 1989; Refinery Technologist of the Shell Tabangao Refinery from 1981 to 1986. He was a Philippine Science High School scholar, and an NSDB Scholar at the University of the Philippines where he studied Chemical Engineering. He was born on the 10th of January 1960.

*Eduard Rudolf Geus (49 years old, Dutch)* - is the General Manager and Vice-President for Manufacturing of the Pilipinas Shell since 5 May 2014. He served as: Senior Advisor Refining – Seconded to Statoil Refinery Mongstad, Norway from 2011 to 2013; General Manager Global Operations – Shell WindEnergy Inc., Houston, USA from 2007 to 2011; Business Improvement Leader – Couronnaise de Raffinage, Shell Refinery Petit Couronne, France from 2006 to 2007; Process Unit Manager – Couronnaise de Raffinage, Shell Refinery Petit Couronne, France from 2003 to 2006; Senior Technologist – Couronnaise de Raffinage, Shell Refinery Petit Couronne, France from 2000 to 2003; Distillation and Membrane Technology Technologist – Shell Global Solutions,

Amsterdam, The Netherlands from 1996 to 2000; Technologist – Sola Refinery, Norske Shell, Norway from 1993 to 1996; Base Oil Technologist – Shell Internationale Petroleum Maatschappij, The Hague, The Netherlands in 1993. He received a Master's Degree in Chemical Technology from the Technical University Delft, the Netherlands in 1988, and a PhD Degree in Technical Sciences also from the Technical University Delft in 1993. He was born on the 9th of July 1965.

*The following director/s is/are nominated and elected in 2015:*

*Mona Lisa Bautista Dela Cruz* (57 years old, Filipino) – is the Assistant Manager to the Executive Vice-President of Insular Life Assurance Company Ltd. and shall take over as President and Chief Operating Officer of Insular Life Assurance Company Ltd. by 1 May 2015. She has been a director of Insular Life Health Care, Inc., ILAC General Agency, Inc., Insular Investment and Trust Corporation, Home Credit Mutual building and Loan Association, Insular Life Development and Management Corporation, and Professional Services, Inc. (The Medical City). She has also been a Trustee of the Insular Life Foundation, Inc. She received her Bachelor of Science degree in Statistics from the University of the Philippines and graduated *Cum Laude* in 1978. She likewise completed her Masters Degree in Science and Mathematics, majoring in Actuarial Science, in the University of Michigan in 1979. Her memberships include the Actuarial Society of the Philippines, the Society of Actuaries, USA, and the International Actuarial Association. She was born on the 5<sup>th</sup> of June 1957.

The final list of Nominees for Appointment as Corporate and By-Laws Executive Officers for 2015 to 2016:

Edgar O. Chua*	Chairman & President	Filipino
Shaiful B. Zainuddin*	Vice President – Finance/Treasurer	Malaysian
Homer Gerrard L. Ortega	Vice President – Human Resources	Filipino
Eduard Geus*	Vice President – Manufacturing	Dutch
Dennis G. Gamab	Vice President – Trading and Supply	Filipino
Anthony Lawrence D. Yam*	Vice President – Retail	Filipino
Ramon Del Rosario	Vice President – Communications	Filipino
Jannet C. Regalado	Vice President – Legal	Filipino
Erwin R. Orocio	Corporate Secretary	Filipino
Maria Lourdes O. Dino	Asst. Corporate Secretary	Filipino

\*Member of the Board of Directors

Below are the profiles of incumbent and new nominee/s for appointment as Corporate/By-Laws Executive Officers:

**Other By-Laws Executive Officers (who are not directors/nominees to the Board):**

*Homer Gerrard L. Ortega* (48 years old, Filipino) - has been the Vice President for Human Resources since April 2007. He has served the Corporation in several assignments: as HR Change Manager supporting Shell's Retail businesses in Asia/Pacific/Middle East countries (2005-2007); HR Capability Manager also for Shell's Retail businesses in Asia/Pacific/Middle East (2002-2004); Retail Operations Manager (1999-2001); HR Transition Management Team Member (1997-1998); HR Recruitment & Training Adviser (1996-1997); and, Retail Territory Manager (1990-1995). He studied at the University of the Philippines in Diliman, Bachelor of Science in Business Administration and Accountancy (1984-1989); and, became a Certified Public Accountant in 1990. He was born in Quezon City on 13<sup>th</sup> January 1967.

*Dennis G. Gamab* – (50 years old, Filipino) - has been Vice President for Trading and Supply since 2010. He joined the Corporation in 1987 and has served the Corporation as: Vice President for Supply from 2005-2009, Road Transport Manager for the Philippines from 2000 - 2005, Secondary Logistics Economist from 1998 - 2000, Logistics Project Implementor in 1997 - 1998, Poro Installation Manager in 1995 - 1997, crossposting assignment in Dubai 1992 - 1995 as Marine and Lubricants Distribution Head, Bataan Depot Manager 1990 - 1992 and Plant and Transport Assistant and various other Distribution jobs from 1987 - 1990. He received a Bachelor of Science in Mathematics from the University of the Philippines in 1987. He was born on the 12<sup>th</sup> of February 1965.

*Ramon Del Rosario* (55 years old, Filipino) – has been the Vice President for Communications since 19 August 2014. He graduated with a Bachelor of Science degree in Mechanical Engineering from the University of the Philippines in 1980. Following his Bachelor's degree, he took a Masters degree in Business Administration from the Ateneo de Manila Graduate School of Business in 1981. He also took up several trainings in Program Management, Sales Effectiveness, Cultural Awareness, Marketing, Lubricants Business, and other technical courses. He started his career in 1981 as a Commercial Fuels Account Manager in the Corporation before moving progressively to broader and more senior roles. He held various positions in Lubricants, Marketing and Sales, Brand and Market Research, Commercial Fuels, and GSAP. He gained extensive international exposure in his overseas assignments with the Shell Company of Cambodia Ltd., where he held the position of a Marketing and Sales Manager. Prior to his current assignment, he was assigned to Shell's Regional Offices with responsibility over Commercial Transport Marketing Development, Consumer Lubricants, and Sales 1st. In 2007 to 2008, he became the Country Implementation Manager and organized the gap analysis of local processes relative to global Streamline design and policies. He then became the Country Programme Manager in the successful Streamline, Global SAP, Organizational Design, and Connected Applications deployment in the Philippines. Mon became the Shell Gas (LPG) Philippines Inc. General Manager in 2009 and succeeded in transitioning the LPG business from PSPC to Isla Gas Corporation. Two years after, he became the Chief Executive Officer of Isla LPG Corporation. He was born on 19 July 1959.

*Jannet C. Regalado* (52 years old, Filipino) – has been the General Counsel and Corporate Secretary since 2001. She is the Vice President for Legal and Corporate Secretary of Pilipinas Shell Petroleum Corporation and is concurrently Royal Dutch Shell's Managing Counsel for Global Litigation Asia Pacific covering the Philippines, China, New Zealand, Korea, Japan, Indonesia, Brunei and the Pacific Islands, Malaysia, Singapore, Thailand, India, Pakistan, Vietnam, Laos, Cambodia, and Australia. She is responsible for managing and supervising a sizeable portfolio of litigation and arbitration in these jurisdictions involving commercial, civil, criminal, tort, environmental & employment matters and deals with a big network of Shell - accredited global law firms. She has served the Company as: Employment and Industrial Relations Manager from 1997 to 2001; Assistant Legal Counsel from 1994 to 1997; Legal Assistant from 1992 to 1994. Prior to joining the Shell Companies in the Philippines (SCiP), she was corporate secretary of First Lepanto Corporation and was a legal counsel at the Carpio, Villaraza and Cruz Law Firm. She graduated with high honors with degrees in Bachelor of Arts in Political Science and Bachelor of Laws from the University of the Philippines (U.P.). During her stint at the University, she was a student leader and very active in intra-university debates and moot court competitions. She is also a faculty member of both the University of the Philippines and the Lyceum College of Law and is active in several legal and professional organizations. She is married to Atty. Reynaldo Regalado of the Regalado, Atienza and Mendoza Law Offices, with whom she has three children. She was born on the 26th of November 1962.

*Erwin R. Orocio* (45 years old, Filipino) – is the Managing Counsel for Downstream. He is also the Assistant Corporate Secretary of the Corporation, first elected as such on 17 April 2012. He also



serves as the Corporate Secretary for various Shell companies in the Philippines. He joined the Legal department as a Legal Counsel in November 1997 and has since advised all businesses and functions. Prior to that, he served as managing partner of the Garcia Ines Villacarlos Garcia Recina & Orocio Law Office. He first joined the Corporation as an accountant in 1991 and left in January 1996 to complete his Juris Doctor degree from the Ateneo De Manila School of Law. He graduated from the De La Salle University in 1989 with a Bachelor of Arts (Major in Economics) and Bachelor of Science (Major in Accountancy). He placed 13<sup>th</sup> in the Accounting Board exams of May 1990. He was born on the 9<sup>th</sup> of March 1970.

*Maria Lourdes O. Dino* (34 years old, Filipino) – serves as Legal Counsel for Downstream. She is also the Assistant Corporate Secretary for various Shell Companies in the Philippines. She joined the Corporation's Legal Department in July 2012 and has since managed corporate legal issues and advised several businesses and functions including Manufacturing, Lubricants Supply Chain, and Finance. Prior to joining the Corporation, she was an associate in the Corporate Law & Taxation Team of Jimenez Gonzales Liwanag Bello Valdez Caluya & Fernandez in 2006 and later served as in-house counsel of various multinational companies including PeopleSupport Philippines, Inc. and Maersk GSC ROHQ, advising, collaborating with, and assisting both local and foreign clients on corporate restructuring, corporate due diligence, mergers & acquisitions, securities, regulatory compliance, corporate secretaryship, contract negotiations, immigration law, labor law, and international trade control laws. She finished her Bachelor of Arts Degree in Political Science from the University of the Philippines in three years and graduated *Cum Laude* in 2001. She then went on to complete her Juris Doctor Degree from the Ateneo de Manila School of Law in 2005. Her memberships include the International Honor Society of Phi Kappa Phi, the International Honor Society in Social Sciences (Pi Gamma Mu), and the Integrated Bar of the Philippines. She was born on the 14th of March 1981.

#### **Legal Proceedings**

For the past five years, none of the enumerated Directors or By-Laws' Executive Officers or any of their property is involved in any material pending legal proceedings in any court or administrative agency of the Government, except that, in connection with the leak of petroleum products from the First Philippine Industrial Corporation's white oil pipeline, the West Tower Condominium Corporation filed on 15 October 2011 a complaint for violation of Article 365 of the Revised Penal Code against several directors of the Corporation. The Corporation uses said pipeline to transport its products from the Tabangao refinery to its Pandacan terminal. Preliminary investigation is ongoing before the Department of Justice with the directors having filed their respective counter-affidavits on the 19th of December 2011.

To the knowledge and/or information of the Corporation, none of the current and nominated directors and officers were involved during the past five (5) years in any bankruptcy proceedings. Neither have they been convicted by final judgment in any criminal proceeding, or subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, or found in an action by any court or administrative bodies to have violated a securities and commodities law.

#### **Significant Employees**

The Corporation values its human resources. It expects each employee to do his share in achieving the Corporation's set goals.

**Family Relationship**

None of the Directors and Executive Officers of the Corporation is related up to the fourth civil degree either by consanguinity or affinity.

**Item 10. EXECUTIVE COMPENSATION****General**

The compensation of Pilipinas Shell's directors and officers is primarily based on its By-Laws provisions.

**Directors.** Article III Section 6 of the Corporation's Amended By-Laws provides:

"Section 6 - Compensation: The Directors as such shall not receive any salary or compensation for their services, but for their attendance for each regular or special meeting of the Board of Directors, they shall receive an honorarium not exceeding such amounts as may be laid down from time to time by the stockholders of the Corporation. Nothing herein contained shall preclude any Director from serving the Company in any other capacity and receiving compensation therefor."

**Officers.** Article IV, Section 4 of the Corporation's Amended By-Laws provides that:

"Section 4 - Compensation: The Board of Directors shall from time to time fix the compensation of the Officers and agents of the Company."

The total annual compensation was all paid in cash. The total annual compensation of officers includes the basic salary, the mid-year bonus and the 13<sup>th</sup> month pay.

The Corporation has no standard arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

There are no other actions to be taken with regard to election, any bonus, profit sharing, pension/retirement plan granting of extension of any option, warrant or right to purchase any securities.

Except for the VP for Communications, who was replaced by a regular employee/officer last August 2014, the Executive Officers are regular employees of the Corporation.

**Compensation of Executive Officers**

<b>Names of Executive Officers elected in 2014</b>	<b>Principal Position</b>
Edgar O. Chua (Filipino)	Chairman and President
Shaiful B. Zainuddin (Malaysian)	Treasurer/ VP- Finance
Ramon Del Rosario (Filipino)	VP-Communications
Dennis G. Gamab (Filipino)	VP- Trading and Supply
Homer Gerrard Ortega (Filipino)	VP- Human Resources
Anthony Lawrence D. Yam (Filipino)	VP- Retail
Eduard Geus (Dutch)	VP - Manufacturing
Jannet C. Regalado (Filipino)	VP- Legal/ Corporate Secretary
Erwin R. Orocio (Filipino)	Assistant Corporate Secretary/Incoming Corporate Secretary
Maria Lourdes O. Dino (Filipino)	Incoming Asst. Corporate Secretary

	Projected 2015		2014		2013	
	Basic pay	Other variable pay	Basic pay	Other variable pay	Basic pay	Other variable pay
President and By-Laws Officers	Php73.4 million	Php44.1 million	Php69.1 million	Php28.3 million	Php67.7 million	Php33.0 million
All Directors as a Group (Honorariums & Retainers)	Php8.69 million		Php8.1 million		Php8.1 million	

#### **Compensation of Directors**

The following amounts were paid to Board Members:

Director's Honorarium for attendance in Board Meetings is Php 75,000.00 per director. Total Director's Annual Retainer's Fee (Non-Shell Directors only) is Php1,000,000.00 per director. Honorarium for attendance at Board Committee Meetings (Non-Executive Directors only) is Php40,000.00 per director.

#### **Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

- All staff, including the Executive Officers, have a standard employment letter accomplished on their respective dates of hiring by Pilipinas Shell.
- The VP for Communications, having reached the age of sixty 60, retired at the end of February 2014 under the terms of Pilipinas Shell's registered retirement plan. His services have been engaged on contract until 19 August 2014. He was succeeded by Mr. Ramon Del Rosario as Vice President for Communications.

#### **Warrants and Options Outstanding: Repricing**

- There are no outstanding registrant's warrants or options being held by the various Executive Officers and Directors, singly or as a group.

### **ITEM 11. SECURITY OWNERSHIP of CERTAIN BENEFICIAL OWNERS and MANAGEMENT**

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of shares	Percent
Common	Shell Overseas Investments B.V. Carel van Bylandtlaan 30, 2596 HR the Hague The Netherlands - Parent Company	Shell Overseas Investments B.V. is both the Beneficial and Record Owner <sup>3</sup>	Dutch	463,988,998	67.10%

<sup>3</sup> The Board of Directors of Shell Overseas Investments B.V. (SOI) has the power to decide how SOI's shares in Pilipinas Shell are to be voted.

<b>Title of Class</b>	<b>Name, Address of Record Owner and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>Number of shares</b>	<b>Percent</b>
Common	The Insular Life Assurance Company, Ltd. The Insular Life Bldg., Ayala Avenue cor. Paseo de Roxas, Makati City - Shareholder	The Insular Life Assurance Company, Ltd. is both the Beneficial and Record Owner <sup>4</sup>	Filipino	134,702,822	19.50%
Common	Spathodea Campanulata Inc. General Aviation Center Domestic Airport Compound Pasay City - Shareholder	Spathodea Campanulata Inc. is both the Beneficial and Record Owner <sup>5</sup>	Filipino	34,991,752	5.10%

#### **Security Ownership of Management as of 12 May 2015**

<b>Type of Class</b>	<b>Name of Beneficial Owner</b>	<b>Position</b>	<b>Amount and nature of Beneficial Ownership</b>	<b>Nationality</b>	<b>Percentage</b>
Common	Edgar O. Chua	Director/Chairman & President	23 (direct)	Filipino	0.0000032%
Common	Shaiful B. Zainuddin	Director/Treasurer/VP- Finance	1 (direct)	Malaysian	0.00000014%
Common	Fernando Zobel de Ayala	Director	1 (direct)	Filipino	0.00000014%
Common	Vicente R. Ayllon	Director	17 (direct)	Filipino	0.0000025%
Common	Carlos R. Araneta	Director	1 (direct)	Filipino	0.00000014%
Common	Mona Lisa Bautista Dela Cruz <sup>6</sup>	Director	3 (direct)	Filipino	0.00000043%

<sup>4</sup> The Board of Directors of Shell The Insular Life Assurance Company, Ltd. has the power to decide how The Insular Life Assurance Company, Ltd.'s shares in Pilipinas Shell are to be voted.

<sup>5</sup> The Board of Directors of Spathodea Campanulata Inc. has the power to decide how Spathodea Campanulata Inc.'s shares in Pilipinas Shell are to be voted.

<sup>6</sup> Ms. Mona Lisa Bautista Dela Cruz succeeded Mr. Mayo Jose B. Ongsingco as director due to the latter's retirement from The Insular Life Assurance Company Limited. Mr. Ongsingco's shares were transferred to Ms. Dela Cruz on 12 May 2015 to qualify her as nominee to a Board seat.

Type of Class	Name of Beneficial Owner	Position	Amount and nature of Beneficial Ownership	Nationality	Percentage
Common	Cesar B. Bautista	Director	1 (direct)	Filipino	0.00000014%
Common	Cesar A. Buenaventura	Director	1 (direct)	Filipino	0.00000014%
Common	Eduard R. Geus	Director VP– Manufacturing	1 (direct)	Dutch	0.00000014%
Common	Anthony Lawrence D. Yam	Director/VP- Retail	1 (direct)	Filipino	0.00000014%
Common	Sebastian Cortez Quiniones, Jr.	Director	1 (direct)	Filipino	0.00000014%
	Ramon Del Rosario	VP - Communications	None	Filipino	Not Applicable
	Homer Gerrard L. Ortega	VP-Human Resources	None	Filipino	Not Applicable
	Dennis G. Gamab	VP – Trading and Supply	None	Filipino	Not Applicable
	Atty. Jannet C. Regalado	VP-Legal	None	Filipino	Not Applicable
	Atty. Erwin R. Orocio	Corporate Secretary	None	Filipino	Not Applicable
	Atty. Maria Lourdes O. Dino	Asst. Corporate Secretary	None	Filipino	Not Applicable
<b>Security Ownership of all Directors and Officers</b>			<b>51</b>		<b>0.0000072%</b>

#### **Voting Trust Holders of 5% or More**

The Corporation knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

#### **Changes in Control**

No change of control in Pilipinas Shell has occurred since the beginning of its last fiscal year.

#### **External Audit Fees**

##### **(a) Audit and Audit-Related Fees**

1. Audit of the annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements:

2014: Php 7.0 million

2013 : Php 7.0 million

2. Other assurance and related services reasonably related to the performance of the audit or review of the financial statements:

2014: none

2013: none

(b) Tax Fees – Nil

(c) All Other Fees – Nil

(d) The Corporation's Board Audit Committee's (BAC) policies and procedures on "External Audit" are as follows:

1. Review the external auditor's proposed audit scope, approach and audit fee. Ensure that no unjustified restrictions or limitations have been placed on the scope.
2. Review the performance of the external auditors.
3. Consider the independence of the external auditor, including reviewing the range of services provided in the context of all non-audit and consulting services bought by the Corporation from the external audit firm.
4. Make recommendations to the Board regarding the appointment/re-appointment of the external auditors.

The above are included in the Board Audit Committee and Internal Audit Charters duly approved by the Board and submitted to the SEC.

**Authorization of Issuance of Securities Otherwise than for Exchange**

There are no matters or corporate actions to be taken up in the meeting with respect to issuance of securities.

**Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction**

There are no matters or actions to be taken up for the modification of any class of the Corporation's securities or the issuance or authorization for issuance of one class of the Corporation's securities in exchange for outstanding securities of another class.

## **ITEM 12. CERTAIN RELATIONSHIPS and RELATED TRANSACTIONS**

Pilipinas Shell, in its regular course of trade or business, enters into transactions with affiliated companies. For details on these transactions, please refer to the notes of the 2014 Audited Financial Statements attached in this Definitive Information Statement.

No other transaction was undertaken by the Corporation in which any Director or Executive Officer was involved or had a direct or indirect material interest. During the last two years, there were no transactions to which the Corporation was party concerning transactions with

- (a) Any director/executive director
- (b) Any nominee for election as director
- (c) Any security holder of certain record, beneficial owner or Management\
- (d) Any member of the immediate family of subpar (1)(a), (b) or (c) of this paragraph (d).

Shell Overseas Investments B.V. owns 67.1% of the total issued and outstanding capital stock of the Corporation as of 31 December 2014.

## **PART IV – CORPORATE GOVERNANCE**

### **ITEM 13. CORPORATE GOVERNANCE**

Pilipinas Shell's Board of Directors is composed of eleven (11) directors, three (3) of whom are independent directors. Four (4) directors are executive directors. Pilipinas Shell has adopted its Manual of Corporate Governance, which requires regular review to provide an avenue for its continuous improvement.

The evaluation system consists of a questionnaire that is annually revisited, reviewed and revised, as necessary, to measure Pilipinas Shell's adherence to good corporate governance, towards over-all business sustainability and success. In this connection, Pilipinas Shell has joined the Institute of Corporate Directors and has since been in close coordination with the Institute for the establishment of such questionnaire or rating measure to determine the level of compliance by the Board and Management with the Corporation's Manual of Corporate Governance. The Board of Directors has likewise approved the establishment of such an Evaluation and Monitoring System for compliance with the Manual of Corporate Governance. This evaluation system ensures that good corporate governance structures are built and maintained to create value for Pilipinas Shell and provide accountability and control systems commensurate with the risks involved.

Measures are constantly being undertaken to further improve Pilipinas Shell's corporate governance. Monitoring implementation and change is paramount to ensure that Pilipinas Shell's Manual remains relevant, adjustable to local and international developments and continues to reflect best practice in the area of good corporate governance.

The Manual likewise provides for a Full-Business Interest Disclosure for all incoming officers of the company in order to address possible conflict of interest issues. Pilipinas Shell's internal policy on Conflicts of Interest applicable to all employees is well aligned with this requirement.

Pilipinas Shell requires the Executive Directors as well as the Independent Directors to attend seminars on Corporate Governance. Non-Executive Directors have also attended seminars on Corporate Governance and are much aware of the same.

There has been so far no sanction imposed as a result of violation of the Manual of Corporate Governance. Pilipinas Shell is committed to strictly adhere to the requirements of the said Manual.

**Components of the monitoring system:**

<b>Key Compliance Activities</b>	<b>Action Points</b>	<b>Milestone Dates</b>	<b>Person/ Entity Responsible</b>	<b>Status</b>	<b>Reason For Non-Compliance / Deviation from Manual</b>
1. Appointment of Compliance Officers and Disclosure to the SEC				DONE	
2. Creation of a Board Charter which details the functions and responsibilities of the Board				DONE	
3. Records of Attendance level of directors in board meetings to be prepared and accessible to shareholders				Done on a yearly basis	
4. Appointment of members of Nomination Committee				DONE	
5. Appointment of members of Audit Committee				DONE	
6. Appointment of members of Remuneration Committee				DONE	
7. Directors to provide information on business interests and directorships in other corporations (Full business interest disclosure)			Nomination Committee	DONE	
8. Assessment of "Independence" of directors based on disclosures in item 7 above				DONE	



Key Compliance Activities	Action Points	Milestone Dates	Person/ Entity Responsible	Status	Reason For Non-Compliance / Deviation from Manual
9. Establishment of selection procedure for new directors under pertinent SEC rules and best practice recommendations		March 2005, as updated pursuant to SEC Memorandum Circular Nos. 16-2002 and 9-2011.	Nomination Committee	DONE	
10. Continuous assessment of Board performance via questionnaire			Corporate Secretary	DONE	
11. Conduct an induction program for incoming Board members on Pilipinas Shell's financial, Strategic, operational and risk mgt. position and the role of committees		After election of directors	Audit Committee and Corporate Secretary	As and when there are new directors	
12. Attendance in Corporate Governance Workshops (Sec. 4.1 of Pilipinas Shell's Manual)		After election of directors	VP- Finance (per Pilipinas Shell's Manual)	DONE. Newly elected directors shall be required	
13. Dissemination of copies of the Pilipinas Shell's Manual to all classes of business and service functions with one copy under custody of HR dept. (Sec. 3.3)			Corporate Secretary	DONE	
14. Communicate the contents of Pilipinas Shell's Manual by integrating into SGBP discussions with staff			Communications	DONE	
15. Creation of an Audit Committee Charter			Audit Committee	DONE	

Key Compliance Activities	Action Points	Milestone Dates	Person/ Entity Responsible	Status	Reason For Non-Compliance/ Deviation from Manual
16. Establish a structure for the review of Pilipinas Shell accounts and financial position			Audit Committee	Covered by Audit Committee Charter	
17. Pre-approval of all audit plans scope and frequency		(1) Month before external audit	Audit Committee	As and when required	
18. Establish a process to ensure independence & competence of the external Auditor			Audit Committee		
19. Establish procedures for the selection and appointment of external auditor		Same	Audit Committee		
20. Establish a system designed to identify, assess, monitor and manage risk in the Company			Audit Committee	DONE	
21. Issuance of statement or certification by the chairman and the VP-Finance on integrity of financial statements and efficient operation of risk management and internal controls system			Audit Committee	Being done on an annual basis	
22. Establish a remuneration policy for directors, corporate officers and senior management			Remuneration Committee	Done for directors. For officers, has been in place.	

Key Compliance Activities	Action Points	Milestone Dates	Person/ Entity Responsible	Status	Reason For Non-Compliance/ Deviation from Manual
23. Establish recruitment, retention and termination policies for senior management			Remuneration Committee	In place	
24. Prepare disclosure of compensation in Annual Report for the SEC			Remuneration Committee	Being done on an annual basis	
25. Establishment of Remuneration Committee Charter			Remuneration Committee	DONE	
26. Records of number of meetings held and attendance level of committee members			Nomination Committee	Being done on an annual basis	
27. Recording of Minutes of all committee meetings	To be submitted to the Corporate Secretary	As and When	Corporate Secretary	In place	
28. Timely submission of minutes to the Board of Directors		One (1) week before board meeting	Corporate Secretary	In place	
29. Discussion on Agenda items for each board meeting to ensure maximum participation of board members		Two (2) weeks before actual board meeting	Chairman, Corporate Secretary and VP- Finance	In place	

## PART V – EXHIBITS and SCHEDULES

### ITEM 14. (A) EXHIBITS and (B) REPORTS ON SEC FORM 17-C

#### Reported Items via SEC Form 17-C

The following items were reported and submitted in 2014 via the SEC Form 17-C:

Date Submitted	Item No/Description	Details
17 December 2014	Item 9 (b) Other Events – Sworn Certification on the Attendance in Board Meetings for 2014	Submission of the required report on the attendance in Board meetings of members of the Board of Directors.
22 August 2014	Item 9 (a)(2) – Resignation or removal of officers or senior management and their replacements	Disclosure on the retirement of Mr. Roberto S. Kanapi, Vice President – Communications, and his replacement by Mr. Ramon Del Rosario.
12 May 2014	Item 4 – Election of Registrant's Directors and Officers  Item 9 (a)(2) – Resignation or removal of officers or senior management and their replacements  Item 9 (a)(14) – Change in business address or location of principal plant  Item 9 (b) – Appointment of Auditors	Election of the Corporation Directors, Committee Members and Officers on 05 May 2014  Disclosure on the foreign assignment of Mr. Antonius Franziskus Heinrich Wielers, director and Vice President for Manufacturing, and his replacement by Mr. Eduard Geus.  Disclosure on the ratification by the stockholders of the change in principal office address from "Makati" to "156 Valero St., Salcedo Village, Barangay Bel-Air, Makati City, Metro Manila" in compliance with SEC Memorandum Circular No. 6-2014.  Re-appointment of Isla Lipana & Co. as auditors of the corporation.
21 March 2014	Item 9 (a) (3) - Any decision taken to carry out extraordinary investments or the entering into financial or commercial transactions that might have a material impact on the issuer's situation [Tabangao Refinery Upgrade]	Disclosure on the approval of the investment in the Tabangao Refinery upgrade estimated at PHP 6.5 Billion (USD 145 Million) to meet the required Philippine National Standard for Euro-IV grades of Gasoline (Mogas) and Automotive Diesel Oil (ADO) by January 1, 2016.
	Item 9 (b) Other Events – Appointment of Auditors	The firm of Isla Lipana & Co (PriceWaterhouseCoopers – Philippines) was re-appointed as Auditor of the Corporation.

<b>17-C Submitted within the last 6 months</b>	<b>Item No/Description</b>	<b>Details</b>
02 March 2015	<p>Item 9 (a) (3) - Any decision taken to carry out extraordinary investments or the entering into financial or commercial transactions that might have a material impact on the issuer's situation</p> <p>Item 9 (a) (29) - Any restructuring of the company's equity which has been approved by the Board of Directors</p>	Disclosure on the Board Resolution directing the Management to progress preparations for a capitalization increase amounting to Eighteen Billion Pesos (Php18,000,000,000.00) to reset the Corporation's gearing to an appropriate level, which has reached 91% as of 31 December 2014.

At the Annual Stockholders' Meeting of 05 May 2014, the following were elected as directors:

<b>Name</b>	<b>Directorship</b>
Fernando Zobel de Ayala	Independent Director
Cesar B. Bautista	Independent Director
Cesar. A. Buenaventura	Independent Director
Vicente R. Ayllon	Director
Carlos R. Araneta	Director
Mayo Jose B. Ongsingco	Director
Edgar. O. Chua	Executive Director
Shaiful B. Zainuddin	Executive Director
Sebastian C. Quiniones, Jr	Director
Anthony Lawrence D. Yam	Executive Director
Eduard R. Geus	Executive Director

Additionally, at the Organizational Board Meeting of the same date, the following By-Laws Officers and Committee members were elected:

<b>Position</b>	<b>Name of Officer</b>
Chairman & President	Edgar O. Chua
Vice President for Finance and Treasurer	Shaiful B. Zainuddin
Vice President for Manufacturing	Eduard R. Geus
Vice President for Communications	Roberto S. Kanapi
Vice President for Retail	Anthony Lawrence D. Yam
Vice President for Human Resources	Homer Gerrard L. Ortega
Vice President for Supply and Distribution	Dennis G. Gamab
Vice President for Legal and Secretary	Jannet C. Regalado
Asst. Corporate Secretary	Erwin R. Orocio

<b>Board Audit Committee</b>	
Chairman	Cesar B. Bautista
Member	Cesar A. Buenaventura
Member	Sebastian C. Quiniones, Jr


<b>Compensation and Remuneration Committee</b>	
Chairman	Fernando Zobel de Ayala
Member	Shaiful B. Zainuddin
Member	Vicente R. Ayllon
Member (non-voting)	Homer Gerrard L. Ortega

<b>Nomination Committee</b>	
Chairman	Cesar A. Buenaventura
Member	Edgar O. Chua
Member (non-voting)	Jannet C. Regalado
Member (non-voting)	Homer Gerrard L. Ortega

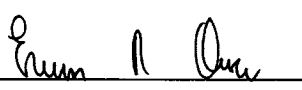
## **SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on 15<sup>th</sup> of May 2014.

Issuer:

Signature and Title:   
EDGAR O. CHUA  
Chairman of the Board/President

Signature and Title:   
SHAIFUL B. ZAINUDDIN  
Vice President – Finance and Treasurer

Signature and Title:   
ERWIN R. OROCIO  
Corporate Secretary

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of May 2015 affiant(s) exhibiting to me their Community Tax Certificates/Passport, as follows


MAY 15 2015

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of May 2015 affiant(s) exhibiting to me their Community Tax Certificates/Passport, as follows:

NAMES	CTC. NO.	DATE OF ISSUE	PLACE OF ISSUE
Edgar O. Chua	23668410	23 <sup>rd</sup> Jan 2015	Bacoor, Cavite
Erwin R. Orocio	03830294	30 <sup>th</sup> Jan 2015	Muntinlupa city

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Shaiful B. Zainuddin	A24602876	05 <sup>th</sup> Jul 2011	High Commission of Malaysia, Singapore

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Series of 2015

  
**CHARLES EDWARD MACK CHENG**  
NOTARY PUBLIC FOR & IN MAKATI CITY  
156 VALERO ST., SALCEDO VILLAGE, MAKATI CITY  
ROLL NO. 55255  
IBP NO. 011511-MAKATI CHAPTER-LIFETIME  
UNTIL DEC. 31, 2015/APPOINTMENT NO. M-144  
PTT. NO. MXT 1753943 MAKATI CITY 08 JANUARY 2015  
MCLE COMPLIANCE IV-0022121/07 OCTOBER 2013