



**PILIPINAS SHELL PETROLEUM CORPORATION**  
**Related Party Transaction Policy**

## DEFINITIONS

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Affiliates	Royal Dutch Shell plc. and any company which is directly or indirectly affiliated with Royal Dutch Shell plc.
Board of Directors	Board of Directors of the Company
Company	Pilipinas Shell Petroleum Corporation
Major Shareholder(s)	<p>A person who has an interest or interests in one or more voting shares in the Company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is:</p> <ul style="list-style-type: none"><li>(a) equal to or more than 10% of the aggregate of the nominal amounts of all the voting shares in the Company; or</li><li>(b) equal to or more than 5% of the aggregate of the nominal amounts of all the voting shares in the Company where such person is the largest shareholder of the Company.</li></ul> <p>This includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon a Major Shareholder of the Company or any other corporation which is its subsidiary or holding company.</p>
Management	The President/CEO of the Company subject to MOA delegation.
Officer/s	Executive Officers of the Company as disclosed in its By-Laws, Annual Reports (17-A), Information Statement to stockholders (20-IS), Revised Manual on Corporate Governance and the Philippine Stock Exchange (PSE) Company Disclosure.
Related Party Transactions or RPT	Related party transactions entered into with Related Parties involving recurrent transactions of a revenue, trading or operating services nature which are necessary for the Company's day-to-day operations and are in the ordinary course of business of the Company.
Related Party(ies)	An Affiliate, joint venture, Director, Officer <sup>1</sup> , Major Shareholder or person(s)/entity(ies) connected with such Director, Officer or Major Shareholder of the Company
Material RPT	Related Party Transactions that have contract value equivalent to 5% or more of the Net Assets of the Company as reported in the previous year audited financial statements

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<sup>1</sup> Transactions with the company's executive officers (i.e., direct or indirect material interest of officers in the transactions), are included in the RPT disclosures under SEC Annex C. Materiality thresholds include: Php500K or more transaction value; at least 5% equity interest/ownership in the company entering into the transaction with PSPC.

## I. PURPOSE

The purpose of this Policy is to:

- (a) Describe the Company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its Affiliates, joint ventures, Major Shareholders, Officers and Directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board
- (b) Provide guidance to Management and employees on the Related Party Transaction governance and reporting requirements.

## II. CLASS AND NATURE OF RELATED PARTY TRANSACTIONS

### *Class of Related Parties*

This Policy would apply to transactions with Related Parties comprising of Affiliates, joint ventures, Directors, Officers, Major Shareholders or persons/entities connected with such Directors, Officers or Major Shareholders of the Company and includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon an Affiliate, joint venture Director, Officer or Major Shareholder of the Company.

This Policy is primarily in respect of transactions entered into by the Company with Shell Group, necessary for its day to day operations.

### Ultimate Holding Company / Major Shareholders

No	Name of Company	Principal Activities	Relationship
1.	Royal Dutch Shell plc	The ultimate parent company of the Shell Group.	Ultimate holding company of the Company.
2.	Shell Overseas Investments B.V.	The company holds directly and indirectly, investments in companies of the Shell Group, present in various countries and territories.	Shell Overseas Investments B.V. holds 55.215% direct equity interest in the Company, which traces its ultimate ownership to Royal Dutch Shell plc.
3	Insular Life Assurance Co. Ltd.	A mutual life insurance company primarily engaged in the life insurance business	Insular Life Assurance Co. Ltd. holds 15.83% direct equity interest in the Company.

### III. RATIONALE AND BENEFITS OF TRANACTING WITH RELATED PARTIES

The RPT entered, or to be entered into by the Company are all in the ordinary course of business of the Company. They are recurring transactions of a revenue, trading or operating services in nature that are likely to occur with some degree of frequency and arise at any time, as well as from time to time. As part of an international group of companies where similar businesses are conducted, transactions in respect of goods and/or services are likely to occur to take advantage of quality assured products and services, lower operating costs and improved efficiency such as through economies of scale, better utilisation of resources and standardisation of processes and technology.

The benefits of these RPT to the Company can be categorised generally as follows:

#### a. Trading Transactions for Crude Oil and Petroleum Products

The principal activity of the Company is refining, manufacturing and marketing of petroleum products. The Related Parties under this category are involved in activities of a complimentary nature, which consist primarily of the supply and distribution of crude oil as well as the manufacturing and sales/marketing of petroleum products on a large scale for the Shell Group of companies. It is therefore in the interests of the Company to transact with these Related Parties in order to enjoy synergistic benefits.

#### b. Operating Services

The RPT under this category comprise transactions, which if not with a Related Party would not have been entered into by the Company due to Shell Group design/operating standards and industry sensitivities regarding confidentiality and trade secrets. These industry constraints prevent the Company from contracting with parties other than Related Parties in respect of the activities covered by this category of RPT. Hence this category of RPT represents business opportunities that the Company is in a position to profit from specifically by reason of the Company being a Related Party.

### IV. GOVERNANCE PROCESS FOR RELATED PARTY TRANSACTIONS

#### Review and Approval Process

To ensure that RPTs are undertaken on terms which are not more favourable to the Related Parties than those generally available to the public and which are not to the detriment of the Company's minority shareholders, Management will ensure that the transactions with Related Parties will only be entered into taking into account the following procedures:

1. Transactions with Related Parties are to be negotiated and benchmarked with non-Related Party pricing and subsequently presented to, reviewed by COB Finance and approved by COB heads with proper MOA delegation. The method and procedures to determine transaction prices, terms and conditions are based on the prevailing market rates/agreed commercially competitive pricing calculation and where appropriate preferential rates and discounts (the same as are accorded to non- Related Parties in large transactions) relative to industry norm.
2. COB Finance reviews the appropriate benchmarking (against at least 2 other contemporaneous transactions with non-Related Parties for similar products/services and/or quantities) during the commercial evaluation of the proposals for all contracts with Related Parties. In the event that such comparison cannot be obtained from non-Related Parties, COB Finance would review the market information available, sourcing strategy applied and expected unquantifiable benefits to determine whether an arms-length approach has been used to select the Related Party vendor to ensure that the Related Party Transaction is not detrimental to the Company
3. Related Party Transactions with a total contract value of at least PhP 100M requires Management approval<sup>2</sup>.
4. Related Party Transactions with a total contract value that equals or exceeds 5% of the Company's reported net assets of the previous year requires review by the Related Party Transaction ("RPT") Committee and its endorsement to the Board of Directors for approval.
5. Where any member of the RPT Committee is interested in any transaction, that member shall abstain from

voting on any matter relating to any decisions to be taken by the RPT Committee with respect to such transactions.

6. Any contract that will be entered into with:

6.1 Any director or officer of the Company or any person or entity connected to them (i.e., spouses, children and dependent siblings and parents; entities in which they concurrently serve as directors or in which such directors or officers have a direct or indirect interest); and

6.2 A company in which a Company's director concurrently sits as a director and has an interest in said other company of more than 20%, shall be subject to approval under the following procedures:

- a. The RPT Committee shall determine the fairness and reasonableness of the contact and endorse the same for Board approval;
- b. The transaction shall be subject to the approval by the Company's Board of Directors, provided further that (i) the attendance of the director concerned shall not be counted for purposes of constituting a quorum for such Board meeting and (ii) the vote of the director concerned is not necessary to approve the contract.

7. The Company's directors and officers shall be responsible for providing written notice to the Investor Relations Officer through the Office of the Corporate Secretary/Compliance Officer of any potential related Party Transaction or conflict of interest<sup>3</sup> involving him/her or other persons/entities connected with him/her.

#### **Assurance Process**

Ongoing awareness sessions with employees, stakeholders, and Related Parties to notify that all RPTs entered are subject to the disclosure requirements under existing securities and corporate governance rules and policies.

The annual internal audit plan shall incorporate a review of all the records of material and/or new RPT, which will be entered into to ensure that appropriate benchmarking has been done by the Class of Business to ensure that RPT is based on arm's length approach, relevant approvals have been obtained and review procedures in respect of such transactions are adhered to. Any divergence will be reported by the Corporate Audit and Assurance Manager to the RPT Committee.

The RPT Committee shall review the internal audit reports and any other reports required from time to time to ascertain that the guidelines and procedures established to monitor RPT have been complied with.

#### **Reporting and Disclosure Process**

All Classes of Business Finance in the Company reports to the Investor Relations Officer (IRO) all transactions with Related Parties with contract value of at least Php 100M. A register shall be maintained by the Investor Relation Officer (IRO) to record all transactions with Related Parties which are entered into as per format prescribed in Appendix 1 and 2. Any reported or alleged non-compliance by any employee with any of the foregoing approval requirements shall be the subject of an investigation and, if appropriate, disciplinary proceedings. The Company shall avail of remedies including restitution of losses and other remedies for abusive RPTs.<sup>4</sup>

The Company will provide a breakdown of the RPT made during the financial year with specific disclosures in the financial statements on 1.) the amount of the transactions 2.) the amount of outstanding balances and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received, 3.) provisions for doubtful debts related to the amount of outstanding balances and 4.) the expense recognized during the period in respect of bad or

<sup>3</sup> Conflicts of Interest (COIs) may arise when personal relationships, participation in external activities or an interest in another venture, could influence or be perceived by others to influence business decisions made for the Company by the concerned officer or director.

<sup>4</sup> Section 2.2.1.2 (m) of the Revised Manual on Corporate Governance.

doubtful debts due from related parties pursuant to the requirements of the SEC Financial Reporting Bulletin 013.

The Company shall likewise provide the necessary details to comply with the applicable disclosure requirements under the Securities Regulation Code, PSE Disclosure Rules and pertinent rules and regulations. The Company shall disclose its policies governing RPTs and other unusual or infrequently occurring transactions. The material or significant RPTs reviewed and approved during the year shall be disclosed in the Company's Integrated-Annual Corporate Governance Report.<sup>5</sup>

## V. ROLE OF THE RPT COMMITTEE

The RPT Committee is responsible to determine whether the procedures for reviewing transactions that involve Related Parties are sufficient to ensure compliance with the relevant requirements. They will also review the procedures mentioned in Section IV above and ensure that the said procedures are sufficient to ensure that the RPT are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the Company's minority shareholders. Further, the RPT Committee ensures that adequate procedures and processes are in place to monitor, track and identify RPT in a timely and orderly manner, and that it is satisfied with the frequency of review of these procedures and processes. The procedures and processes are reviewed on an ad-hoc basis based on recommendations from the Internal Audit Department or Management of the Company.

### APPENDIX 1

#### Interested Directors/Officers

Names of Director/Officer	Director and/or Officer of:	Interests (Direct/Indirect)	Contract Value

### APPENDIX 2

#### Affiliates

No.	Name of Company	Principal Activities	Relationship	Contract Value

<sup>5</sup> Section 5.9 of the Revised Manual on Corporate Governance.