

# FUEL THE PHILIPPINES, MAKE THE FUTURE

PILIPINAS SHELL PETROLEUM CORPORATION  
ANNUAL AND SUSTAINABILITY REPORT 2017

# ABOUT THE COVER

Fuel the Philippines, Make the Future demonstrates that Pilipinas Shell’s commitment to sustainability is also a commitment to the future. We perform our day-to-day work responsibly and according to our values and principles, because what we do today has an impact on the future.

The cover photo shows the elements that contributed to our business and sustainable growth in 2017 — including our retail and aviation businesses, and our refinery and import facilities. It also shows our legacy of contributing to nation-building not only by providing high-quality and efficient fuel products, but also in supporting programmes that are dedicated to the future movers and leaders of the country: the youth.



# DISCLAIMER

This report has been produced by Pilipinas Shell Petroleum Corporation (“PSPC”) in order to meet the requirements of applicable Philippine laws and regulations.

The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities. In this report “Shell”, “Shell group” and “Royal Dutch Shell” are sometimes used for convenience where references are made to Royal Dutch Shell plc and its subsidiaries in general, including PSPC. References in this report to “our Company” and to “PSPC” refer to Pilipinas Shell Petroleum Corporation. Likewise, the words “we”, “us” and “our” are used to refer to Pilipinas Shell Petroleum Corporation or to those who work for PSPC. “Subsidiaries”, “Shell subsidiaries” and “Shell companies” as used in this report refer to entities over which Royal Dutch Shell plc either directly or indirectly has control. Entities and unincorporated arrangements over which Shell has joint control are generally referred to as “joint ventures” and “joint operations”, respectively. Entities over which Shell has significant influence but neither control nor joint control are referred to as “associates”. The term “Shell interest” is used for convenience to indicate the direct and/or indirect ownership interest held by Shell in an entity or unincorporated joint arrangement, after exclusion of all third-party interest.

All references to the “Government” are to the national, local and all other instrumentalities of the government of the Philippines.

This report contains forward-looking statements concerning the financial condition, results of operations and businesses of PSPC. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management’s current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among other things, statements concerning the potential exposure of Royal Dutch Shell to market risks and statements expressing management’s expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as “aim”, “ambition”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “goals”, “intend”, “may”, “objectives”, “outlook”, “plan”, “probably”, “project”, “risks”, “schedule”, “seek”, “should”, “target”, “will” and similar terms and phrases. There are a number of factors that could affect the future operations of Royal Dutch Shell and could cause those results to differ materially from those expressed in the forward-looking statements included in this report, including (without limitation): (a) price fluctuations in crude oil and natural gas; (b) changes in demand for Shell’s products; (c) currency fluctuations; (d) drilling and production results; (e) reserves estimates; (f) loss of market share and industry competition;

(g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i) the risk of doing business in developing countries and countries subject to international sanctions; (j) legislative, fiscal and regulatory developments including regulatory measures addressing climate change; (k) economic and financial market conditions in various countries and regions; (l) political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities, delays or advancements in the approval of projects and delays in the reimbursement for shared costs; and (m) changes in trading conditions. No assurance is provided that future dividend payments will match or exceed previous dividend payments. All forward-looking statements contained in this report are expressly qualified in their entirety by the disclaimer contained or referred to herein. Audience should not place undue reliance on forward-looking statements. Additional risk factors that may affect future results are contained in Pilipinas Shell Annual Report for the year ended 31 December 2017 (available at pilipinas.shell.com.ph/investors/financial-reports.html and edge.pse.com.ph). These risk factors also expressly qualify all forward-looking statements contained in this report and should be considered by the audience. Each forward looking statement speaks only as of printing on April 18, 2018. Neither PSPC nor any of its subsidiaries undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this report.

In this Report, we may refer to “GHG emissions” and “emissions” which include Pilipinas Shell’s carbon emissions from the production of our energy products, our suppliers’ carbon emissions in supplying energy for that production and our customers’ carbon emissions associated with their use of the energy products we sell. Pilipinas Shell only controls its own emissions but, to support society in achieving the Paris Agreement goals, we aim to help and influence such suppliers and consumers to likewise lower their emissions. The use of the terminologies “GHG emissions” and “emissions” is for convenience only and not intended to suggest these emissions are those of Pilipinas Shell or Shell and its subsidiaries.

This report may contain references to Shell’s website. These references are for the audience’ convenience only. Shell is not incorporating by reference any information posted on www.shell.com.

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# ABOUT THE REPORT

Pilipinas Shell Petroleum Corporation (Pilipinas Shell) is proud to share our Annual and Sustainability Report (ASR), “Fuel the Philippines, Make the Future.” This is our second ASR, in which we cover our financial performance, operational highlights, and our progress in sustainable development in 2017. References to “our Company” in this report refer to “Pilipinas Shell.”

In pursuit of a sustainable energy future, we at Pilipinas Shell follow the sustainability objectives set by our parent company, Royal Dutch Shell plc (Shell). We track and report vital aspects of our performance to Shell, which has published this collated and curated data annually since 1997. We first published our own ASR in May 2017. It covered the year 2016, which was also when Pilipinas Shell went public. (102-51)

This report has been prepared in accordance with the GRI Standards: Core option, and the Oil and Gas Sector Disclosures. GRI is the most comprehensive and widely used sustainability reporting framework. Transparency is important to us, and so we have also shared this information on our Company website, pilipinas.shell.com.ph.

|                      |   |
|----------------------|---|
| REPORTING FRAMEWORK: | GRI Standards                           |
| APPROACH TO GRI:     | In accordance: ‘Core’ (102-54)          |
| REPORTING PERIOD:    | January 1 to December 31, 2017 (102-50) |
| REPORTING CYCLE:     | Annual (102-52)                         |
| REPORTING SCOPE:     | Downstream operations only (102-46)     |

## DEFINING WHAT MATTERS

Our reporting focuses on the economic, governance, environmental, and social topics and issues that matter most to us and to our stakeholders. We follow the GRI Standards Reporting Principles — namely, stakeholder inclusiveness, sustainability context, materiality, and completeness — to define our report content. To that end, we undertook a business-wide stakeholder expectations and interests review, and a comprehensive materiality assessment.

### STAKEHOLDER ENGAGEMENT (102-42, 102-43)

For the purposes of this report, we identified and prioritised the stakeholders with the most impact and influence on our business. Dialogue with our stakeholders, both through formal and informal channels, is fundamental to our business and the reporting process. We pay close attention to their feedback for our reporting approach, and to identify areas for improvement.

In 2017, we reviewed the top issues raised by our stakeholders and updated our priority list for our sustainability reporting topics.

### REPORTING PRIORITISATION (102-46)

Our materiality process assessed the identified topics in relation to:

- stakeholder expectations;
- the priorities set by the Shell global sustainability strategy;
- the trends in the oil and gas industry; and
- our previous sustainability performance.

## ENGAGEMENT CHANNELS PER STAKEHOLDER GROUP (102-40)



### INVESTORS

Investors’ conferences, quarterly analysts’ and investors’ briefings, annual stockholders’ meeting



### REGULATORS

Quarterly business performance reviews, government relations team consultations



### BUSINESS PARTNERS (suppliers, contractors, consultants)

Constant communication with contract holders, business reviews with suppliers, day-to-day operations logs, Supplier Quality Assessments (SQA) feedback



### COMMUNITIES

Community feedback register and mechanisms, socio-economic profiling surveys, community dialogues and town halls (*Ugnayan sa Barangay*), community programmes, community bulletins



### EMPLOYEES

Annual Shell People Survey (SPS) and other regular surveys (Voice of Territory Managers, Voice of District Managers, Voice of Retail Service Champions), quarterly town halls



### CUSTOMERS

Customer feedback mechanisms (e.g. surveys, tenders, visits, research data), 24/7 customer service call centre, quarterly Voice of the Customer survey,

The selection and prioritisation of topics for the ASR 2017 underwent the following steps: (102-46)

### Step 1: Identifying and understanding topics important to our stakeholders

We identified the top issues from stakeholder groups (see Table 1: Stakeholder Concerns and Expectations), compiled from reports made via engagement channels and feedback mechanisms commonly used in our operations; review of existing evaluation results; and peer benchmarking to understand each group’s priorities and expectations.

### Step 2: Assessing materiality of identified topics

We conducted a materiality assessment of the initial topics, and prioritised via consultation with the ASR Committee. We refined our list of topics based on alignment with Shell’s sustainability strategy, data availability, and whether these were tackled in our previous report. Although “competitive pricing” emerged as a stakeholder concern, at this time we opt not to

disclose data that is confidential and proprietary. However, we elevated topics on environmental impacts, which were not identified in the initial review.

### Step 3: Finalising the ASR material topics

The ASR Committee reached a consensus on the final topics to be discussed (see Table 2: Summary of Material Topics and United Nations Sustainable Development Goals for Pilipinas Shell). In terms of scope and boundaries, our material topics were defined as those within management control in the downstream operations of the business.

For comments and questions about the report contact us at:

**Investor Relations**  
PSPC-Investor-Relations@shell.com  
(+632) 226-4428

(102-53)

TABLE 1. Stakeholder Concerns and Expectations

| TOPIC   | STAKEHOLDER CONCERNS AND EXPECTATIONS (102-44)   |
|---|--|
| Financial performance and growth targets                              | <ul style="list-style-type: none"><li>■ Financial performance</li><li>■ Strategy and growth targets</li><li>■ Profit resiliency considering shifting government regulations</li><li>■ Delivering a world-class investment case</li></ul>   |
| Supply chain management   | <ul style="list-style-type: none"><li>■ Supply reliability and security</li><li>■ Accurate supply chain forecasting</li><li>■ Prompt, timely, and complete delivery</li><li>■ Ease of doing business</li><li>■ Logistics such as road challenges, traffic congestion, and safety</li></ul>   |
| Shifts in government regulation                                       | <ul style="list-style-type: none"><li>■ Comprehensive Tax Reform Programme</li><li>■ Imposition of excise tax on fuel products</li><li>■ Department of Environment and Natural Resources audit results leading to potential closure/suspension of mining accounts that are existing or potential clients of Pilipinas Shell</li></ul>  |
| Supplier assessment for environmental, safety, and social performance | <ul style="list-style-type: none"><li>■ Health, Safety, Security, and Environment (HSSE) compliance of third-party logistics contractors</li></ul>   |
| Environmental impact  | <ul style="list-style-type: none"><li>■ Water use and effluents</li><li>■ Energy consumption</li><li>■ Emissions management</li><li>■ Oil spill management</li><li>■ Waste management</li></ul>  |
| Local content   | <ul style="list-style-type: none"><li>■ Employment from local communities in the areas where Pilipinas Shell operates</li></ul>  |
| Asset integrity and process safety                                    | <ul style="list-style-type: none"><li>■ Safety and security of our assets, facilities, and operations</li><li>■ Risk of fire and/or explosion</li><li>■ Occupational health and safety compliance and/or training for contractors</li></ul>  |
| Social investment   | <ul style="list-style-type: none"><li>■ Social Investment programmes (e.g. livelihood, community skills training, etc.)</li><li>■ Disaster risk responsiveness of communities in the face of earthquakes, typhoons, and other natural disasters</li></ul>  |
| Impact of operations on communities                                   | <ul style="list-style-type: none"><li>■ Road safety and traffic risks due to transport of products</li><li>■ Operational footprint and disturbances caused to fenceline communities</li><li>■ Environmental impact of operations on communities</li><li>■ Resettlement programmes</li></ul>  |
| Corporate governance  | <ul style="list-style-type: none"><li>■ Compliance with relevant laws, rules, and regulations</li><li>■ Government relationship management</li><li>■ Integrity and accuracy of all submissions</li><li>■ Full, fair, accurate, and timely disclosure of material facts</li><li>■ Adherence and compliance with the Philippine National Standards (PNS) for fuels</li><li>■ Non-compliance of competitors with certain industry regulations</li></ul> |
| Promotion of sustainable development                                  | <ul style="list-style-type: none"><li>■ Promotion of sustainable practices</li><li>■ Environmental compliance</li><li>■ Multi-stakeholder partnerships and government relations</li></ul>  |

| TOPIC  | STAKEHOLDER CONCERNS AND EXPECTATIONS (102-44)   |
|--|--|
| Product quality and assurance                          | <ul style="list-style-type: none"><li>■ Assurance of consistent, high-quality products and after-sales services</li><li>■ Proliferation of illegitimate products not compliant to the Philippine National Standards</li><li>■ Convenient access to healthy and affordable food choices</li></ul>   |
| Customer service                                       | <ul style="list-style-type: none"><li>■ Captive customer service centre</li><li>■ Ensuring sales team embeds “Sales 1st” behaviours</li><li>■ Customer complaint handling at retail sites</li></ul>  |
| Product development and innovation                     | <ul style="list-style-type: none"><li>■ Ability to keep up with fast-developing engine technology</li><li>■ Increasing demand for advanced fuels; CO<sub>2</sub> abatement; and biofuels supporting government policy on energy security</li><li>■ Competitive advantage of the bitumen products in the local market</li><li>■ Expanding the portfolio of fuel and engine products</li><li>■ New, cleaner energy solutions</li></ul> |
| Competitive market conditions                          | <ul style="list-style-type: none"><li>■ Contracting profitability due to increasingly competitive market conditions and cost of supply</li><li>■ Competitive pricing</li></ul>   |
| Customer transactions                                  | <ul style="list-style-type: none"><li>■ Credit term flexibility</li><li>■ Billing accuracy</li><li>■ Enhancement of loyalty and rewards benefits programmes for customers</li></ul>  |
| Labour-management relations and consultation practices | <ul style="list-style-type: none"><li>■ Decision-making process and timeline</li></ul>   |
| Learning and development                               | <ul style="list-style-type: none"><li>■ Learning, training, and development</li></ul>  |
| Compensation and benefits                              | <ul style="list-style-type: none"><li>■ Market-competitive pay and compensation</li></ul>  |
| Diversity and inclusion (D&I)                          | <ul style="list-style-type: none"><li>■ Open communication and encouraging feedback conversations (e.g. inclusive behaviour, sensitivity to generational differences, and cultural differences, etc.)</li><li>■ Diversity, gender representation, and inclusion</li></ul>  |
| Responsible marketing                                  | <ul style="list-style-type: none"><li>■ Marketing and events sponsorships to promote product integrity and safety</li><li>■ Maintaining brand reputation (e.g. dealing only with reputable and responsible organisations, etc.)</li></ul>  |
| Fleet card management and security                     | <ul style="list-style-type: none"><li>■ Anti-fraud mechanisms and administrative effort in fleet-related expenses</li><li>■ Customer experience for fleet card holders (e.g. reduced waiting time for transactions, ease in checking balances, etc.)</li><li>■ Availability of Shell Card online tool on mobile apps</li></ul>   |
| Transparency of public disclosures                     | <ul style="list-style-type: none"><li>■ Full, fair, accurate, and timely disclosure to regulators of every material fact or event</li><li>■ Integrity and accuracy of all submissions to regulators</li></ul>  |



TABLE 2. Summary of Material Topics and United Nations Sustainable Development Goals for Pilipinas Shell

| SHELL SUSTAINABILITY PILLAR                                     | TOPIC (102-47)  | GRI STANDARDS REFERENCE   | UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS |
|---|---|---|--|
| Running a Safe, Efficient, Responsible, and Profitable Business | Financial performance and growth targets                              | GRI 201 Economic Performance  | 7 8 9<br>12 13 17                            |
|   | Supply chain management   | GRI 103 Management Approach   |  |
|   | Shifts in government regulation                                       | GRI 419 Socio-economic Compliance   |  |
|   | Supplier assessment for environmental, safety, and social performance | GRI 308 Supplier Environmental Assessment   |  |
|   | Asset integrity and process safety                                    | OG 13 Asset Integrity and Safety Process<br>GRI 403 Occupational Health and Safety  |  |
|   | Corporate governance  | GRI 419 Socio-economic Compliance   |  |
|   | Environmental impact  | GRI 302 Energy<br>GRI 303 Water<br>GRI 305 Emissions<br>GRI 306 Effluents and Waste |  |
| Sharing Wider Benefits Where We Operate                         | Social investments  | GRI 413 Local Communities   | 7 8 11                                       |
|   | Local content   | GRI 202 Market Presence<br>GRI 203 Indirect Economic Impacts                        |  |
|   | Impact of operations on communities                                   | GRI 413 Local Communities<br>OG 12 Involuntary Resettlements                        |  |
|   | Customer service  | GRI 103 Management Approach   |  |

| SHELL SUSTAINABILITY PILLAR                       | TOPIC (102-47)   | GRI STANDARDS REFERENCE                 | UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS |
|---|--|---|--|
| Sharing Wider Benefits Where We Operate           | Competitive market conditions                          | GRI 103 Management Approach             | 7 8 11                                       |
|   | Customer transactions                                  | GRI 103 Management Approach             |  |
|   | Labour-management relations and consultation practices | GRI 402 Labour-Management Relations     |  |
|   | Learning and development                               | GRI 404 Training and Development        |  |
|   | Compensation and benefits                              | GRI 401 Employment                      |  |
|   | Diversity and inclusion                                | GRI 405 Diversity and Equal Opportunity |  |
| Helping to Shape a More Sustainable Energy Future | Promotion of sustainable development                   | GRI 103 Management Approach             | 7 9  |
|   | Product quality and assurance                          | GRI 416 Customer Health and Safety      | 12 17  |
|   | Product development and innovation                     | GRI 103 Management Approach             |  |

United Nations Sustainable Development Goals Legend:



# ABOUT PILIPINAS SHELL PETROLEUM CORPORATION

## HEAD OFFICE (102-3)

Shell House  
156 Valero Street,  
Salcedo Village, Barangay Bel-Air,  
Makati City, 1227  
Republic of the Philippines

Pilipinas Shell is an integrated fuel refining and marketing (R&M) company in the Philippines.

We represent the downstream operations of the Shell companies in the Philippines (SciP), a network of companies involved in oil and gas exploration, refining, distribution, marketing, and business services. SciP is part of Royal Dutch Shell plc (Shell), a global group of energy and petrochemicals companies present in more than 70 countries.

## SHELL COMPANIES IN THE PHILIPPINES (SciP)



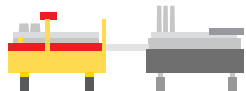
### Pilipinas Shell Petroleum Corporation

Refining and marketing of petroleum products



### Shell Business Operations - Manila

Business services and advisory



### Shell Philippines Exploration B.V.

Operator of the Malampaya Deepwater Gas-to-Power Project



### Pilipinas Shell Foundation, Inc.

Non-profit organisation; social development arm of SciP

Our operations include the production, importation, blending, transport, distribution, and marketing of a wide range of high-quality fuels, lubricants, bitumen, and other specialty oil-based products.

Our retail network boasts of 1,044 service stations serving motorists nationwide. We are reshaping the landscape of refuelling hubs through our service centres and convenience outlets like Shell Select and deli2go.

We supply wholesale commercial fuels to the manufacturing, marine, mining, power, transport and other sectors. We also count a large number of major conglomerates operating in the Philippines as our loyal customers. (102-6)

Our marketing businesses are supported by an efficient distribution network composed of the Tabangao Refinery, 27 fuel terminals and supply points, 10 lubricant warehouses, and two bitumen import facilities.

As part of the global transition into new energies, we successfully completed solar installations in 15 of our retail stations to date, and we plan to add more.

## OUR HISTORY AND OWNERSHIP (102-5)

We trace our roots to the Asiatic Petroleum Company (Philippine Islands), Ltd., an importer and retailer of motor gasoline and kerosene, which opened in the Philippines in 1914. Since then, Pilipinas Shell has grown to become one of the leading oil refining and marketing companies in the Philippines.

We have been listed in the Philippine Stock Exchange since November 3, 2016, with the stock symbol "SHLPH." As of the end of 2017, the distribution of ownership is as follows:

- \* Shell Overseas Investments B.V. **(55.2%)**
- \* The Insular Life Assurance Company, Ltd. **(15.8%)**
- \* Spathodea Campanulata, Inc. **(4.2%)**
- \* Various minority shareholders **(24.8%)**

## OUR VISION

To be the most admired and trusted company that powers progress for the Filipino through high-quality energy products and services.

## OUR MISSION

To delight our customers with high-quality fuels, lubricants and specialties, and best-in-class technical and convenience services.

To attract and retain the best employees through competitive remuneration and growth opportunities.

To engage the most professional business partners in long-term and mutually-beneficial relationships.

To partner with the government and local communities in promoting social investments and advocacies that contribute to national development.

To deliver consistent, attractive, and increasing returns for our shareholders through operational excellence, superior value propositions, and strong corporate governance.

## OUR VALUES (102-16)

Shell is one of the first global companies to state its values and beliefs when it published the Shell General Business Principles in 1976. Pilipinas Shell is guided by these principles, with a commitment to balance our short- and long-term interests, and integrate economic, environmental, and social considerations into our decision-making to contribute to sustainable development.

### CORE VALUES

Honesty  
Integrity  
Respect for people

### GENERAL BUSINESS PRINCIPLES

Economic  
Competition  
Business Integrity  
Political Activities  
Health, Safety, Security, and Environment (HSSE)  
Local Communities  
Communication and Engagement  
Compliance

Please visit our website for more information on our history and values, and how we apply the Shell General Business Principles, and the Code of Conduct.

North Mindanao Import Facility in Cagayan de Oro



# MESSAGE FROM THE CHAIRMAN OF THE BOARD

(102-14, 102-15)



We are proud to present to you our second Annual and Sustainability Report, which details our financial, social, safety, and environmental performance for 2017.

For the past 103 years, Pilipinas Shell has been more than just an oil and gas company in the Philippines. We are a partner in national development and an advocate of sustainable growth.

We are aligned with the Philippine government’s energy plan and take direction from its industry roadmap. To that end, Pilipinas Shell takes responsibility for securing fuel supplies of the highest quality and at the right quantities. In fact, we successfully introduced Euro IV (PH)-compliant fuels in 2016. This is part of our sustainability goal of providing access to high-quality fuels. In addition, we support the recently enacted Tax Reform for Acceleration and Inclusion (TRAIN) Law, as we understand that it has impacts not just for the fuel industry, but for the Filipino. The TRAIN Law is designed to support the government’s “Build, Build, Build” infrastructure programme, which is expected to further boost the country’s economy.

The Philippines has received multiple credit rating upgrades, and achieved a growth of 6.7% in 2017, which places it among the fastest growing economies in Asia. Alongside strong remittances from overseas Filipino workers (OFWs), which hit an all-time high at \$28.1 billion in 2017, domestic consumption is expected to remain high. It is against this economic backdrop that Pilipinas Shell positions itself. Our success as a business is supported by the overall growth for the country, and the outlook continues to be bright for the Philippines.

We count ourselves among the publicly listed firms that present a solid investment case and seek to protect the interests of our shareholders, which include local small investors. Beyond providing high dividends to our shareholders, our business also provides quality jobs, not only within our Company, but also for our extensive network of contractors and suppliers. As an employer, we invest in our people, equipping them so they are able to hold their own in the local arena or abroad.

Our core values have remained the same throughout our long history: honesty, integrity, and respect for people. As we work together towards strengthening Pilipinas Shell, we will remain ever mindful of our greater responsibility to society and the planet.

This is how we make the future.

  
**Asada Harinsuit**  
Chairman of the Board  
Pilipinas Shell Petroleum Corporation

**“We count ourselves among the publicly listed firms that present a solid investment case and seek to protect the interests of our shareholders, which include local small investors.”**

**“We are a partner in national development and an advocate of sustainable growth.”**



# MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

(102-14, 102-15)



**“Our dividend payout of 80% exceeds our dividend policy of a minimum of 75% of prior year’s income. Our level of earnings and dividend payout position our dividend yield as one of the highest in the industry.”**

Our second Annual and Sustainability Report is a testament to our continued growth alongside the nation. We have been in the Philippines for the past 103 years, and in our second year as a listed company, we hope to collaborate with shareholders who share the same mindset of sustainability, and long-term commitment. Owning a part of Pilipinas Shell is not only a solid investment; it is a partnership with an organisation that seeks to balance short- and long-term interests, with consideration to the triple bottom line - economic, environment, and social performance.

Sound business management and corporate practices have helped us maintain stable financial health. In 2017, our financial performance continues to be driven by the strength of our marketing businesses. Pilipinas Shell’s year-on-year earnings surged 39% to close 2017 with a net income after tax of Php 10.4 billion. Our dividend payout of 80% exceeds our dividend policy of

a minimum of 75% of prior year’s income. Our level of earnings and dividend payout position our dividend yield as one of the highest in the industry.

Our retail business continued its steady growth and efficient operations. Retail volumes grew by 4%, higher than industry, with the average station throughput double that of the industry average. Our premium fuels business exhibited robust sales this year, helped by our launch of V-Power with DYNAFLEX technology.

We also strengthened our branded non-fuel retail offerings, such as Shell Select and deli2go, to maximise the value we can generate from our retail stations. Today, we have 102 Shell Select convenience stores and 41 deli2go stores nationwide. Due in part to our focus on convenience retailing, our non-fuel retail business enjoyed double-digit growth in 2017.

In 2017, our commercial fuels business was affected in part by lower demand from the power sector. However, the team worked hard to make a strong recovery in the latter half of the year, managing to win new accounts and grow volumes in new commercial sectors.

Shell Aviation celebrated 55 years of operations in the country. In 2017, we expanded our refueling network to include the Mactan-Cebu International Airport, currently the second busiest terminal in the country.

Our supply chain also continues to extract value and reap financial and operational benefits from the North Mindanao Import Facility (NMIF), which has helped significantly reduce stockouts. Our Tabangao refinery successfully completed its planned two-month turnaround with excellent safety record.

Going into 2018, we expect to complete our bitumen production facility inside the refinery. This should allow us to produce bitumen locally and help us support the government’s infrastructure program. The bitumen production facility positions Pilipinas Shell to participate in public-private partnerships to build the infrastructure necessary for business and economic growth, as well as export some bitumen raw materials, as appropriate to other countries.

**“At Pilipinas Shell, sustainability means strengthening our operations to allow us to become a stable and reliable company for the benefit of our stakeholders.”**

Our commitment to nation-building also means generating quality jobs. Pilipinas Shell directly employs over 700 people and help generate employment to approximately 25,000 more through our business partners and suppliers such as our retailers, hauliers, and construction and maintenance contractor companies.

Through Pilipinas Shell Foundation, Inc. (PSFI), the social arm of Shell companies in the Philippines (SciP), we also made significant social investments. In its 35 years of existence, PSFI has touched more than 12 million lives. Through Movement Against Malaria, PSFI has helped move the country forward in its fight against the malaria epidemic. Thanks in part to the programme, 42 provinces in the country have been declared malaria-free as of 2017, with 92% reduction in the total number of cases and 98% reduction in deaths due to malaria.

At Pilipinas Shell, sustainability means strengthening our operations to allow us to become a stable and reliable company for the benefit of our stakeholders. Our strategy is to strengthen our leadership in the oil and gas industry to create a world-class investment case for our shareholders. Our ambition is to be able to supply high-quality fuels to serve the needs of our developing nation, as we uplift the lives of its citizens. Moving forward, we will continue to bolster our efforts towards promoting and practicing sustainability.

**Cesar G. Romero**  
President and Chief Executive Officer  
Pilipinas Shell Petroleum Corporation

# CHIEF FINANCIAL OFFICER REPORT

“We continue to deliver on our commitments through robust cash generation, prudent cost management, and disciplined capital allocation.”



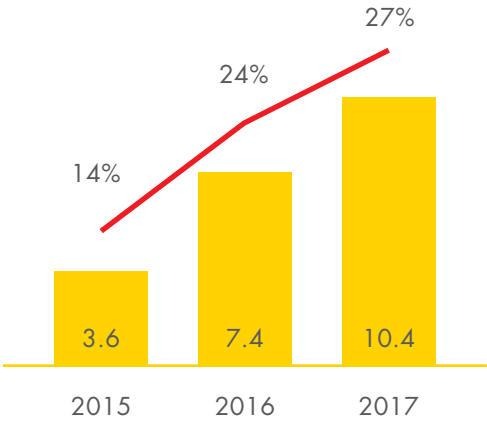
2017 was another year of achievement for Pilipinas Shell. Amidst strong competition and a planned refinery maintenance shutdown, we produced higher earnings, generated more cash and further strengthened our balance sheet. We continue to deliver on our commitments through robust cash generation, prudent cost management, and disciplined capital allocation.

## ROBUST CASH GENERATION

At the end of 2017, Pilipinas Shell posted Php 10.4 billion net earnings, 39% higher than the previous year. Return on Equity (ROE) and Return on Average Capital Employed (ROACE) stood at 25% and 27%, respectively. Our performance was mainly driven by strong retail volume growth and high premium fuel penetration – a clear demonstration of the strength of the Shell brand.

Cash from operations increased 29%, reaching Php 10.9 billion, which was more than sufficient to cover dividend payments and planned investments, totaling

## Net Income (in Php billion) and ROACE



Php 6.8 billion. Retained earnings (excluding re-measurement gains) increased by Php 7.7 billion.

## PRUDENT COST MANAGEMENT

Operating expenses increased by 6.1% to Php 13.9 billion, reflecting mainly the growth of our retail network offset by controlled advertising spend and lower overheads.


Our integrated supply chain greatly contributed to our cost competitiveness, with cost savings from our investment in the North Mindanao Import Facility surpassing initial estimates by more than 50%.

## DISCIPLINED CAPITAL ALLOCATION

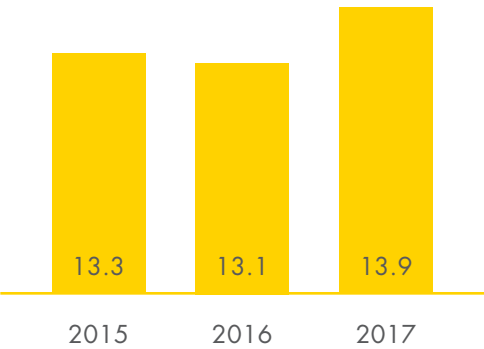
We use a robust global methodology in screening our capital investment decisions. As we pursue both fuel and non-fuel opportunities, we continue to expand our retail network while maintaining its industry-leading efficiency. In 2017, we opened 66 new stations and 37 Select stores, which accounted for most of the 51% capital spend allocated to Retail. Over the medium-term, we plan to introduce 50-70 new stations and 15-20 Select stores per year. We also continued to invest in strengthening and optimising our supply chain, including Php 463.8 million in 2017 for the construction of our new bitumen production facility.

Average capital employed increased to Php 53.2 billion while gearing decreased to 18%.

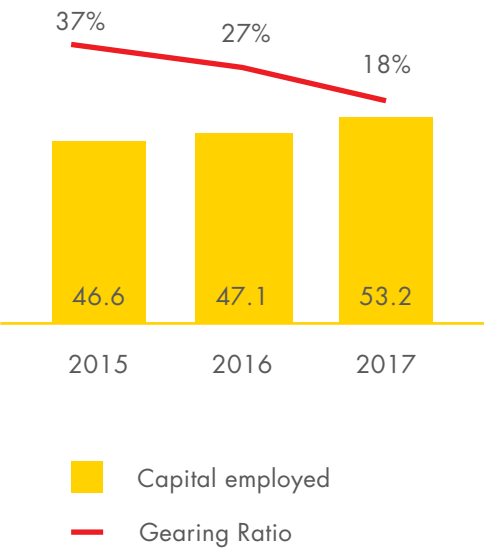
Our three C’s – cash generation, cost management and capital discipline – enabled our strong financial performance and robust capital structure in 2016 and 2017. These are the key financial strategies that will allow us to grow the business and reward our shareholders and stakeholders in the coming years as we tailor PSPC into a world-class investment.

  
**Jose Jerome R. Pascual III**  
Chief Financial Officer  
Pilipinas Shell Petroleum Corporation

## Operating Expenses (in Php billion)



## Capital Employed (in Php billion) and Gearing Ratio





# MAKE THE FUTURE

Today's actions shape tomorrow.

## Being a partner in nation-building



### 4 National Artists

in 50 years of powering youth artistry in the Shell National Student Arts Competition



### 9 grandmasters

in 25 years of the Shell National Youth Active Chess Championship



### 165 scholars

in science and engineering supported under the Shell-PhilDev Scholarship Programme

## Being a good neighbour



### 12 million

lives touched by PSFI in 35 years



### 200 houses

built for resettlement of Typhoon Sendong survivors in the GK-Shell Village in Brgy. Canitoan, Cagayan de Oro



### 83,000 seedlings

of indigenous trees planted in Mt. Banahaw in Quezon as part of the Carbon Sink Management Programme

## Being a world-class investment case



### 100%

Euro IV (PH) compliant diesel and gasoline fuels



### 15

solar-powered retail stations in the Philippines



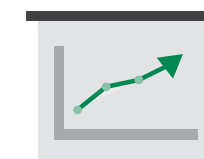
### 35%

female employees in Pilipinas Shell



### up to 100%

of engine performance restored, with Shell V-Power Diesel with DYNAFLEX Technology



## Financial Highlights

### NET PROFIT

**Php 10.4 billion**

39% increase vs 2016

### CASH FLOW FROM OPERATIONS

**Php 10.9 billion**

29% increase vs 2016

### ROACE<sup>1</sup>

**27%**

increased from 24% in 2016

### GEARING RATIO<sup>2</sup>

**18%**

decreased from 27% in 2016

### EBITDA (adjusted for COSA)<sup>3</sup>

**Php 12.1 billion**

19% increase vs 2016

### DIVIDENDS

**Php 8.3 billion**

declared in March 2018 pertaining to 80% of audited net profit after tax in 2017

Details on these figures can be found in the footnotes at the bottom of page 20



SUMMARY STATEMENT OF FINANCIAL POSITION

| in Php million                      | AS OF THE YEAR ENDED DECEMBER 31 |                 |                 |
|-------------------------------------|----------------------------------|-----------------|-----------------|
|                                     | 2017                             | 2016            | 2015            |
| Current assets                      | 45,876.3                         | 38,856.3        | 36,655.7        |
| Non-current assets                  | 36,000.7                         | 31,752.9        | 29,578.4        |
| <b>Total assets</b>                 | <b>81,877.0</b>                  | <b>70,609.3</b> | <b>66,234.1</b> |
| Current liabilities                 | 31,235.0                         | 22,400.8        | 18,901.3        |
| Non-current liabilities             | 8,506.6                          | 15,280.1        | 21237.7         |
| <b>Total liabilities</b>            | <b>39,741.6</b>                  | <b>37,681.0</b> | <b>40,139.0</b> |
| <b>Total equity</b>                 | <b>42,135.4</b>                  | <b>32,928.3</b> | <b>26,095.1</b> |
| <b>Total liabilities and equity</b> | <b>81,877.0</b>                  | <b>70,609.3</b> | <b>66,234.1</b> |

SUMMARY STATEMENT OF INCOME

| in Php million                           | FOR THE YEAR ENDED DECEMBER 31 |                  |                  |
|--|--------------------------------|------------------|------------------|
|  | 2017                           | 2016             | 2015             |
| Gross sales                              | 174,470.2                      | 142,075.4        | 161,789.8        |
| Sales discounts and rebates              | (4,994.4)                      | (5,312.1)        | (4,812.1)        |
| <b>Net sales</b>                         | <b>169,475.8</b>               | <b>136,763.3</b> | <b>156,977.7</b> |
| Cost of sales                            | (143,070.6)                    | (112,461.5)      | (136,976.9)      |
| <b>Gross profit (loss)</b>               | <b>26,405.2</b>                | <b>24,301.7</b>  | <b>20,000.8</b>  |
| Operating expenses <sup>1</sup>          | (13,860.1)                     | (13,063.1)       | (13,295.0)       |
| Other operating income, net              | 489.4                          | 470.7            | 212.2            |
| <b>Income (loss) from operations</b>     | <b>13,034.6</b>                | <b>11,709.4</b>  | <b>6,918.0</b>   |
| <b>Income (loss) before income tax</b>   | <b>13,760.2</b>                | <b>10,828.1</b>  | <b>5,223.0</b>   |
| <b>Profit (loss) for the year/period</b> | <b>10,368.2</b>                | <b>7,443.8</b>   | <b>3,553.2</b>   |

<sup>1</sup> Operating expenses includes selling, general, and administrative expenses.



SCAN

Scan the QR code to download our 2017 SEC Form 17-A and Audited Financial Statements

<sup>1</sup> Return on average capital employed is defined as EBIT as a percentage of the average capital employed for the period. Capital employed consists of short-term borrowings and loans payable, and total equity. Average capital is calculated as the mean of the opening and closing balances of capital employed for that period.

<sup>2</sup> Gearing ratio is defined as net debt (total debt less cash and cash equivalents) as a percentage of total capital (net debt plus total equity). It is a measure of the degree to which our operations are financed by debt.

<sup>3</sup> Prospective investors are cautioned that Cost of Sales Adjustment (COSA) and EBITDA (and any adjustments thereto) are in all cases not measurements of financial performance under PFRS and investors should not consider them in isolation or as an alternative to profit or loss for the year, income or loss from operations, or as an indicator of the Company’s operating performance or as a measure of liquidity or any other measures of performance under PFRS. Although other oil refiners use similar measures, prospective investors are cautioned that there are various calculation methods, and the Company’s presentation of COSA may not be comparable to similarly titled measures used by other companies.

SUMMARY STATEMENT OF CASH FLOWS

| in Php million   | FOR THE YEAR ENDED DECEMBER 31 |                |                  |
|--|--------------------------------|----------------|------------------|
|  | 2017                           | 2016           | 2015             |
| Net cash from (used in) operating activities               | 10,931.4                       | 8,499.6        | 13,213.6         |
| Net cash used in investing activities                      | (4,539.7)                      | (3,431.0)      | (5,299.6)        |
| Net cash from (used in) financing activities               | (4,468.7)                      | (4,549.0)      | (9,084.3)        |
| <b>Net increase (decrease) in cash for the year/period</b> | <b>1,923.1</b>                 | <b>519.6</b>   | <b>(1,170.3)</b> |
| Cash at the beginning of the year/period                   | 4,274.3                        | 3,576.8        | 4,721.6          |
| <b>Cash at the end of the year/period</b>                  | <b>6,163.3</b>                 | <b>4,274.3</b> | <b>3,576.8</b>   |

EBITDA

| in Php million                                     | AS OF/FOR THE YEAR ENDED DECEMBER 31 |                 |                 |
|--|--------------------------------------|-----------------|-----------------|
|  | 2017                                 | 2016            | 2015            |
| Profit (Loss) for the year/period                  | 10,368.2                             | 7,443.8         | 3,553.2         |
| <b>EBITDA</b>                                      | <b>16,291.5</b>                      | <b>13,166.0</b> | <b>8,066.6</b>  |
| Less: Cost of Sales Adjustment (COSA) <sup>1</sup> | 4,203.2                              | 3,027.8         | (4,250.0)       |
| <b>EBITDA (adjusted for COSA)<sup>2</sup></b>      | <b>12,088.3</b>                      | <b>10,138.2</b> | <b>12,316.6</b> |

<sup>1</sup> Cost of Sales Adjustment (COSA) aims to exclude the effect of one-off inventory holding gains and losses from EBITDA. COSA is a non-GAAP measure used internally for assessing management performance and allocating resources, in line with Shell Group practices.

<sup>2</sup> Prospective investors are cautioned that EBITDA and COSA (and any adjustments thereto) are in all cases not measurements of financial performance under Philippine Financial Reporting Standards (PFRS) and investors should not consider them in isolation or as an alternative to profit or loss for the year; income or loss from operations; or as an indicator of our Company’s operating performance, cash flow from operating, investing and financing activities; or as a measure of liquidity or any other measures of performance under PFRS. Although other oil refiners use similar measures, prospective investors are cautioned that there are various calculation methods, and our Company’s presentation of COSA may not be comparable to similarly titled measures used by other companies.

KEY FINANCIAL RATIOS

| in Php million                                  | AS OF/FOR THE YEAR ENDED DECEMBER 31 |       |       |
|---|--------------------------------------|-------|-------|
|   | 2017                                 | 2016  | 2015  |
| Current ratio <sup>1</sup>                      | 1.5                                  | 1.7   | 1.9   |
| Debt to equity ratio <sup>2</sup>               | 0.2                                  | 0.4   | 0.6   |
| Debt ratio <sup>3</sup>                         | 0.1                                  | 0.2   | 0.2   |
| Return on assets <sup>4</sup>                   | 12.7%                                | 10.5% | 5.4%  |
| Return on equity <sup>5</sup>                   | 24.9%                                | 22.6% | 13.6% |
| Return on average capital employed <sup>6</sup> | 26.9%                                | 24.2% | 13.8% |

<sup>1</sup> Current ratio is computed by dividing current assets over current liabilities.

<sup>2</sup> Debt to equity ratio is computed by dividing net debt (short-term borrowings and loans payable less cash) by equity (exclusive of other reserves).

<sup>3</sup> Debt ratio is computed as net debt divided by total assets.

<sup>4</sup> Return on assets is computed as profit (loss) for the period divided by total assets.

<sup>5</sup> Return on equity is computed as profit (loss) for the period divided by equity (exclusive of other reserves).

<sup>6</sup> Return on average capital employed is defined as EBIT as a percentage of the average capital employed for the period. Capital employed consists of total equity, short-term borrowings and loans payable. Average capital is calculated as the mean of the opening and closing balances of capital employed for that period.

SUSTAINABILITY SCORECARD

During our first year of sustainability reporting, we established a set of indicators to track our economic, social, and environmental performance. We will continue to update this scorecard to provide a transparent and balanced picture of our sustainability progress.

|   | UNIT                     | 2015      | 2016      | 2017      | % CHANGE FROM PREVIOUS YEAR |
|---|--------------------------|-----------|-----------|-----------|-----------------------------|
| ECONOMIC                                |                          |           |           |           |                             |
| Value Generated <sup>1</sup>            | Php billion              | 157.3     | 137.4     | 171.4     | 24.7%                       |
| Capital Investments                     | Php billion              | 5.7       | 3.3       | 4.1       | 26.8%                       |
| Value Distributed <sup>2</sup>          | Php billion              | 153.7     | 133.3     | 163.7     | 22.8%                       |
| ENVIRONMENT                             |                          |           |           |           |                             |
| ENERGY                                  |                          |           |           |           |                             |
| Purchased Power                         | Gigajoules               | 59,429.7  | 24,565.0  | 37,044.1  | 50.8% <sup>3</sup>          |
| GREENHOUSE GAS                          |                          |           |           |           |                             |
| Scope 1 GHG Emissions                   | Tonnes CO <sub>2</sub> e | 357,563.0 | 345,448.7 | 322,851.3 | -6.5%                       |
| Scope 2 GHG Emissions                   | Tonnes CO <sub>2</sub> e | 5,082.0   | 2,083.1   | 3,120.4   | 49.8% <sup>4</sup>          |
| WATER                                   |                          |           |           |           |                             |
| Total Freshwater Withdrawn              | million cubic metres     | 1.8       | 1.9       | 2.0       | 3.8%                        |
| WASTE                                   |                          |           |           |           |                             |
| Hazardous waste generated               | Tonnes                   | 417.0     | 861.9     | 4,387.0   | 409.0% <sup>5</sup>         |
| Non-hazardous waste generated           | Tonnes                   | 64.8      | 139.8     | 93.1      | -33.4% <sup>6</sup>         |
| SOCIAL                                  |                          |           |           |           |                             |
| Total Employees <b>(102-7)</b>          |                          | 756       | 698       | 706       | 1.1%                        |
| Male                                    |                          | 533       | 470       | 459       | -2.3%                       |
| Female                                  |                          | 223       | 228       | 247       | 8.3%                        |
| Total Community Investment <sup>7</sup> | Php million              | 27.2      | 119.3     | 41.8      | -65.0%                      |

<sup>1</sup> Economic Value Generated refers to revenue from net sales (gross sales from products and services minus discounts and rebates) and other income of Pilipinas Shell.

<sup>2</sup> Economic Value Distributed includes operating costs, employee wages and benefits, payments to capital providers, payments to the national government, community investments, etc. [Formula: Economic Value Generated - Economic Value Distributed = Economic Value Retained]

<sup>3</sup> Increase is due to the 2-month refinery turnaround, as most of the power requirements were imported from the national grid.

<sup>4</sup> Increase is due to higher purchased electricity from the national grid, due to the refinery turnaround.

<sup>5</sup> Increase is due to the refinery turnaround, which necessitated higher tank maintenance activities. A large amount of waste oil from tank bottoms were recovered and sold to an accredited third party.

<sup>6</sup> Limitation on haulers' capacity resulted in decreased volume.

<sup>7</sup> The total amount of social investment spend was larger in 2016 compared to 2017 since several long-term programmes were established in 2017, including corporate donations and programmes for the North Mindanao Import Facility.

AWARDS AND RECOGNITION



Pilipinas Shell received the Company of the Year Award from the Employers Confederation of the Philippines.

Shell companies in the Philippines (SciP) was hailed as “Company of the Year” in the Kapatiran sa Industriya Awards (KAPATID Awards) by the Employers Confederation of the Philippines. The Company also received a special citation for the category ‘Social Accountability’ for contributing to nation-building, and for highly relevant social initiatives.

The Philippine Association of National Advertisers (PANA) recognised Pilipinas Shell’s safety campaign, Re-energising Shell’s Life-Saving Rules through Safety Day, as an outstanding advocacy in its 4<sup>th</sup> PANAta Marketing Effectiveness Awards.

Meanwhile, Pilipinas Shell’s communications programmes and marketing campaigns were feted by the International Association of Business Communicators (IABC) in its 15<sup>th</sup> Philippine Quill Awards. Pilipinas Shell took home 16 awards, including one Top Award, seven Awards of Excellence, and eight Awards of Merit. This marked a special milestone for us, as for the first time ever we took home a Quill Top Award, for the entry Shell Sustains Involvement and Engagement through Elevated Communications in the Communication Research division.

Pilipinas Shell also won “Best in IPO Local Small Investor (LSI) Programme – Listed Companies” in the Philippine Stock Exchange’s (PSE) 2017 Bell Awards for Excellence in Corporate Governance. Pilipinas Shell was the first company to win in this new award category.

Moreover, Pilipinas Shell was shortlisted as Wellness Company of the Year in the Asia CEO Excel Award 2017 for the Shell Be Well and Resilience programmes.

Pilipinas Shell was also a Finalist in the 2017 Gold Standard Awards for three categories, in recognition of its Movement Against Malaria programme as well as the Company’s elevated internal communications efforts.

In its first year of operations in Cagayan de Oro (Region X), the North Mindanao Import Facility was recognised as the “Top One” importer in the region by the Bureau of Customs.



# OUR BUSINESS



Philippinas Shell refines and markets a wide range of oil products, which include diesel, gasoline, jet fuel, fuel oil, lubricants, and bitumen. Non-fuel retail offerings are also a growing part of our business. Our drive for innovation, and desire for sustainable progress, have constantly guided our actions in pushing the oil and gas industry in the Philippines forward.

### OUR BUSINESS STRATEGY

To achieve our growth objectives, we are guided by the following principal business strategies:

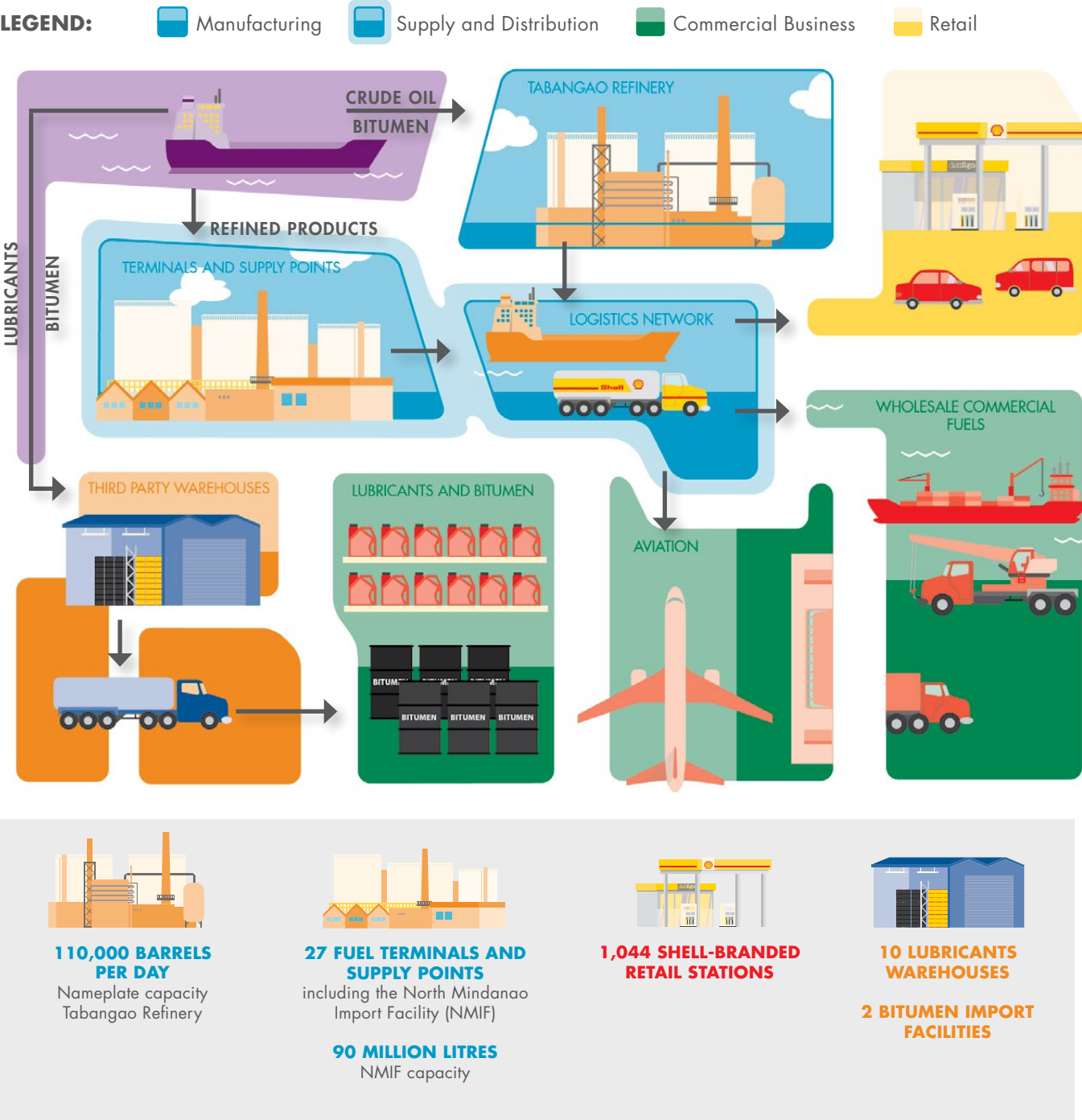
- 1. Selectively pursue profitable opportunities in the growing Philippine market.** We aim to selectively expand our retail network, capitalise on our leading brand preference position, grow our base of customers and dealers through innovative loyalty programmes, forge or strengthen relationships with our dealers, and expand our commercial offering through value-adding services.
- 2. Maintain a reliable and efficient manufacturing, supply and distribution chain.** We aim to sustain reliability and cost-efficiency in our integrated supply chain network, and to maximise the benefits and strategic geographical positions of our various supply points.

- 3. Optimise related product portfolio and offering to increase customer loyalty.** We aim to continually offer a comprehensive range of fuel-related products and services. We also aim to encourage customers to shift to premium fuels, and to enhance customer experience through loyalty programmes and other initiatives.
- 4. Capture market growth opportunity in the lubricant and convenience retailing markets.** We aim to expand our lubricants and non-fuel retail business. We also aim to complement our convenience retailing segment through co-locator collaboration with leading brands.
- 5. Uphold the Shell Group’s high standards for corporate governance, HSSE matters and corporate social responsibility.** We aim to continue being a role model for world-class corporate governance; to maintain a relentless focus on HSSE performance; and to continue playing a positive role in society by contributing to sustainable development.
- 6. Continue to focus on world-class talent development and retention to realise the full potential of its people.** We aim to not just realise the full potential of our employees, but also to develop the Filipino workforce. Through our commitment and focus on people, we intend to hone and retain a highly-skilled and highly-motivated talent pool.

# OUR VALUE CHAIN

(102-9)

Through our products, we fuel most of the primary modes of transportation in the country, such as motor vehicles, aircraft, and marine vessels, and we also power industrial facilities. Our lubricants maximise the efficiency of engines and other equipment to ensure their smooth operation, and help bring cost savings. Our bitumen is used in paving critical infrastructure such as national and arterial roads, and airports.





CLASSES OF BUSINESS

RETAIL

We have the second largest fuel retail network in the Philippines, with 1,044 Shell-branded retail service stations nationwide.

Our retail stations sell our signature fuels and lubricants. Our branded fuels include Shell V-Power and Shell FuelSave. Lubricant brands primarily include, among others, Shell Helix, Shell Rimula and Shell Advance.

We also provide motorists with non-fuel offerings through our signature deli2go gourmet café and Shell Select convenience store with in-store dining options. Our non-fuel retail operations also include car service centres which offer oil change, repair, and other car maintenance services. Additional conveniences provided to motorists are well-maintained restrooms, automated teller machine (ATM) kiosks, and co-locator brand quick-service restaurants (QSRs).

COMMERCIAL BUSINESS

Our commercial business serves as the one-stop shop for our customers’ fuel and lubricant needs. We provide our customers fuel differentiation, technical consulting, supply security, and price risk management.

**Wholesale Commercial Fuels.** We supply wholesale commercial fuels to major businesses in the construction, manufacturing, maritime, mining, and power sectors. Our product portfolio includes regular and premium diesel for on-road and off-road heavy-duty vehicles and equipment, and fuel oil for industrial heating and manufacturing boilers. In addition to high-quality fuels, we offer our customers advance business services to help them reduce their fuel price exposure and optimise their energy use.

**Aviation.** We have been a supplier of aviation fuels, lubricants, and technical services in the Philippines since the 1950s. Currently, we provide jet fuel and refuelling services to international and domestic airlines at airports in Metro Manila, Cebu, and Clark.

**Lubricants.** We provide imported lubricants both to industrial accounts in the power, manufacturing, transport, and mining sectors, and to end consumers nationwide. Our product range includes some of the best-selling lubricants brands such as Shell Helix, Shell Rimula, Shell Advance, Shell Spirax, and Shell Tellus.

**Bitumen.** We primarily cater to road contractors through our two bitumen import facilities, where we distribute imported pen-grade bitumen, emulsions, and cutbacks. Our bitumen production facility in the Tabangao Refinery will enable us to be the first provider of locally produced bitumen in the Philippines.

For more information on our retail products and services, our loyalty programmes, and our current promotions and campaigns, please visit our website.

SUPPLY AND DISTRIBUTION

We operate an integrated supply chain network that involves the procurement, importation, storage, and distribution of finished petroleum products through different modes of transportation, such as maritime vessels and trucks. These vessels, tank trucks, and trucking services are chartered mainly on term contracts from third-party logistics providers.

Our supply and distribution business has three main components. First, Primary Transport involves the transfer of fuel products from our refinery and other import facilities to our fuel terminals and supply points. Second, we maintain strategically situated storage terminals and warehouses to help expand our reach to customers. Finally, Road Transport involves the delivery of our fuel products to the retail stations and our direct commercial accounts.

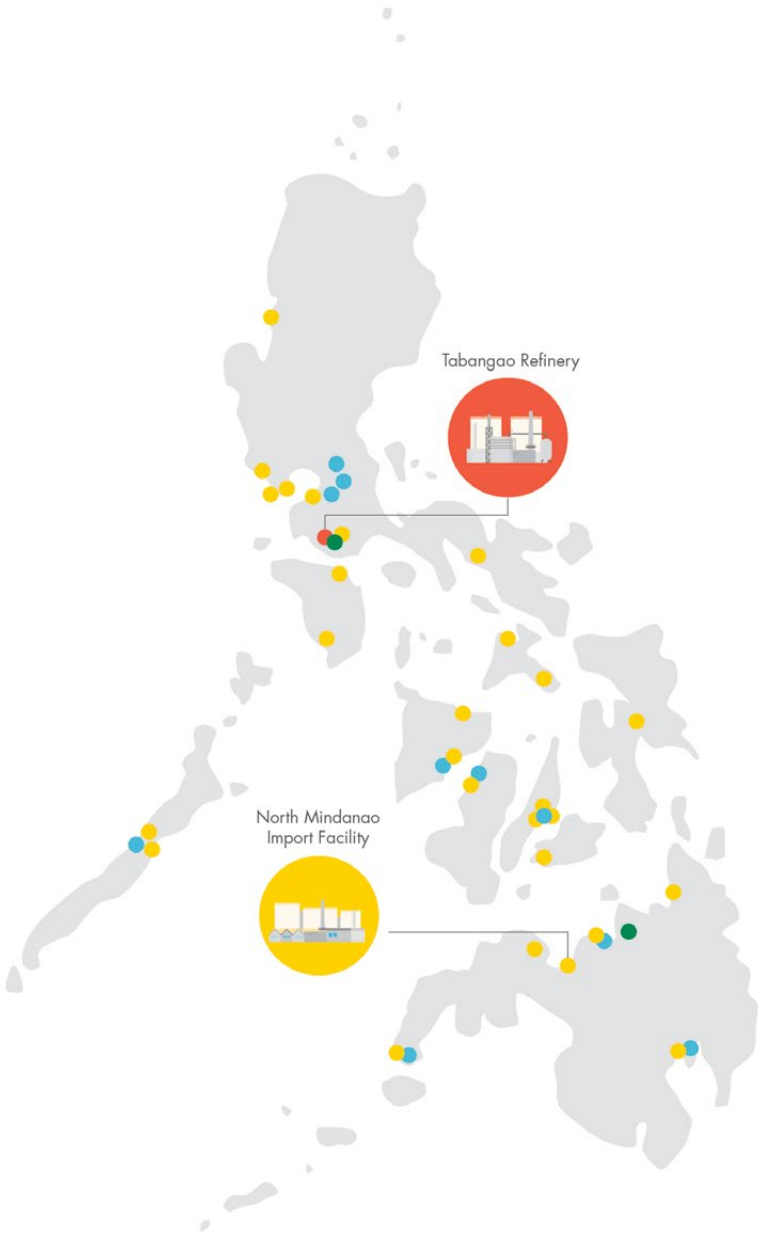
MANUFACTURING

Our refinery, located in Tabangao, Batangas City, is one of only two refineries in the Philippines. Built in 1962 and expanded in 1995, the Tabangao Refinery distills different types of crude oil and produces a wide range of

high-quality petroleum products such as diesel, gasoline, kerosene, fuel oil, aviation fuel, sulphur, and liquefied petroleum gas (LPG). After the 2015 upgrade, it can now produce diesel and gasoline compliant with Euro IV (PH) emission standards.

OUR INFRASTRUCTURE AND FACILITIES

(102-4)



REFINERY (1)

BITUMEN IMPORT FACILITIES (2)

LUBRICANTS WAREHOUSES (10)

FUEL TERMINALS AND SUPPLY POINTS (27)



# CORPORATE GOVERNANCE

Adhering to sound corporate practices is critical to our continued success as a company. We continuously seek to improve our governance based on our core values, and the Shell General Business Principles, which remain fundamental to how we conduct our business.

Mindful of how we maintain our legal reputation, our credibility as a business partner, and our responsibility to the public, we are guided by our Code of Conduct.

In line with our listing in the Philippine Stock Exchange (PSE) in 2016, we adopted a Revised Manual on Corporate Governance, which was disseminated to our businesses and functions, with one copy under custody of the Human Resources Department.

Among the updates and changes in 2017 are the restructuring of the Board of Directors and a renewed Board Audit and Risk Oversight Committee, redefined functions and responsibilities of the Board members, and the appointment of the committee chairmen, officers, and members.

Notably, the roles of Chairman of the Board and Chief Executive Officer cannot be held by the same person or by two people related to each other. Currently, the Chairman of the Board is a Non-executive Director.

The restructuring further enhanced the independence of the Board’s committees:

The new **Corporate Governance (CG) Committee** is tasked with the implementation and review of the corporate governance framework, and adopts the functions formerly assigned to the Compensation and Remuneration Committee. It is composed of four members, at least three of whom are independent directors, including the committee chairman. The fourth member is the Chief Compliance Officer.

The **Board Audit and Risk Oversight Committee** (formerly the Board Audit Committee) assists in the management of internal controls, accounting policies, and financial reporting of the Board. It is composed of at least three non-executive directors, preferably with an accounting and finance background, with at least one independent director (also the committee chairman). A Corporate Assurance and Audit Manager is now appointed to support internal audits.

The **Related Party Transaction (RPT) Committee** is tasked with the review of the Related Party Transaction Policy, and oversight in terms of its implementation. At least three of the members must be non-executive directors, with two of them being independent directors, including the committee chairman.

The **Corporate Social Responsibility (CSR) Committee** performs oversight over Health, Safety, Security, Environment, and Social Performance (HSSE&SP) functions and is also tasked with the review of the sustainability-related content of the Company’s Annual and Sustainability Report prior to its issuance. The committee is currently composed of at least three non-executive directors and one independent director.

The **Nomination Committee** is tasked with the oversight of the nomination and appointment of new directors to the Board. These appointments are subject to a nomination and election process under the Revised Manual, committee guidelines, and best practice recommendations. The committee is currently composed of three members, one of whom is an independent director.



Each Board member is inducted on Pilipinas Shell’s financial, strategic, operational, and risk management position, and the role of the Board committees. Directors and key officers are also invited to attend corporate governance workshops.

## INVESTOR RELATIONS

We comply with the reportorial requirements under the Securities Regulations Code and the Company’s own Revised Corporate Disclosure Guide.

Directors provide information on their business interests and positions held in other corporations (i.e. “full business interest disclosure”), and their “independence” is assessed.

We release all pertinent information, including our directors’ attendance at Board meetings, and the minutes of the meeting as they pertain to voting behaviour, which are made accessible to all shareholders.

Disclosures made in 2017 include the following:

- Disclosure of Results of Stockholders’ and Board Meetings
- Disclosure of Public Ownership Report
- Disclosure of Top 100 Stockholders
- Disclosure of changes in beneficial ownership of directors, officers and principal stockholders
- Disclosure of Annual and Quarterly Report
- Disclosure of Financial Statements

In line with the Company’s responsibility to its shareholders, briefings are regularly conducted to keep investors and analysts updated on developments. In addition, we attend investor conferences, participate in roadshows, and welcome one-to-one investor meetings.

## PERFORMANCE CHECKS

Our business ethics is anchored on our Anti-Bribery and Corruption Policy, and the Anti-Money Laundering and Antitrust laws. We believe in fair competition, and as a publicly listed company, we have also adopted the Securities Dealing Code. Perceived non-compliance or unethical behaviour may be reported to a dedicated ethics and compliance officer through the Shell Ethics and Compliance Office (SECO) or via the Shell Global Helpline. **(102-17)**

All business managers must sign off their respective annual Business Assurance Letters stating their compliance with relevant laws and regulations; at the Board level, both the Chief Executive Officer and Chief Audit Executive are also obliged to attest in writing that a sound internal audit, control and compliance system is in place and working effectively.



# BOARD OF DIRECTORS

In 2017, an experienced Board of 11 Independent, Non-executive, and Executive Directors represented the interests of the Company's shareholders.

**Asada Harinsuit**, Thai. Current Chairman of the Board, and a Non-executive Director since 2016. He is the Vice President - Retail East (ASEAN, India, and Middle East) and Country Chairman of Shell Companies in Thailand. He joined Shell in 1985, and has held various roles at local, regional, and global levels across Shell's downstream business.



**Mona Lisa B. de la Cruz**, Filipino. Non-executive Director since 2015. She is the President and COO of Insular Life Assurance Company, Ltd., and the Director and President of Insular Investment Corporation, Insular Property Ventures, Inc., and Insular Properties, Inc. She is also a Director of MAPFRE Insular Insurance Corporation.



**Dennis G. Gamab**, Filipino. Vice President - Trading and Supply of the Company since 2010, and Executive Director since 2016. He joined Shell in 1987, and has been involved in supply and distribution, road transport, logistics, installation, lubricants, and depot management at local and regional levels across Shell's downstream business.



**Cesar A. Buenaventura**, Filipino. Independent Director since 2012. He joined the Company in 1956, and served as its Chairman and Chief Executive Officer from 1975 to 1990. He is the Founding Chairman of the Pilipinas Shell Foundation, Inc., and the Chairman of Buenaventura, Echauz, and Partners, Inc. and of Mitsubishi Hitachi Power System Philippines.



**Anabil Dutta**, Indian. Non-executive Director since 2016. He is the Regional Finance Manager of the East Manufacturing and Chemicals business of the Shell Group of Companies since 2014. He has 29 years of experience in finance and management from working in multinational companies such as Colgate-Palmolive, and American Express Bank.



**Fernando M. Zobel de Ayala**, Filipino. Independent Director since 2012. He is the President and COO of Ayala Corporation, one of the Philippines' largest conglomerates. He is also the Chairman of Ayala Land, Inc. and the Manila Water Company, and sits on the Board of the Bank of the Philippine Islands, Globe Telecom, and the Ayala Foundation.

**Lydia B. Echauz**, Filipino. Independent Director since 2017. She is also a Director of Metro Pacific Investments Corporation, D&L Industries Inc., PLDT Beneficial Trust Fund, Philstar Group, BusinessWorld Publishing Corporation, Global Business Power Corporation, Riverside College Inc., and Fern Realty Corporation.



**Cesar G. Romero**, Filipino. Current President and Chief Executive Officer of the Company, and Executive Director since 2016. He is also the Vice President - Global Retail Network since 2013. He joined Shell in 1987, and has held various roles in refinery, supply planning, strategy, and lubricants at local, regional, and global levels across Shell's downstream business.



**Jose Jerome R. Pascual III**, Filipino. Current Vice President - Finance and Treasurer of the Company, and Executive Director since 2016. He is the Chairman of the Boards of Trustees of the Shell companies in the Philippines Multi-Employer Retirement Plan, and the Shell Philippines Exploration B.V. Non-Contributory Retirement and Gratuity Fund. In 2017, he received the Management Accounting Hall of Fame Award from the Institute of Certified Management Accountants-Philippines.



**Nina D. Aguas**, Filipino. Non-executive Director since 2016. She is the Chairman and Chief Executive Officer of Insular Life Management and Development Corporation, and the Chairman and President of Insular Life Property Holdings, Inc. She is also a Director of Union Bank of the Philippines.



**Anthony Lawrence D. Yam**, Filipino. Current Vice President - Retail Business of the Company, and Executive Director since 2012. He is also a Director of the Brunei Shell Marketing Company since 2016, and of other Shell-affiliated companies in the Philippines. He joined Shell in 1986, and has held various positions at local and regional levels across Shell's downstream business.







A REVITALISED BOARD

After Pilipinas Shell went public, the most striking change in the composition of the Board of Directors (BOD) was a greater balance between executive and non-executive directors: seven are non-executive directors, including the current Chairman of the Board and the three independent directors; and the remaining four are key officers in management, including the President and Chief Executive Officer.

“Some additional adjustments had to be made to follow global standards. Separating the Chairman of the Board and President/Chief Executive Officer positions, adding committees on the Board and an additional independent director are all part of this process. These decisions will give the Board greater diversity and make it more independent,” said Fernando Zobel de Ayala, President and Chief Operating Officer of Ayala Corporation, and an Independent Director of Pilipinas Shell since 2012.

Boardroom relations are now enriched by a melding of different perspectives, and a wealth of experiences and management styles. As it stands, Pilipinas Shell has a Board of 11, two of whom are non-Filipino, three of whom are women.

“[Pilipinas] Shell’s management makes sure that the Board is well informed. The Chairman of the Board encourages very open discussions during Board meetings. The members of the Board are quite diverse, have a wealth of experience and provide different points of view. I feel that the discussions either reinforce the strategies of management or provide a different point of view to consider,” said Fernando Zobel de Ayala.

Staying true to our values

Though the Board’s composition may have changed, it follows the same values and general business principles that are the bedrock of Pilipinas Shell.

“Transparency and accountability have been

ingrained in us even when we were a private corporation. So it’s not something new; it’s now being mandated that you do it, but in practice, [Pilipinas] Shell has [always] had this culture of being quite open in doing business,” pointed out Cesar A. Buenaventura, who rose from the ranks to become the first Filipino Chairman and Chief Executive Officer of Pilipinas Shell. He has been an Independent Director of the Board since 2012.

Another thing that hasn’t changed: Pilipinas Shell’s knack for spotting talented managers, which makes leadership transitions easier. “They build talent, they recognise talent. They develop competencies, so whoever is there will be well prepared,” said Mona Lisa B. de la Cruz, a Non-executive Director since 2015, and the first female elected to the Board. “It’s a testament of their confidence in the capabilities of the Filipino. Worldwide, they have a number of Filipinos in high positions, in other countries.”

Caring for the Filipino

De la Cruz is also President and Chief Executive Officer of The Insular Life Assurance Company, Ltd., a major investor in Pilipinas Shell. She sees parallels between Insular Life and Pilipinas Shell, which were both established in the early 1900s.

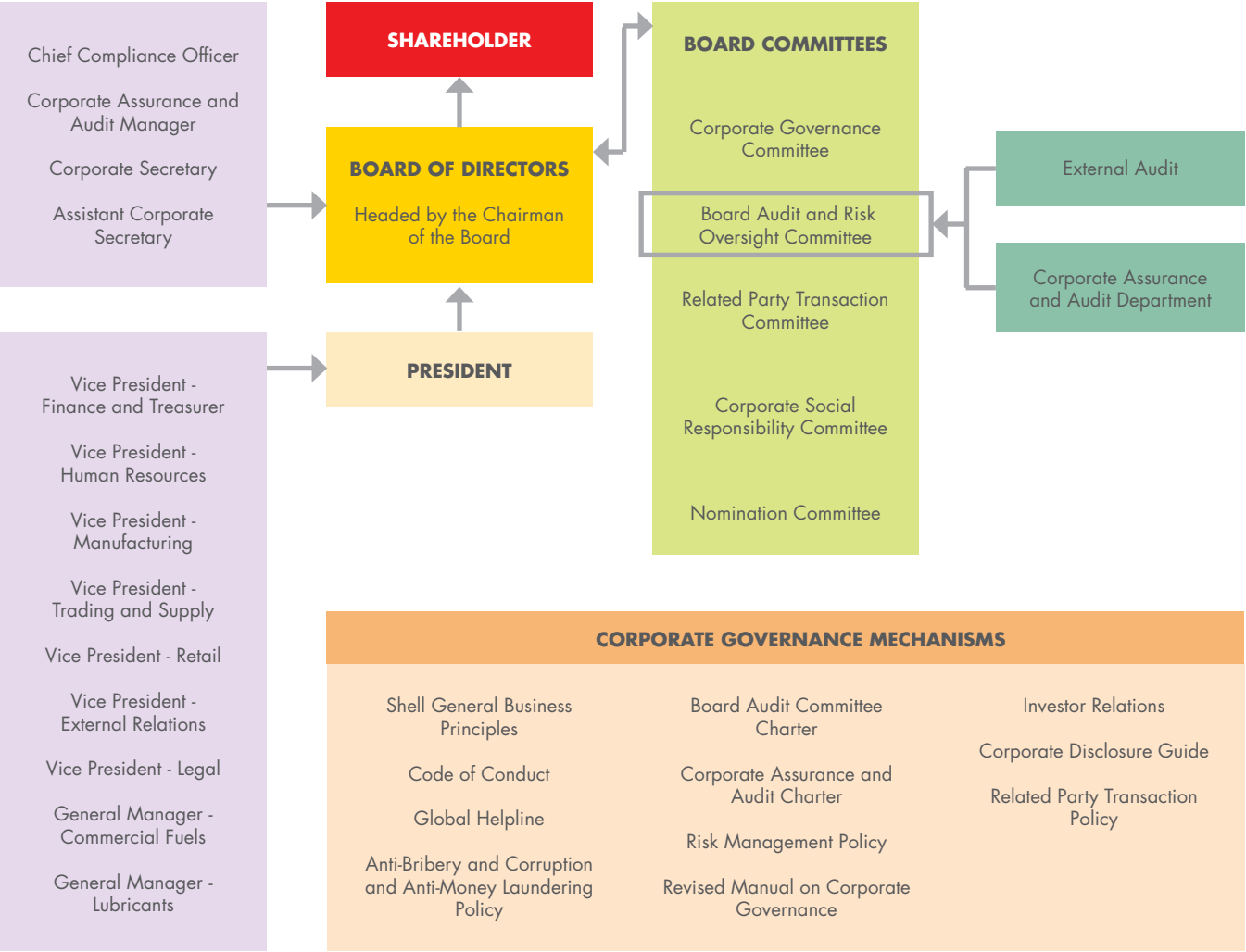
“The fact that they have invested in the Philippines, and contribute to economic growth and to job creation, and upgrading of the knowledge of the people – it’s aligned with our purpose also as a Filipino life insurance company. We uplift the Filipino and are highly competitive as we are standing shoulder to shoulder with foreign giants in the

insurance industry in the country,” she asserted. “When we talk about [Pilipinas] Shell in Insular Life, it’s with pride, because it’s a trophy investment. It represents a long-term investment in the Philippines, a consistent and long-term partnership and one that gives us good returns.”

Currently, 24.8% are owned by various minority shareholders. “We have small shareholders who have put their life savings into Shell,” said Buenaventura. It is the obligation of the Board and management to act in a manner that will be most beneficial to these stakeholders.

“Sustainability is contributing to the general welfare, and to the prosperity of the country, and being relevant to the customer. You’re able to see to the satisfaction of your customer and you’re not just in there for profit. Being a good citizen, you maintain the highest standards of quality and service,” he said.

CORPORATE GOVERNANCE FRAMEWORK (102-18)





# OUR APPROACH TO SUSTAINABILITY

For more than a century now, Pilipinas Shell has produced and distributed high-quality energy products in the Philippines. Our longevity as a corporate entity, and our continued investment in the country and in the Filipino, are manifestations of our commitment to sustainability.

Beyond compliance or competitiveness, sustainability is a way of living out our corporate values and it is embedded into our Revised Manual on Corporate Governance. We see sustainability as integral to every aspect of our business; therefore, we seek to meet the energy needs of an ever-growing population in ways that respect people, maintain safety, and protect the environment.

Adopting the Shell global framework, our approach to sustainability is integrated across our business operations at three levels.





**RUNNING A SAFE,  
EFFICIENT, RESPONSIBLE  
AND PROFITABLE BUSINESS**

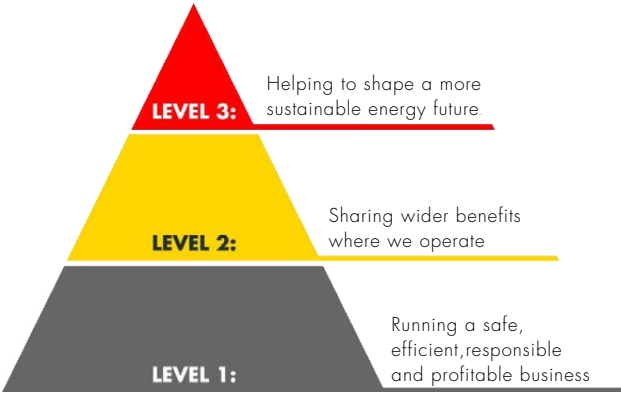
We have global standards, processes, and tools in place to manage safety, the environment and community involvement. We aim to continuously improve the way we operate to prevent incidents and identify, avoid where possible, and minimise adverse environmental and social impacts across our projects and facilities. We also report on our performance in our Annual and Sustainability Report.

**SHARING WIDER BENEFITS  
WHERE WE OPERATE**

Being a good neighbour and sharing the responsibility of nation-building is part of sustaining our business in the long-term. We help to develop local economies by creating jobs, sourcing from local suppliers, and paying taxes. We support community projects that are based on the needs of the local communities.

**HELPING TO SHAPE A  
MORE SUSTAINABLE  
ENERGY FUTURE**

In the coming decades, more and cleaner energy will be needed for economic development in the face of growing environmental pressures. We continue to contribute to the public dialogue on energy and climate policy. Yet, the global challenges that the world faces are too great for one company, or one sector, to resolve. We advocate that businesses, governments, and civil society work together to better shape a more sustainable energy future.



**GLOBAL COMPACT NETWORK PHILIPPINES  
MEMBERSHIP (102-12)**

Pilipinas Shell is an active founding member of the Global Compact Network Philippines (GCNP), the local entity of the United Nations (UN) Global Compact, which is the largest corporate sustainability initiative in the world.

Formed in 2000, the UN Global Compact seeks business solutions to sustainable development. It guides companies to do well by operating responsibly, taking bold actions, and bringing the voice of responsible business to dialogues with world leaders.

GCNP’s goal is to promote collaboration – primarily among business corporations, with support from the government, academia, and NGOs – so that companies may practice the Ten Principles on human rights, labour, environment and anti-corruption, and so that a wider scope of programmes may be implemented toward achieving the country’s SDGs.

By actively participating in the GCNP, we at Pilipinas Shell not only strengthen our local affiliations, but we also gain access to tools and reports that we use to better inform and fine-tune our own programmes.

**RUNNING A SAFE,  
EFFICIENT, RESPONSIBLE,  
AND PROFITABLE  
BUSINESS**

We have global standards, processes, and tools to manage safety, the environment, and community involvement. We aim to continuously improve the way we operate to prevent incidents and identify, avoid where possible, and minimise adverse environmental and social impacts across our projects and facilities. We also report on our performance in our Annual and Sustainability Report.



# FINANCIAL PERFORMANCE

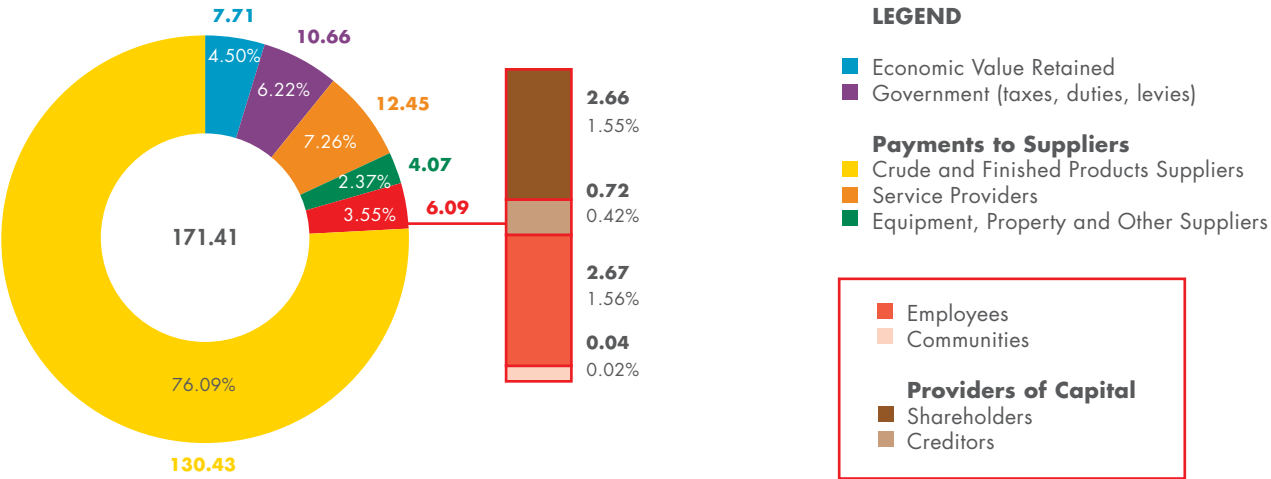
We conduct our business responsibly to attain sustainable profitability and deliver value to our stakeholders. To contribute to a sustainable energy future, it is critical that we also manage our financial performance.

Pilipinas Shell is expected to maximise value, maintain cash flow, manage costs, and generate strong returns for shareholders. All these contribute to the longevity of the business, and help us fulfil our mandate. (103-1)

Business Performance Management (BPM) is our principal tool to monitor, manage, and meet the Company’s business goals. Below are the four steps of our BPM: (103-2)

- 1. Strategic Planning.** Management develops a strategic and medium-term plan that is:
- a. Credible. Specific interventions are laid out to deliver the plan;
  - b. Competitive. Ambitious goals are set to achieve competitive returns within the planning period; and
  - c. Affordable. The plan is achievable with the resources available.

2017 ECONOMIC VALUE GENERATED AND DISTRIBUTED (in Php billion) (201-1)



- 2. Operational Planning.** Strategic plans with one-year and three-year targets are operationalised by the businesses. After securing approval from the Board of Directors, capital is allocated to support these plans.
- 3. Reporting.** Businesses report if their financial and operational targets have been met, and which areas need improvement.
- 4. Appraisal.** The Board of Directors and upper management appraise the overall performance of the businesses of Pilipinas Shell.

It is the Board’s responsibility to foster the long-term success of Pilipinas Shell. Board-level quarterly operational updates and reviews are done to evaluate the effectiveness of our strategy against set targets and key metrics for financial performance. Upper management also holds monthly meetings to discuss our financial and operational performance. Monthly finance forums and regular business meetings are also conducted to serve as our primary controls for evaluating performance at the business and function level. (103-3)

In 2017, Pilipinas Shell generated a direct economic value amounting to Php 171.41 billion, of which Php 2.67 billion and Php 2.66 billion were distributed to employees and shareholders, respectively, and Php 400 million invested in community development.

# OPERATIONAL EXCELLENCE

Beyond cost management, we also measure our operational performance. We track our “No More Big Stuff” Health, Safety, Security, and Environment (HSSE) targets of zero fatality and zero significant recordable events. We also track what we call the “Four Halves,” namely: Process Safety, Personal Safety, Transport Safety, and Environmental Impacts.

The way we conduct our business is equally important as the quality of our products and services. We train our people to continuously look for improvement opportunities within our operational processes. Through programmes like the Excellence Every Day VP Award, we recognise personnel for the outstanding performance of their duties.

The 2017 Shell People Survey (SPS) showed respondents giving Pilipinas Shell 78% for operational excellence (compared to Shell’s overall score of 72% and the top quartile benchmark of 77%) and an average score of 86% for being a “responsible business” (against 81% for Shell, and 85% for the top quartile benchmark).

## FUELLING LEGACY AND INNOVATION



Retail remains the largest growing segment of the business, and contributes a significant portion of our total sales.

Our Retail business ranked 6<sup>th</sup> in profitability and 9<sup>th</sup> in sales volume versus other Shell Retail businesses globally in 2017.

“We sell more per station than any other company in the marketplace,” observed Cesar A. Buenaventura, independent director and former Chief Executive Officer of Pilipinas Shell.

At less than half the retail network footprint of our closest rival, we compete in terms of operational efficiency, quality products, and customer service.

## A legacy that spans generations

Pilipinas Shell’s 1,000th retail station, located along Greenfield Parkway, Eton Road in Sta. Rosa, Laguna, opened in May 2017. Dubbed the “Makati of the South,” Sta. Rosa has become a bustling business, residential, and commercial district.

“We are very excited to contribute to the growth of this area,” said Jenny Tan, owner and operator of Shell Eton Road.

Tan’s grandfather was also a Shell distributor, while Tan’s father operated their family’s first Shell retail station. She entered the business in 1996 and now manages 11 Shell retail stations—the largest cluster surrounding the South Luzon Expressway (SLEX). Her success is one example of Pilipinas Shell’s enduring relationships with retailers that span generations.

## Redefining the retail station concept

Pilipinas Shell gives motorists a truly satisfying stopover experience. Apart from refuelling and maintenance and repair services, our customers can also find Shell Select, quick-service restaurants, ATMs, deluxe comfort rooms, and Pilipinas Shell’s latest café concept offering, deli2go, in Shell stations.

“We understand that the needs of our customers are evolving,” said Anthony Lawrence Yam, Vice President - Retail of Pilipinas Shell. “Our food at deli2go does not compromise on the taste and quality that Filipinos deserve.”





## SAFETY DAY AT SHELL: Working together for everyone's safety

2017 marks the 11<sup>th</sup> year that Pilipinas Shell observed Shell Safety Day.

Safety Day, an annual event held by Shell worldwide, engages Shell employees and contractors to improve their safety performance.

In the Philippines, Safety Day has been observed for 11 years, most recently on May 10, 2017 with renewed focus on three Safety Leadership themes: Care, Risk Normalisation, and Dilemmas.

Some retail stations took the opportunity to tie up with organisations that would lend their expertise on safety and security. The Shell station in Kapalong, Davao del Norte, for one, partnered with the Kapalong Municipal Police Station to conduct an information campaign on crime prevention and illegal drugs.

Meanwhile, Shell Aviation (SAV) Philippines combined fun and games with a formal lecture and sharing sessions. Participants included station managers, ground crew, and suppliers who are regular ramp users. "We invited not only our [airline] customers, but also all the airport users," said Boyet Pastrana, Airport Operations Manager.

### Goal Zero Day at Shell Aviation

SAV Philippines also held Goal Zero Day on October 11, 2017. The event taught personal, process, and transport safety to airport users.

The occasion marked two milestones of SAV's Into-Plane Operations: 7,002 days of no harm, and 3,715 days of no leaks. As of December 2017, the record has gone up to 7,093 days of no harm, and 3,806 days of no leaks — bringing SAV closer to a Double Platinum Award for Safety to add to their platinum and gold trophies since 1998.

Through the years, Shell Aviation in particular has been very focused on teaching safety protocols in the airport.

"Since [we have celebrated Safety Day and Goal Zero Day], we have had no troubles. We are the priority in positioning under the aircraft, because now they understand our concern about safety," said Pastrana.

## ASSET INTEGRITY AND PROCESS SAFETY

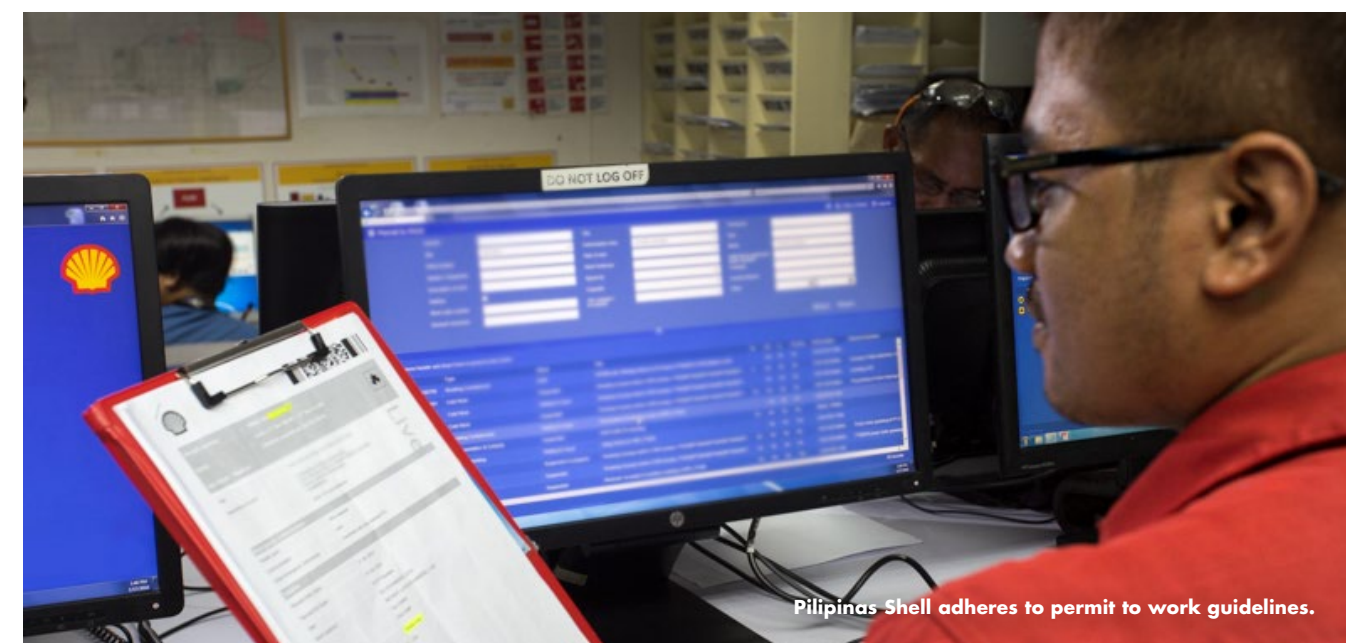
At Pilipinas Shell, we conduct our operations responsibly and abide by stringent policies on asset integrity and process safety at all levels. Our leaders fully understand the process safety risks and require controls to educate and engage their employees in delivering the right outcomes. **(103-1)**

We follow the Health, Safety, Security, Environment, and Social Performance (HSSE&SP) Control Framework regarding asset management and safety processes. We make sure our assets are fit for use and work to preserve their integrity through regular maintenance and inspections. We follow procedures that should reduce chances of a technical breakdown or a safety incident, such as a leak, fire, or explosion. Our vigilance minimises the risk of harm to our people, and enables the Company to be a good neighbour in the communities where we operate. **(103-2)**

We have various asset integrity management procedures that are implemented based on Shell's Global Manufacturing Standards and Best Practices. It is embedded in the 22 Requirements of the Process Safety section of the HSSE&SP Control Framework. **(103-2)**

Examples of these safeguards include:

1. Design and Engineering Manuals (DEM)
2. Design and Engineering Practices
3. Process Safety Basic Requirements
4. Manufacturing Site Requirements Manual
5. Pressure Equipment Integrity Management Standard



Pilipinas Shell adheres to permit to work guidelines.



ASSET INTEGRITY PRINCIPLES

Asset integrity refers to the way we manage our facilities throughout their complete life cycle with the goal of never unintentionally releasing hazardous material. We follow four asset integrity principles: Design Integrity, Technical Integrity, Operating Integrity, and Integrity Leadership.

1. Design Integrity

This requires design engineers to assess the Process Safety risks of proposed facilities, and design and build assets to specific engineering standards:

DEM1 defines the Process Safety requirements in technical standards for design and construction that have a direct relationship to the control of process hazards with risk assessment. DEM2 focuses on preventing the re-occurrence of known major process safety incidents by addressing the main causes and key barriers.

2. Technical Integrity

This involves maintaining hardware through proactive testing, inspection, maintenance and repair following the Shell Global Reliability and Integrity maintenance plan. It's critical that inspection, monitoring, preventive maintenance and equipment repairs preserve the design integrity of the asset throughout its operating life.

3. Operating Integrity

This means operating all our facilities within the prescribed operating envelope from startup to shutdown. We define and comply with operating procedures, especially critical processes such as permit to work systems, use of safeguarding systems, and change management.

In managing operational risks, we operate our facilities using a Front Line Barrier Management (FLBM) programme to prevent the occurrence of undesirable incidents or limit the consequences in the event of such incidents.

4. Integrity Leadership

This describes the accountability of business leaders to ensure our assets are safe through all phases of their life cycle.

Championed by our President and Chief Executive Officer, safety is mandated as everybody's responsibility. Business and function heads, and HSSE managers, work together to ensure everyone understands and adheres to the HSSE&SP Control Framework. The Asset Manager assigns the roles and responsibilities for the operation of the asset, in compliance with the control framework. (103-2)

At the refinery, various managers are accountable on the requirements of Asset Integrity and Process Safety Management (AI-PSM), as specified in the control framework. This includes setting expectations, prioritising, and assigning resources. (103-1)

MANAGING PROCESS SAFETY

All our physical assets are well-designed, properly maintained, and safely operated. We implement a process safety management system to achieve our Goal Zero ambition of "no harm, no leaks" across all operations

Our supply and distribution arm adheres to an Asset Management Policy that helps prevent process safety incidents. (103-2)

For maritime safety, we follow the Shell Maritime Safety Requirements for Design, Engineering, Construction and Operations. (103-2)

Similarly, road transport has its own checks and safeguards. Vehicles used by field-based staff (e.g. Retail Territory Managers, Account Managers, etc.) must be rated at least four stars in the Global New Car Assessment Programme (NCAP), as vetted by our Global Road Safety Technical Expert. NCAP-4 rating indicates overall good performance in crash protection, with additional crash avoidance technology. Meanwhile, our contracted lorries follow the Shell Global Vehicle Standards, and are checked via the Road Transport Pillars audits to ensure that all safety requirements are met. (103-2)

For aviation equipment maintenance and operational safety, Pilipinas Shell follows the Shell Aviation Maintenance Manual (SAMM), Shell Aviation Quality System (SAQS), and Shell Airports Operations Manual (SAOM). (103-2)

At the refinery, we have an everyday zero incident target on Tier 1 and Tier 2 Loss of Primary Containment (LOPC) following the American Petroleum Institute (API) guide to reporting process safety. Certain mechanisms are implemented: permit to work; focused inspection programme for LOPC surveillance; process isolation using Lock-out Tag-out (LOTO) system; levelling up maintenance by doing mechanical handover to operations; and heightening operational discipline using a structured competency assessment for frontline. We also use an electronic system that monitors our employees' exposure to work-related hazards at any given time. (103-2)

BEHAVIOUR-BASED SAFETY PROCESS

Visitors at Shell House must undergo a safety briefing before being allowed past the reception lobby. Similar safety protocols apply in fuel terminals and other shell office facilities. Prior to any activity, participants are oriented on the safety rules and the location of emergency exits.



Pilipinas Shell employees regularly discuss insights related to HSSE.

We foster a culture of safety and abide by the Shell Golden Rules, prominently displayed at various sites to remind us to:

- 1. Comply with the law, standards, and procedures;
- 2. Intervene in unsafe or non-compliant actions; and
- 3. Respect our neighbours.

Compliance to the Golden Rules extends to our contractors, as the Goal Zero ambition is embedded in our contracts, and articulated in the Contractor HSSE Manual.



12 LIFE-SAVING RULES

We follow the 12 Life-Saving Rules, which set out clear-cut “dos and don’ts” that cover activities with the highest potential safety risk. The rules help us ensure safety of operations and protection of our people. (103-2)

We conduct Toolbox Talks with contractors and third-party operators in the terminals to discuss tasks, operational issues, and safety considerations. Those who are not yet acquainted with the 12 Life-Saving Rules are oriented. Experienced employees are asked to share their HSSE insights. (103-2)

We also follow a Stop Work Policy, wherein a Shell employee or contractor is obliged to immediately suspend work when they discover an unsafe condition or act, such as personnel lacking personal protective equipment. Work resumes only after the unsafe condition has been rectified. (103-2)



Work with a valid work permit when required.



Conduct gas tests when required.



Verify isolation before work begins and use the specified life protecting equipment.



Obtain authorisation before entering a confined space.



Obtain authorisation before overriding or disabling safety critical equipment.



Protect yourself against a fall when working at height.



Do not walk under a suspended load.



Do not smoke outside of designated smoking areas.



No alcohol or drugs while working or driving.



While driving, do not exceed speed limits. Also, refrain from texting or calling on your mobile phone; instead, place your mobile on “Do Not Disturb” mode. If you use the phone as a navigational tool, activate voice guidance as a precaution.



Wear your seat belt.



Follow prescribed Journey Management Plan.

INCIDENT RESPONSE AND REPORTING

Incidents are reported and investigated following internally established standards and regulatory requirements. Pilipinas Shell utilises a unified information and communications technology (ICT) system called Fountain Incident Management (FIM) to report, review, and follow up on investigation results. It allows employees and contractors to report incidents, potential incidents, near misses, investigations, and action items, on a web-based database. The combined data pool in the FIM system allows for in-depth trend analysis and reports. By using one sharing tool, all Shell companies and third-party contractors can learn and work together more efficiently to prevent safety incidents. (103-3)

Number of process safety events, by business activity (OG13)

Due to our immediate response, the two cases each of Tier 1 and Tier 2 process safety incidents did not result in any fire or injury, nor affect the continuous supply of fuel products to the market:

| PROCESS SAFETY EVENTS (PSE) <sup>1</sup> | NARRATIVE PER API RP 754                                 |
|--|--|
| Tier 1 <sup>2</sup>                      | Hydrocarbon oil leak coming from a portion of a pipeline |
|  | Hydrocarbon leak coming from a flange                    |
| Tier 2 <sup>3</sup>                      | Hydrocarbon LOPC from the removal of a blind flange      |
|  | LOSC <sup>4</sup> from a cold stream from a cooler       |

<sup>1</sup> A Process Safety Event (PSE) is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable materials (e.g. steam, hot condensate, nitrogen, compressed CO2 or compressed air).  
<sup>2</sup> A Tier 1 Process Safety Event (T-1 PSE) is a loss of primary containment (LOPC) meeting a threshold as defined by API RP 754.  
<sup>3</sup> A Tier 2 Process Safety Event (T-2 PSE) is a LOPC with lesser volume of release than a Tier 1.  
<sup>4</sup> Loss of Secondary Containment

We have the necessary resources and competencies to deal with spills, leaks, fires and explosions. Our emergency response plans are routinely tested and improved after simulation exercises. We conduct drills to make sure that our employees and contractors can respond rapidly to an incident.

EVALUATION

Control Framework Audits and Integrated Assurance Plans (IAP) check the effectiveness of our management approach. The IAP involves a three-tier Line of Defence (LOD):

- LOD 1:** Internal self-assurance and checklist;
- LOD 2:** Peer review, which involves global and regional teams of subject matter experts that conduct evaluations across businesses; and
- LOD 3:** An independent review conducted by representatives from the Global HSSE&SP Assurance team. (103-3)

HSSE KPIs are regularly monitored to re-evaluate business plans in the short- (3-6 months) and long-term (one year). Management reviews, regular reports, and field walks help us identify and manage potential safety risks, and prevent their recurrence.

We also conduct an annual Assessment of Risks and Responses at Worksites of Shell (ARROWS), which is led by the Country Coordinating Team (CCT). This assures excellence in risk control management, prevention of HSSE-related incidents, and emergency response capabilities. (103-3)

Our monthly technical forum aids in the investigation of incidents and serves as a venue to discuss HSSE insights and improvements. (103-3)

Altogether, these evaluation mechanisms and business audits provide valuable input and enable us to meet our management commitments and to operate in a safe manner. (103-3)



## 55 YEARS OF SAFE AVIATION

Refuelling an aircraft is a complex process. At age 52, Nehemias B. Salaver, Shell Aviation (SAV) Philippines operator, makes it look easy. He goes through a precise sequence of steps — positioning the fuel tanker; making the necessary grounded connections between aircraft tank and hydrant; checking the gauge, opening valves, and activating fuel delivery — all within 15 minutes. Then he calmly reverses his steps and moves on to the next aircraft, navigating through the airport traffic.

Salaver joined SAV in 1987 as a contractor for maintenance, fresh off his scholarship under the Sanayan sa Kakahayang Industrial (SKIL) programme of the Pilipinas Shell Foundation, Inc. “If you don’t study all the functions, you’ll limit what you can do. I learned, so I don’t get nervous, even when the auditor asks questions,” he said, in Filipino.

### A premium on safety

SAV is audited annually, solidifying its reputation of being a responsible business. The heart of its operations is situated in the Joint Oil Companies Aviation Fuel Storage Plant (JOCASP) within NAIA. These are premises

shared by Chevron and Petron since 1962. SAV escalated its advocacy when a contractor was involved in an incident at JOCASP in 1998.

“One of our goals is to bring HSSE to the highest level of consciousness. The dilemma for us, in a joint venture environment, is that we do not have sole responsibility. So we try to share our knowledge and influence,” said Melchor “Jun” Abina, Jr., SAV Country Operations Manager.

SAV is active in the Operations Committee and the HSSE Working Group at NAIA, and tries to intercede where there are unsafe conditions. When NAIA equipment proved insufficient to detect lightning strikes in 2014, for example, SAV furnished the Manila International Airport Authority (MIAA) with portable lightning detectors. “MIAA was able to establish a protocol. Eventually, they purchased their own equipment. Now, whenever there are lightning strikes within a 5-kilometre radius, MIAA issues a warning to stop operations,” Abina said.

SAV is also represented in the global Joint Inspection Group (JIG), which develops standards to govern the operation of shared fuel storage and handling facilities worldwide. Pilipinas Shell’s latest contribution has been to determine better controls to test aviation equipment and lower the risk of fuel-related incidents. Internally, the Company is already introducing a more efficient water separator. “You’re keeping your equipment and processes safe, and at the same time you’re keeping the passengers in the airlines safe,” said Abina.

### Bigger footprint, better impacts

For its 55<sup>th</sup> year, SAV expanded its refuelling network to include Mactan-Cebu International Airport (CEB), the second busiest terminal in the country. With this latest entry, Pilipinas Shell now supplies jet fuel at three of the key international airports in the country, including Manila (MNL) and Clark, Pampanga (CRK).

“Customers prefer Shell, they see how we work,” said SAV Manila Airport Operations Manager Boyet Pastrana, whose focus is safety. They’ve recorded 7,093 days of zero harm since 1998—that’s 1,893,944 safety man-hours for the past 20 years—and 3,806 days of zero leaks since 2007. SAV Manila was one of only three finalists for the Shell Diamond Award on Safety. This 2017, the business has been awarded another win by the Safety Organization of the Philippines (SOPH), and is slated for a Double Platinum Award from Shell Global HSSE.

Since 1998, the only “spots” in their record are from a seatbelt issue in 2013, and a moving vehicle issue in 2015. “We’re actually proud that we chose to report that isolated case of not wearing a seatbelt,” said Patrick Manalo, a supervisor whose focal is vehicular maintenance. “Regardless of the consequence, you own your mistake, and you don’t compromise on the safety of your co-workers.”

There are 14 members in the SAV Manila team: a country manager, a site manager, three supervisors, and nine into-plane operators. Many of them are long-time employees: Manalo is clocking 18 years;

Abina, 22; Salaver, 31; and Pastrana, 32. All operators are required to complete their Aviation Centre of Excellence (ACE) Training, which is renewed every three years. They are trained in safe and effective operations, including use of modern equipment, marketing support, supply security, and customer care. All three supervisors also undergo shifts in roles—from administration and purchasing, to vehicle maintenance, to safety.

“Our group has initiative. There’s always someone asking for another’s help to learn a new expertise,” said Manalo, in Filipino. “But the core is safety, and delivering the goods that we need to deliver. We excel at that.”

Ninoy Aquino International Airport (NAIA) has one of the busiest runways in the world:

# 108,995

international passenger flights logged in 2017<sup>1</sup>

On average, Shell Aviation (SAV) Manila serves:

# 36

international flights

# 25,000 litres

of Jet A-1 fuel per short-haul flight

# 100,000 litres

per long-haul flight

<sup>1</sup> Figures from the Manila International Airport Authority



# PERSONAL SAFETY, HEALTH AND WELLNESS

For Pilipinas Shell, there are two general approaches to the management of personal health and safety: risk-based task management and promotion of wellness among our people. **(103-2)**

Apart from the 12 Life-Saving Rules that our workers abide by, the Shell Health Manual specifies our approach and policy: we prohibit alcohol and drug use; practice fatigue risk management; and evaluate fitness to work of employees. If an employee is found to have a health condition that renders him or her temporarily unable to perform his or her usual activities at work, line managers would determine appropriate job activities while the employee recovers. **(103-2)**

Our service providers include Occupational Health Nurses (OHNs) and Occupational Health Advisers (OHAs) who are guided by Health Manuals from the HSSE&SP Framework. **(103-1)** We conduct Health Risk Assessments (HRA) for each of our work sites, and for every activity conducted therein. Through this HRA, we are able to identify, assess, and manage any potential risks to health of employees and contractors – whether chemical, biological, or physical hazards. Our OHNs make necessary changes and recommend adjustments to mitigate risks. **(103-2)**

If there are health-related incidents, the OHA and OHNs report on reasons for the incident and control measures breached or ineffective procedures. They are responsible for updating and elevating the issues to the HSSE focal on-site, who will then make further recommendations to the business for implementation. HSSE tracks recordable cases and lost time injury due to incidents.

We learn from our experience: post-incident evaluation prompts engineering to further improve our facilities – and avoid recurrence. **(103-3)**

## EMPLOYEE HEALTH SERVICES

|                         | TRC <sup>1</sup> FREE MAN-HOURS | YEARS TRC FREE |
|-------------------------|---------------------------------|----------------|
| Pilipinas Shell         | 6,906,064                       | 0.05           |
| Manufacturing           | 193,376                         | 0.05           |
| Supply and Distribution | 6,037,368                       | 1.58           |
| Retail                  | 13,484,158                      | 7.45           |
| Lubricants              | 3,486,318                       | 5.14           |
| Aviation                | 1,893,943                       | 8              |
| Specialities            | 3,605,906                       | 8              |
| Real Estate             | 1,646,682                       | 4.93           |
| Lubricants Supply Chain | 293,175                         | 2.60           |

<sup>1</sup> Total Recordable Cases

In 2017, Pilipinas Shell implemented a new scheme for the healthcare benefits of employees. Health and Human Relations collaborated to develop a programme utilising a combination of third-party administration and premium-based health care to provide medical benefits and coverage for Pilipinas Shell employees. This strategy enabled the Company to provide health care benefits to employees and dependents in a cost-effective manner. **(103-2)**

We have a Blood Supply Programme in partnership with tertiary hospitals. This makes it possible for employees and their immediate dependents in emergency situations to have immediate access to blood at no cost. We also conduct quarterly bloodletting activities, wherein blood is donated by our employees. Our Live Donors Programme also has volunteers that will donate blood at a moment’s notice. **(103-2)**

Pilipinas Shell prioritises human performance and care, where Resilience, Shell Be Well, and HIV/AIDS awareness and prevention are at the forefront. **(103-2)**



An employee receives a Wellness Talk from a healthcare professional at the Wellness Hub.

Employees benefit from the annual physical exam, where they are also given the opportunity to engage in a Wellness Talk with a healthcare professional. Having articulated their health and wellness goals, employees will be encouraged to commit to their goals through the Be Well Scorecard and participate in Shell’s health promotion activities. The scorecard serves as a personal tracker and reminder for employees to monitor their progress and help them achieve their goals.

## SHELL BE WELL PROGRAMME

Under the supervision of the Health Promotion Manager, the Shell Be Well programme promotes a healthy lifestyle and reinforces wellness and productivity among employees. It includes five aspects of wellness: (1) Eat Well, to recommend healthy food options; (2) Move More, to promote regular physical activity; (3) Breathe Well, which includes a smoking cessation support campaign; (4) Sleep Well, to address fatigue; (5) and Think Well, which empowers employees to build resilience. Pilipinas Shell also has a programme to help employees manage stress positively.

## WELLNESS HUBS

To further strengthen our approach to wellness, we transformed our clinics into Wellness Hubs in 2017, which now offer a more holistic and wide range of health services, such as skincare, optical, dental, and mental health services to our employees. There are currently three Wellness Hubs located at Shell House in Valero, Makati; the Tabangao Refinery in Batangas; and Cebu. **(103-2)**

Through the Breathe Well Programme, employees who wish to quit smoking could participate in the Weaning from Smoking Journey where support from the Wellness Hubs are felt. There is a wide array of smoking cessation initiatives offered, which include detoxification sessions, focused group discussions, and individual counselling.

Pilipinas Shell also conducts other health promotion activities throughout the year. Activities are scheduled every month according to identified themes. For example, February focuses on the heart, March is for the first quarterly blood donation activity, and July is Nutrition Month.

Overall, employees that participated in the wellness programmes showed marked improvements in lifestyle-related indices, such as reduced cholesterol levels and Body Mass Index (BMI) rates. Boosting employee health has also benefited the business: between 2015 to 2017, we achieved a 5% savings in our HMO costs attributed to the Be Well programme.

HIV/AIDS AWARENESS AND PREVENTION

Pilipinas Shell recognises that the issue of HIV/AIDS has an effect on our people and the overall business environment. In response, it seeks to create a supportive work environment and promote non-discrimination for employees living with HIV/AIDS, whether they are employees, contractors, customers or suppliers.

Our nurses and doctors in the Wellness Hub are certified counsellors for HIV/AIDS, and employees (and their dependents) may voluntarily avail of HIV/AIDS-related services, such as counselling, testing, and management. Pilipinas Shell’s efforts are intended to raise awareness, as well as reduce fear or stigma in relation to HIV/AIDS.

WELLNESS CHAMPIONS:  
PILIPINAS SHELL EMPLOYEES  
COMPETE IN GLOBAL CHALLENGE



For 2017, 56 teams, composed of seven members each, competed in the Global Challenge. This is the seventh year that Pilipinas Shell has enjoined employees to “move more” by taking a “virtual walk” around the world. The teams have a daily target of 10,000 steps, which is documented via an activity tracker. Since the challenges are done in teams, our employees feel supported while enjoying some friendly competition.

Pilipinas Shell even went beyond the 100-day challenge, extending our programme participation to six months to allow for a more holistic approach. It also extended a fun activity to motivate teams.

“I am more determined this year to join at least one of the health programmes, like the Global Challenge. With these programmes, I can see that if there are people who are willing to invest time and effort into living a healthy lifestyle, then so can I,” said Czarina Cabatay-Arabe, Sourcing Specialist, Contracting and Procurement.

Pilipinas Shell ranked third in the Virgin Pulse Global Challenge, formerly known as the Global Corporate Challenge (GCC), a 100-day challenge posed to companies worldwide to promote a culture of health and wellness in and out of the workplace. With the ranking, Pilipinas Shell bested more than 53,000 teams from up to 3,000 companies worldwide.

SUPPLIER  
ASSESSMENT

Our suppliers are our partners and they make it possible for us to deliver new projects and run our operations efficiently.

Our Contracting and Procurement team is responsible for nearly all of our purchases and contracts. The team works with our business managers to assess and evaluate potential suppliers.

Supplier pre-qualification ensures that our contractors and service providers comply with the Shell Supplier Principles and are able to effectively deliver our requirements. (103-1)

The Shell Supplier Principles outlines four principles that are important to us and the commitments that we expect from our suppliers:

- 1. Business integrity,
- 2. HSSE,
- 3. Labour conditions and human rights, and
- 4. Social Performance.

In accordance with our Shell General Business Principles and our Code of Conduct, we seek to work only with contractors and suppliers who contribute to sustainable development, and we purchase products and services that support our approach to sustainability.

Pilipinas Shell manages supplier assessment through the global Shell Supplier Qualification System (SQS), which was introduced in January 2012. It provides a streamlined process to supplier

pre-qualification by gathering data and making assessments that are aligned to Shell’s requirements. For high-risk contracts, HSSE checks are included to help us understand how suppliers manage these aspects and to ensure that they comply with Shell’s principles. Suppliers’ pre-qualification results are valid for three years, after which, they must undergo the process again to ensure that they are still compliant with requirements.

Pilipinas Shell also has internal controls to ensure that we comply with the regulatory frameworks that govern contracting and subcontracting agreements, as mandated by the Department of Labour and Employment (DOLE). Anti-bribery and corruption (ABC) due diligence obligations are incorporated into high-value contract assessments to avoid significant risks related to supplier transactions. On a yearly basis, we conduct workshops on ABC and HSSE compliance for suppliers to help them meet the SQS requirements. (103-2)

We also conduct regular business performance reviews with suppliers. This enables us to monitor their adherence to contract agreements and to help avoid recordable incidents related to HSSE, bribery, and corruption. With respect to supplier concerns and feedback, we conduct internal monitoring to ensure proper management and response. (103-3)





# IMPACT ON THE ENVIRONMENT

Pilipinas Shell works to provide energy in a responsible manner. (103-1) Running a safe and responsible business means that we understand the impact we can have on the environment and the communities we share it with – before, during, and at the end of our operations. We carry out detailed assessments of potential environmental, social, and health impacts when we plan new projects. These help us to manage and reduce our impact on the environment and on communities throughout the lifetime of the project, from initial planning to final decommissioning.

Standards that cover our environmental performance include: managing emissions of greenhouse gases, using energy more efficiently, flaring and burning off less gas during oil production, preventing spills and leaks of hazardous materials, reducing fresh water use, and conserving biodiversity.

### ENVIRONMENTAL COMPLIANCE

Our efforts include full compliance with regulatory requirements, stringent environmental impact assessment, and meaningful community relations. Our environmental performance is tied to our social performance. Both are managed to maintain our licence to operate. Effective management of any activity that could impact the environment means that we avoid a Notice of Violation and complaints from the community. Avoiding any damage to the environment, and preventing any misunderstanding or cause for complaint, means we preserve our reputation and mitigate any risk of business loss.

Guided by the Environment Manual of the Shell HSSE&SP Control Framework, all our operations and facilities follow a strict compliance protocol, risk management frameworks, and assurance processes for impact monitoring. Accordingly, a major facility such

as the Tabangao Refinery is certified ISO 14001 for environmental management. The Tabangao Refinery Leadership Team leads the implementation and monitoring of the Control Framework with support from Health, Safety, Security and Environment (HSSE), and External Relations (ER) teams.

### MANAGING ENVIRONMENTAL FOOTPRINTS

A key element of managing our environmental impact and maintaining our Environmental Compliance Certificate is the effective monitoring of our consumption metrics.

The HSSE Core Team and Safety Steering Committee monitor our performance through key performance indicators, as reflected in the HSSE dashboard, as well as regular audits and updates.

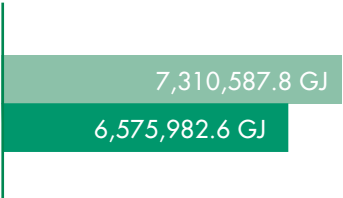
Since 2016, we have also been monitoring our performance at Pilipinas Shell through the Sustainability Scorecard published in our Annual and Sustainability Report. (103-3)

### ENERGY AND WATER CONSUMPTION

The Tabangao Refinery generates its own electricity, using cleaner-burning natural gas from the Malampaya Deepwater Gas-to-Power project and, in case the Malampaya platform is on maintenance or on emergency shutdown, back-up Euro IV (PH) diesel (i.e. low sulphur fuel) is being used momentarily (maximum 45 days every two years, based on the past year’s agreement).

Our excess power is sold to internal consumers. In 2017, the Department of Energy (DOE) endorsed Pilipinas Shell’s plan to sell electricity to external consumers via the Wholesale Electricity Spot Market.

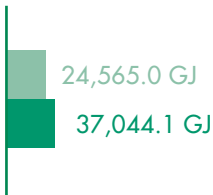
### Energy Consumption (302-1)



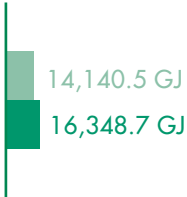
**OWN ENERGY GENERATED** (Natural Gas)



**ELECTRICITY IMPORTED<sup>2</sup>**

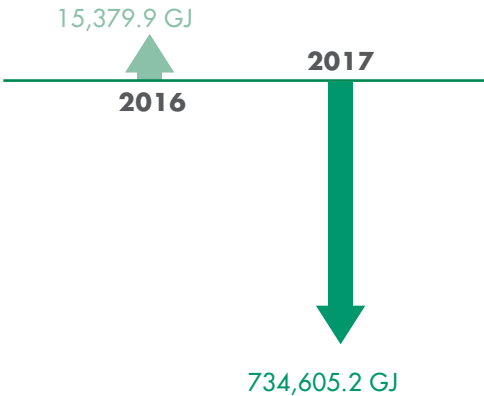


**ELECTRICITY EXPORTED<sup>3</sup>**



<sup>1</sup> Refers to total energy used, which includes own energy generated, imported electricity and exported electricity  
<sup>2</sup> Refers to energy purchased from the national grid  
<sup>3</sup> Electricity is sold to the Bitumen Import Facility (BIF), the Tabangao Depot, and some are returned to the National Grid Corporation of the Philippines if there is excess power supply.

### Energy Reduction (302-4)



Reduction in energy consumption in 2017 is primarily attributed to the planned turnaround where the refinery was on shutdown for two months. Hence, overall energy consumption is low compared to the previous year. Other energy reduction tactics are still being developed and should be fully implemented by 2021-2023.

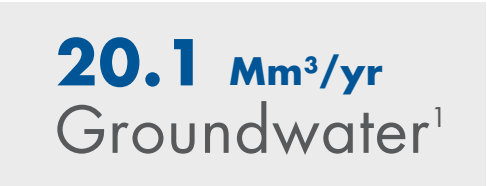
### Water Withdrawal by Source (303-1)

| Water Sources                   | Volume of water withdrawn (Mm³) |
|---------------------------------|---------------------------------|
| Surface water (non-fresh water) | 11.0                            |
| Groundwater <sup>1</sup>        | 2.0                             |
| <b>TOTAL</b>                    | <b>13.0</b>                     |

<sup>1</sup> Groundwater consumption is metered by Utilities Technology.

The Tabangao Refinery uses fresh water sourced from deep wells, and surface water from Batangas Bay. The refinery does not use any water from municipal water sources.

Water Sources Significantly Affected by  
Withdrawal of Water (303-2)



<sup>1</sup> Figure is taken from the Tabangao Refinery Water Management Plan

This is the average annual water balance for the combined Malitam-Tabangao catchment expressed in annual volumetric flow. Pilipinas Shell is aware that its source of water is important to local communities and indigenous peoples in the surrounding area.

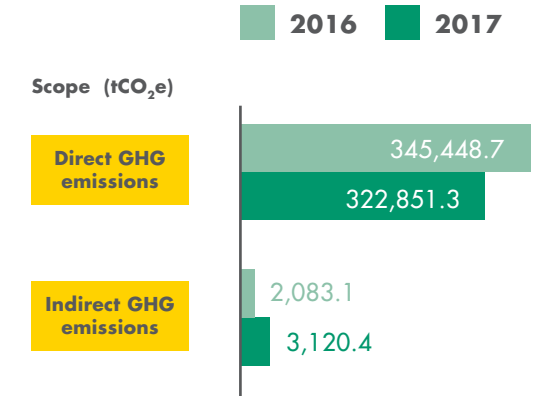
EMISSIONS

Pilipinas Shell endeavours to reduce our own greenhouse gas (GHG) emissions particularly in our manufacturing operations over the long term. We maintain a CO<sub>2</sub> Business Plan which includes: an inventory of GHG emissions based on the reporting requirements in the current Performance Monitoring and Reporting (PMR) Specification; a forecast with a 10-year projection; and targets and performance monitoring in support of the Company’s GHG and energy management objectives.

This year, the 6.54% decrease in Direct GHG emissions (Scope 1) is due to the non-production of energy during the two-month refinery turnaround. Only one gas turbine was used to run utilities, since there was no demand from the process units. To ensure reliability, back-up electricity to run off-plots, offices, and oil movements, including jetties, was sourced from the national grid. Indirect GHG emissions (Scope 2) emission increased by 49.80% in 2017 due to the increase in purchased electricity.

Other reductions in emissions can also be attributed to the manufacturing turnaround.

Direct and indirect GHG emissions  
(305-1, 305-2)



\* The Tabangao Refinery’s Greenhouse Gas (GHG) Accounting and Management System has been assured by Lloyd’s Register Quality Assurance (LRQA), a global provider of management system certification, validation, verification, and training on international standards.

We follow the maximum annual limits as prescribed by the Control Framework for Sulphur Oxides (SO<sub>x</sub>) and Nitrogen Oxides (NO<sub>x</sub>).

Part of our strategy to reduce sulphur as a by-product at the Tabangao Refinery is to capture some of the waste material for eventual sale to third parties engaged in the production of batteries, soap, and fertiliser, and other specialty products.

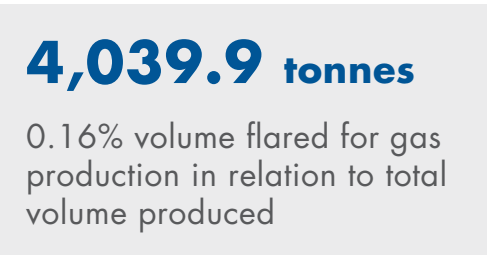
NO<sub>x</sub>, SO<sub>x</sub>, and other significant emissions  
(305-7)

|                                  | 2016 (tonnes) | 2017 (tonnes) |
|----------------------------------|---------------|---------------|
| NO <sub>x</sub>                  | 1,077.7       | 1,433.2       |
| SO <sub>x</sub>                  | 3,635.3       | 3,100.6       |
| Volatile organic compounds (VOC) | 1,038.8       | 680.1         |

Shell’s policy under the Control Framework is to reduce any routine flaring or venting of associated gas at our operations to a level as low as technically and financially feasible. We also aim to minimise operational flaring required for safety reasons, such as during the start-up of a new facility.

As an active member of the World Bank-sponsored Global Gas Flaring Reduction (GGFR) partnership and a signatory of “Zero Routine Flaring by 2030” initiative, Shell seeks to reduce flaring by working collaboratively to find alternative uses for gas that would otherwise be flared.

Volume of flared and vented hydrocarbon  
(OG6)



Note: All volatile hydrocarbons are flared and not vented to atmosphere. Information provided is metric tonnes of flared gas/metric tonnes of volume of products produced.

EFFLUENTS AND WASTE

The Tabangao Refinery has an existing Environmental Monitoring Plan (EMP), which stipulates the site’s environmental monitoring strategy and commitments. The refinery is fully compliant to the EMP. This compliance is being observed by the Department of Environment and Natural Resources - Environmental Management Bureau (DENR-EMB) via the STAR-TREC Multi-Partite Monitoring Team.

The Tabangao Refinery follows DENR Administrative Order No. 2016-08 - Water Quality Guidelines and General Effluent Standards. For 2017, the total oil discharged to surface water amounts to 18.9 tonnes. The refinery takes proactive measures to manage incidents that might impact water quality.

Refinery wastes on the other hand, are treated by DENR- and Shell-accredited treatment facilities. These facilities are audited to make sure that they fully comply with both local and international standards.



Waste by type and disposal method  
(306-2)

We practise waste segregation and recycling.

| TYPE                | METHOD              | AMOUNT (tonnes) | REMARKS  |
|---------------------|---------------------|-----------------|--|
| Hazardous Waste     | Recovery, treatment | 4,387.0         | Waste oil from tank maintenance is recovered and sold to an accredited third party, to be used by a cement plant. Other hazardous waste are collected and treated by a facility accredited by the DENR-EMB.  |
|                     | Landfill            | 93.1            | Industrial non-hazardous waste is disposed via landfill.   |
| Non-hazardous Waste | Recycling           | 491.4           | Scrap materials and scrap metals are sold to a trusted scrap buyer, and recycled.  |
|                     | Landfill, recycling | 100.0           | Domestic waste is collected by the Materials Recovery Facility, which separates recyclables from biodegradable waste. The biodegradable materials are reprocessed as compost by a government-owned disposal facility; the residuals are disposed in a government-owned landfill. |

SPILLS (306-3)

As already discussed, Shell has clear requirements and procedures in place to prevent operational spills. At the Tabangao Refinery, we execute the Goal Zero Renewal Strategy. We aim for zero incidents of environmental non-compliance, including zero spills to land or water bodies, and zero incidents of loss of primary containment. (103-2)

Pilipinas Shell’s Tabangao Refinery documented three spills in 2017:

Based on a third-party report, the spills were effectively controlled and contained, which prevented the occurrence of any environmental impact. In the event of spills, we follow procedures itemised in Shell’s Spill Preparedness and Response Manual. We investigate the causes of spills and agree with the relevant authorities on what needs to be done. If necessary, we conduct clean-up and/or remediation. Pilipinas Shell has ongoing remediation activities at our decommissioned terminal in Pandacan, Manila. (See feature article, “A Graceful Exit...” on page 58)

| NATURE OF SPILL   | VOLUME (MT) |
|---|-------------|
| May 26, 2017<br>Fuel oil spill to land                            | 1.71        |
| August 6, 2017<br>Crude oil spill to surface water (Batangas Bay) | 14.81       |
| August 15, 2017<br>Kerosene spill to land                         | 0.69        |

OUR DECOMMISSIONING APPROACH

Impacts on the local environment and the community (more on this on page 76) are of particular concern during the decommissioning of a project, defined as the process of terminating the operations of a facility.

Since 2015, Pilipinas Shell has decommissioned two terminal facilities: Sucat-Buli Terminal, which ceased operations and dismantled its facilities in 2016, and Pandacan Terminal, which ceased operations in 2015. We assessed both sites and determined that soil conditions in Sucat Buli met Industrial Zone requirements, whereas due to rezoning, Pandacan had to undergo soil remediation. (OG11)

The decommissioning plan is activated once the Company decides to move out from a certain site. Our approach to decommissioning is dependent on factors such as the types of structures, their age and location, and technical challenges. The plan also includes consultations with relevant stakeholders.

Upon decommissioning, the site’s existing government permits, including its Environmental Compliance Certificate, will also be terminated.

REMEDIATION AND ITS EFFECTS

Among the decommissioning activities, remediation, in particular, is implemented to remove potential hazards and restore the surroundings in line with our own stringent standards on health and safety.

“In the Philippines, there are no concrete laws yet in terms of remediation. However, multinational companies, such as Shell, are very strict and already have some guidance in terms of remediation,” said Jay Baquiran, Senior Programme Manager of Pilipinas Shell’s Soil and Groundwater Focus Delivery Group.

Prior to remediation, we conduct an Environmental Site Assessment using the site’s current zoning criteria. The results of this assessment, comparable to our Shell Screening Level for both soil and groundwater, are then used to determine whether or not a remediation is needed in a decommissioned site.

Different zoning criteria would mean different remediation requirements. The Sucat-Buli Terminal closure was due to operational redundancy; there was no zoning change. Pandacan Terminal, on the other hand, was decommissioned because local government changed the site’s zoning criteria from industrial to commercial zone.

“We aim to improve the condition of the site to make it suitable for a particular use,” Baquiran said.

In terms of soil remediation, excavating the soil and removing it for treatment using physical or chemical methods is both time-consuming and costly. The process is made much more efficient because of Pilipinas Shell’s detailed records. Our focus on “no spills, no leaks” means acute awareness of where to excavate and test for contamination.

Pilipinas Shell’s Soil and Groundwater Focus Delivery Group initiates soil and groundwater remediation not only for decommissioned sites, but also for commissioned fuel terminals, supply points, and retail stations.

Through our remediation efforts, we mitigate potential hazards not just to our assets and equipment, but also to our neighbouring communities and the environment.





## A GRACEFUL EXIT: Decommissioning and Remediation of Pandacan Terminal

With the reclassification of Pandacan from an Industrial II to a Commercial I zone, fuel terminals and depots therein had to shut down and relocate by January 2016. Operations ceased on June 30, 2015 and the terminal was completely demolished on November 23, 2015.

(OG11)

Although not required by the ruling, we also initiated a soil remediation project so the old site would fit its new classification. "The land has to be suitable for commercial use when the lot owner decides to sell it or develop it," reasoned Jay Baquiran, Pilipinas Shell's Senior Programme Manager for Soil and Groundwater Focus Delivery Group, which performs the soil and groundwater assessment and remediation for the downstream business.

The Pandacan Remediation Project Team is currently employing soil aeration in Pandacan. This involves removing potentially contaminated and impacted soil from the top layer, and then aerating or puncturing this

soil to facilitate better water and oxygen absorption. An on-site mobile laboratory tests the soil to ensure that it does not pose any health hazards. Done properly, soil aeration has the potential to revitalise the site so it would be fit for gardening and agricultural purposes.

For achieving 100,000 man-hours free of lost time injury (LTI), the team received a Health, Security, Safety, Environment, and Social Performance (HSSE&SP) Award on November 10, 2017. As of March 31, 2018, we achieved 295 days of Goal Zero and 157,916 LTI-free man-hours.

Turnover of the site to its lot owner is targeted by December 2018.

## SHARING WIDER BENEFITS WHERE WE OPERATE

Being a good neighbour and sharing the responsibility of nation-building is part of sustaining our business in the long term. We help to develop local economies by creating jobs, sourcing from local suppliers, and paying taxes and royalties. We support community projects that are based on the needs of the local communities.





# CUSTOMERS

## CUSTOMER SERVICE

Our motivation is to deliver the best value to our customers. More than a supplier or technical consultant, we consider ourselves as a long-term partner in their business growth. Our value-added services make Pilipinas Shell a preferred supplier across industries. (103-1)

We grow our business through innovation and by developing new and better-performing products. Our products undergo rigorous testing in the laboratories, with further spot checks along the supply chain. Customers are assured that our product claims are backed by science, up to specifications, and handled with utmost care. (103-2)

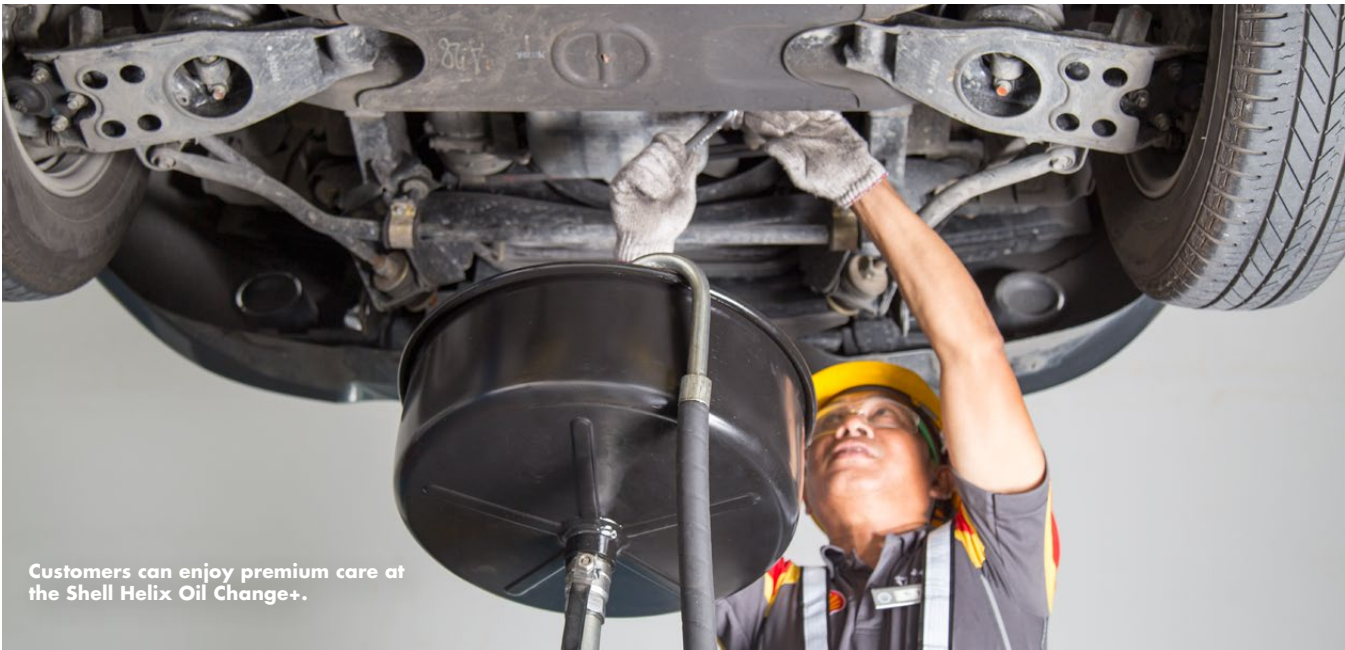
Some of the ways that Pilipinas Shell goes the extra mile for our customers:

We strive to treat every customer like an honoured guest.

Shell retailers and forecourt service champions are provided the tools and guidance so they can maintain the high standards that befit a Shell enterprise.

We share our best practices with our customers and industry partners.

Shell Aviation enters into agreements with airline customers, and industry partners, to share our expertise and elevate standards in the industry. These agreements may include safety training, engineering design, consultancy, technical assurance, and accreditation.



Customers can enjoy premium care at the Shell Helix Oil Change+.



## SMILING STARS: Recognising Shell's Frontline Heroes

Forecourt service champion Rowel J. Ellevera was recognised as a Global Shop Service Champion at the Smiling Stars Awards.

Rowel J. Ellevera credits Pilipinas Shell with giving him a chance at the lowest point of his life.

When his father passed away, he had to quit school to support his widowed mother and nine siblings. However, he earned a juvenile delinquency record for brawling, and combined with his lack of education, couldn't find any decent work – until he was hired as a forecourt service champion by April Twinkle Almirante-Corral, retailer at Shell Baloy.

Through hard work and determination, Ellevera was promoted to forecourt supervisor and on-site coach. "Every time I wear this uniform, it reminds me of my responsibility not just to refuel cars, but also to bring a smile to every customer," he said.

### A gathering of global service champions

Ellevera's resilient spirit and customer service acumen propelled him to become the Global Shop Service Champion for 2016 at the Smiling Stars Awards of Shell Retail Global, which was held in New York in July 2017. He bested over 500,000 frontline service champions from over 43,000 Shell stations worldwide.

Together with Ellevera, other winners from Shell Retail Philippines were also recognised during the three-day event. Erwin Dueñas, a Shell retailer since 2012, received the Global Multi-Site Retailer of the Year award. For Asia, Franz Karunungan won Regional Territory Manager of the Year, while Tisha Sugui won Regional District Manager of the Year.

### A commitment to customer service excellence

The annual Smiling Stars underscores Shell's commitment to empower our frontline employees so that they can provide a comprehensive customer service experience.

Ellevera's story is a testament to the transformative power of believing in our frontline service champions. Since his win, he has also co-authored a standard training module. Due to his efforts, the sales of the Select Shop in Shell Baloy also increased by 50%.



CUSTOMER FIRST AND TOTAL VALUE OFFER

We have a “Customer First” mindset at Pilipinas Shell. Our customer value proposition goes beyond our high-quality products. We develop energy solutions tailor-fitted to the needs of the consumer, and extend our value-adding services, such as technical consultancy for our commercial customers and delightful rewards programmes for our retailers. (103-2)

Our “Sales First” commitment means professionalising the sales force. We train our sales teams to be product consultants. We also encourage mentoring down the line: business managers coach their senior account managers, and the latter, in turn, coach key account managers. Regular joint calls with other support functions also help improve customer management. (103-2)



Shell Select offers a wide range of food choices for the Filipino family.

CUSTOMER FEEDBACK AND EVALUATION

Apart from business targets, Pilipinas Shell also has customer satisfaction and performance targets. These targets are set annually and reviewed quarterly at the leadership level. On the ground, these can be reviewed monthly and even weekly. Managers look for ways to bridge any gaps, or to see if there are new goals that can be pushed in the next month or quarter.

In terms of feedback, customer satisfaction surveys are regularly conducted. A new online portal, MarketHub, has been developed to make it easier for customers to review, manage, and monitor their orders and transactions with Pilipinas Shell. (103-3)

CUSTOMER PERKS: SHELL CARD



Shell Commercial Fleet aims to be the “Best Partner on The Road” for the B2B segment. Shell Card is more than a fuel card provider that offers fleet management services and cashless solutions. It also provides B2B customers convenience, control, security, and savings.

Paperless, app-ready management

Through the Shell Card Online (SCOL), customers are given an online management tool that easily tracks every transaction on every journey, enabling them to have a smarter control of their fleet. SCOL can be accessed both through the website and the SCOL mobile app.

Cost savings

With the SCOL tool, control is at the fleet managers’ fingertips. Managing card usage, setting spending limits and restrictions, and preparing customisable reports to monitor transactions and fuel consumption help our customers save time and reduce administrative costs.

Security and fraud prevention

Shell Card launched its Chip and PIN Technology in November 2017, in compliance with the EMV security standards. Apart from the more secure hardware, our customers may also rely on our on-site

security procedures and card usage monitoring by dedicated anti-fraud teams. Shell Card allows you to customise alerts to flag and prevent fraudulent activities.

Value-added services

The Commercial Fleet business was given the Quarter 1 Global Pinnacle Award for its HSSE entry, “Sharing our safety culture to our commercial fleet partners.” Shell Card, in partnership with A1 Driving School, is the only fuel card that provides free Road Safety and Defensive Driving seminars. Shell Card customers may be granted 24/7 roadside assistance through Ibero Asistencia. We also provide Shell Card holders discounts and exclusive offers from our partner merchants. In the future, Shell Card aims to pioneer an end-to-end fleet management service which includes global positioning system (GPS) and telematics capabilities.





# EMPLOYMENT, INCLUDING LOCAL CONTENT

(102-8)

In order for Pilipinas Shell to continuously operate critical economic assets, and deliver products and services that fuel the activities of our customers and the nation, it is key that we are able to attract, motivate, and retain the best Filipino talents. (103-1)

The main components of Pilipinas Shell’s Employee Value Proposition (EVP) are its brand and reputation; its corporate culture, which reflects our core values of honesty, integrity, and respect for people; the opportunities for personal development and professional growth; and Pilipinas Shell’s commitment to nation-building.

We recognise that the successful delivery of our EVP is in the hands of our managers and supervisors who are constantly engaged with our people. Therefore the Company’s leadership ensures that our managers and supervisors are properly onboarded, trained, motivated, and recognised for being able to successfully recruit the best Filipino talents and retain a highly engaged and high-performing workforce. (103-2)

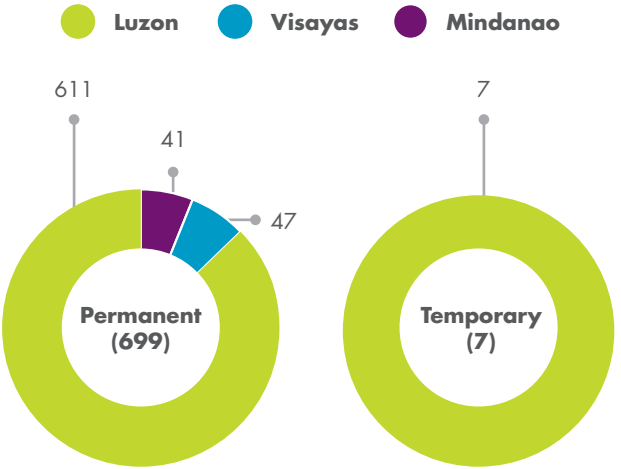
## TOTAL HEADCOUNT<sup>1</sup>

Total Number of Employees by Contract (both permanent and temporary), by Gender

|        | PERMANENT | TEMPORARY |
|--------|-----------|-----------|
| Male   | 456       | 3         |
| Female | 243       | 4         |
| TOTAL  | 699       | 7         |

<sup>1</sup> Total headcount includes all local staff and expatriates based in the Philippines. Data provided excludes expatriates working outside the Philippines and is presented by employment contract.

Total Number of Employees by Contract (both permanent and temporary), by Region



Total Number of Employees by Employment Type, by Gender

|        | FULL-TIME | PART-TIME |
|--------|-----------|-----------|
| Male   | 459       | 0         |
| Female | 246       | 1         |
| TOTAL  | 705       | 1         |

## NEW HIRES AND EMPLOYEE TURNOVER (401-1)

New Employee Hires During the Reporting Period (by Age Group, by Gender)

|                 | MALE | FEMALE | TOTAL |
|-----------------|------|--------|-------|
| < 35 years old  | 23   | 18     | 41    |
| 35-50 years old | 2    | 1      | 3     |
| > 50 years old  | 1    | 0      | 1     |
| TOTAL           | 26   | 19     | 45    |

Turnover During the Reporting Period (by Age Group, by Gender)

|                 | MALE | FEMALE | TOTAL |
|-----------------|------|--------|-------|
| < 35 years old  | 12   | 5      | 17    |
| 35-50 years old | 6    | 2      | 8     |
| > 50 years old  | 1    | 0      | 1     |
| TOTAL           | 19   | 7      | 26    |

## Turnover Rate<sup>1</sup>

|                 | MALE  | FEMALE | TOTAL |
|-----------------|-------|--------|-------|
| < 35 years old  | 6.56% | 3.31%  | 5.09% |
| 35-50 years old | 3.31% | 2.25%  | 2.96% |
| > 50 years old  | 1.05% | 0.00%  | 0.98% |
| TOTAL           | 4.14% | 2.83%  | 3.68% |

<sup>1</sup> Rate calculated as percentage of total number of voluntary resignations in each age category by gender against total number of employees in each age category by gender counted as of December 2017

## New Employee Hires Rate<sup>1</sup>

|                 | MALE   | FEMALE | TOTAL  |
|-----------------|--------|--------|--------|
| < 35 years old  | 12.57% | 11.92% | 12.28% |
| 35-50 years old | 1.10%  | 1.12%  | 1.11%  |
| > 50 years old  | 1.05%  | 0.00%  | 0.98%  |
| TOTAL           | 5.66%  | 7.69%  | 6.37%  |

<sup>1</sup> Rate calculated as percentage of total number of hires in each age category by gender against total number of employees in each age category by gender counted as of December 2017

We ensure that the Company’s compensation and benefits package is competitive against the local market and aligned with Shell’s performance and rewards philosophy. We do this by conducting salary benchmarking reviews annually, and benefits reviews every three years, against a select peer comparator group comprising some of the most progressive and successful organisations in local industry. (103-2)

After each review and benchmarking exercise, we communicate the outcomes and engage our employees. The rigor and discipline with which we carry out this core activity assures our people that their compensation and benefits package remains competitive. (103-2)

Regular employee engagement activities provide an avenue for employees to give feedback. The annual Shell People Survey is our principal tool to measure our employees’ engagement, their level of affiliation and commitment to Shell, and most importantly, their satisfaction with the quality of leadership and management. (103-3) For example, average employee engagement in 2017 was 80%. Meanwhile, satisfaction and motivation averaged at 76% and loyalty at a high 84%.

SHELL PEOPLE SURVEY 2017

|                            | PILIPINAS SHELL | SHELL <sup>1</sup> | TQB <sup>2</sup> |
|----------------------------|-----------------|--------------------|------------------|
| Collaboration              | 83%             | 79%                | 82%              |
| Job satisfaction           | 84%             | 77%                | 79%              |
| Working conditions         | 73%             | 69%                | 75%              |
| Total rewards and benefits | 76%             | 69%                | 71%              |
| Organisational leadership  | 77%             | 69%                | 74%              |
| Team leadership            | 80%             | 75%                | 80%              |
| Diversity and inclusion    | 83%             | 81%                | 85%              |
| People development         | 79%             | 73%                | 76%              |

<sup>1</sup> Shell refers here to the Shell Group (i.e. the enterprise as a whole, including Royal Dutch Shell plc)  
<sup>2</sup> The Top Quartile Benchmark is the top quartile score based on the performance of other companies

LEARNING AND DEVELOPMENT

One of the key components of our EVP is that of propelling our people’s learning and development. We do this by investing heavily in our employees’ capabilities through a 70-20-10 approach, where 70% is focused on in-role development; 20% on coaching and mentoring; and 10% on formal training.

Training is delivered in-house, online, or in partnership with Shell Global.

Our online learning portal, the Shell Open University, contains a wide range of practical, commercial and technical learning programmes, from online courses and webcasts, to e-books and guides.

There are mandatory trainings that employees must complete periodically, especially in the areas of health, safety, security, and environment, as well as ethics and compliance. Technical skills training is provided by the

different businesses and functions. We currently do not have the means to capture the amount of training that employees undergo, given that many require specialised training. (404-1)

REGULAR ASSESSMENT AND EVALUATION

To create and maintain a high performance culture, we focus on regular engagements and evaluations with employees. Employees are also empowered to identify their strengths, and key development areas using self-assessment tools. These are tailored to the their respective roles, whether they are individual performers, leader of teams, leaders of communities, or strategic leaders.

SUCCESSION PLANNING

To ensure that there is a robust leadership pipeline, Pilipinas Shell hires the best Filipino talent, here and abroad, and promotes from the ranks. As of 2017, 90% of senior management are local hires. These managers lead large-scale business units or support functions. (202-2)

“We pride ourselves on being able to grow our own people,” said Cesar Buenaventura, who noted that there has been a succession of home-grown talent at the top since his own stint as the first Filipino Chief Executive Officer of Pilipinas Shell. “Eli Santiago started out of school and went to the refinery in 1972. Ed Chua was somebody we hired in 1978 as a sales representative, just one or two years out of school. Cesar Romero was someone we hired in 1987 out of university. So they’re all home-grown. I don’t think there is any other multinational in the Philippines that can claim this same sort of pipeline.”

SHELL CLUB 15 PLUS: A FELLOWSHIP OF SHELL LOYALISTS



In 2017, Nehemias “Brad” B. Salaver celebrated 30 years in Pilipinas Shell. He belongs to the Shell Club 15 Plus, an organisation of retirees and employees who have worked for at least 15 years in Pilipinas Shell. Beyond social events, they organise outreach activities and provide financial or medical assistance to members and their families.

With Shell Club 15 Plus, there is a kind of ‘life after Shell,’ said Pilipinas Shell director and former Chief Executive Officer Cesar Buenaventura. “There is a feeling of belonging, a fellowship.”

LABOUR-MANAGEMENT RELATIONS

We operate in accordance with the Philippine national and local labour laws, such as the Labour Code, as well as with international standards.

Pilipinas Shell employees can raise concerns through multiple channels, including but not limited to line management and representatives from various departments. In doing so, we avoid work disruptions and help increase job satisfaction, which gained an average score of 84% in the 2017 Shell People Survey.

COLLECTIVE BARGAINING AGREEMENTS

As of 2017, our employees have formed two unions with collective bargaining agreements (CBAs): the Tabangao Shell Refinery Employees Association (TASREA), which covers the Tabangao Refinery, signed the CBA on March 6, 2017; and Kasamahan ng Manggagawa sa Shell (KMS) for the employees in Pilipinas Shell’s supply and distribution arm, who are based in depots and terminals, signed the CBA on January 11, 2017. CBA negotiations occur every three years for TASREA, and every five years for KMS. (102-41)

Pilipinas Shell convenes the Labour Management Council (LMC), to strengthen the relationship between the Company and the unions. The council is a venue for engaging with the employees in the labour unions and for getting feedback on various topics. The LMC meetings for KMS and TASREA are scheduled monthly, but should the need arise, special meetings may also be held. Representatives from Pilipinas Shell’s HR and management teams regularly attend these meetings to provide updates and listen to the feedback of union members.

On the other hand, Pilipinas Shell also has staff engagements for non-union members, to discuss business updates and address employee questions.



Total Number of Employees Covered by Collective Bargaining Agreements (CBAs) (102-8, 102-41)

|                            |        |
|----------------------------|--------|
| Total Number of Employees  | 706    |
| Percentage Covered by CBAs | 23.37% |

DIVERSITY AND INCLUSION

Diversity and Inclusion (D&I) means that every employee’s unique point of view positively impacts our overall performance. Diversity is defined by all the ways we differ from each other; inclusion is creating a working culture where these differences are valued. Managing D&I means we eliminate or reduce barriers that stand in the way of full participation by our workforce. (103-1)

We believe that our differences lead to greater creativity, innovation, and competitiveness. We encourage collaboration through networks that celebrate difference, among them are the Shell Women’s Network and the Shell LGBT Network. (103-1)

It is our priority as a company to give equal opportunity to all, including people with disabilities (PWDs). Regardless of circumstance, we at Pilipinas Shell enable our employees and contractors to have a voice. Our stance promotes greater communication and engagement, in line with Shell’s core value of respect for people, which underpins a culture of acceptance, non-discrimination, and cooperation. (103-2)

There is a business case for a diversified and inclusive work environment: employees who feel respected and valued also feel more motivated at work and become more productive, which has a direct impact on the bottom line. Being open to differences also favourably builds company reputation and brand image. Consequently, Pilipinas Shell is able to attract and retain talent. All these lead to growth. (103-1)

A large part of Shell’s D&I Plan is to educate and engage our people about the principles of diversity and inclusion, improve gender representation, and ensure that managers are equipped to handle D&I issues affecting employees at the workplace. (103-2)

A dedicated team of trained D&I facilitators conduct webinars and D&I learning sessions or workshops on topics such as sensitivity to sexual orientation, gender, and disability; gender equality and gender balance (defined as equal participation of men and women in all areas of work); generational differences and conflict resolution between junior and senior staff; cultural awareness; unconscious bias; micro-inequities and micro-aggressions; and feeling free to speak one’s mind. (103-2)

Apart from dialogues and workplace diversity training, we also normalise D&I by establishing gender-neutral restrooms in certain offices, like the Tabangao Refinery in Batangas.

Aware that women tend to be under-represented in our industry sector, the Shell Group’s D&I Standards put forward a strategic diversity framework. (103-2)

16 WEEKS OF PAID MATERNITY LEAVE



Starting January 2018, ahead of pending legislation, Pilipinas Shell employees may avail of 16 weeks or 120 calendar days of paid maternity leave, which is twice the 60-day mandatory leave. The initiative is intended to support working mothers and their families.

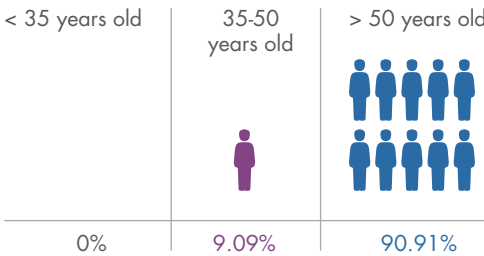
Several studies, including those by the Washington-based Institute for Women’s Policy Research (IWPR), show that longer maternity leave positively impacts health for both mothers and children, and supports earning power continuity for women. Those granted maternity leave are more inclined to return to work.

DIVERSITY COUNT (102-8, 405-1)

Diversity of Governance Body

| BY GENDER | VALUE | %       |
|-----------|-------|---------|
| Male      | 8     | 72.73%  |
| Female    | 3     | 27.27%  |
| TOTAL     | 11    | 100.00% |

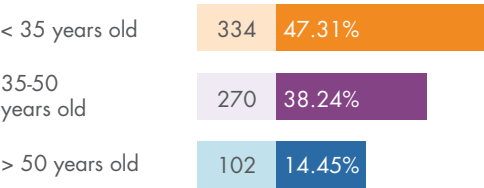
BY AGE



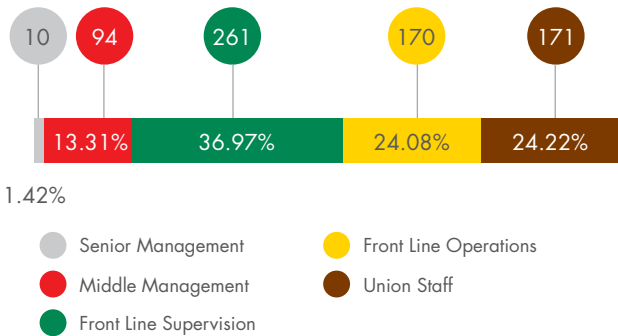
Employee Diversity

| BY GENDER | VALUE | %       |
|-----------|-------|---------|
| Male      | 459   | 65.01%  |
| Female    | 247   | 34.99%  |
| TOTAL     | 706   | 100.00% |

BY AGE



BY EMPLOYEE CATEGORY



Per Employee Category Diversity

Senior Management

| BY GENDER       | VALUE | %       |
|-----------------|-------|---------|
| Male            | 9     | 90.00%  |
| Female          | 1     | 10.00%  |
| TOTAL           | 10    | 100.00% |
| BY AGE          | VALUE | %       |
| < 35 years old  | 0     | 0.00%   |
| 35-50 years old | 1     | 10.00%  |
| > 50 years old  | 9     | 90.00%  |
| TOTAL           | 10    | 100.00% |

Middle Management

| BY GENDER       | VALUE | %       |
|-----------------|-------|---------|
| Male            | 67    | 71.28%  |
| Female          | 27    | 28.72%  |
| TOTAL           | 94    | 100.00% |
| BY AGE          | VALUE | %       |
| < 35 years old  | 10    | 10.64%  |
| 35-50 years old | 66    | 70.21%  |
| > 50 years old  | 18    | 19.15%  |
| TOTAL           | 94    | 100.00% |

(102-8)

Front Line Supervision

| BY GENDER       | VALUE | %       |
|-----------------|-------|---------|
| Male            | 165   | 63.22%  |
| Female          | 96    | 36.78%  |
| TOTAL           | 261   | 100.00% |
| BY AGE          | VALUE | %       |
| < 35 years old  | 113   | 43.30%  |
| 35-50 years old | 106   | 40.61%  |
| > 50 years old  | 42    | 16.09%  |
| TOTAL           | 261   | 100.00% |

Front Line Operations

| BY GENDER       | VALUE | %       |
|-----------------|-------|---------|
| Male            | 79    | 46.47%  |
| Female          | 91    | 53.53%  |
| TOTAL           | 170   | 100.00% |
| BY AGE          | VALUE | %       |
| < 35 years old  | 122   | 71.76%  |
| 35-50 years old | 41    | 24.12%  |
| > 50 years old  | 7     | 4.12%   |
| TOTAL           | 170   | 100.00% |

Union Staff

| BY GENDER       | VALUE | %       |
|-----------------|-------|---------|
| Male            | 139   | 81.29%  |
| Female          | 32    | 18.71%  |
| TOTAL           | 171   | 100.00% |
| BY AGE          | VALUE | %       |
| < 35 years old  | 89    | 52.05%  |
| 35-50 years old | 56    | 32.75%  |
| > 50 years old  | 26    | 15.20%  |
| TOTAL           | 171   | 100.00% |

Shell is also an ally in celebrating and promoting a safe world for the lesbian, gay, bisexual, and transgender (LGBT) community. In support of our LGBT employees, the Shell Group, including Pilipinas Shell, has been participating in the International Coming Out Day (see page 72). (103-2)

To discourage discrimination and harrassment, employees may report incidents using the Shell Global Helpline under the Tell Shell Programme. (103-3)

To help us manage and evaluate our performance on D&I issues, the annual Shell People Survey incorporates a D&I indicator. We ask our employees five questions: if they feel that they are treated with respect at work, if they feel free to speak without fear of negative consequences, if their views and perspectives are valued, if they have experienced harassment and discrimination, and if their leaders make fair decisions. The results of the survey allow us to make specific interventions targeting identified issues. For 2017, we received a D&I score of 83%. (103-3)

As our Royal Dutch Shell Chief Executive Officer Ben van Beurden said, “a diverse population in Shell contributes different ways of thinking, and helps to encourage the innovation we need to ensure our portfolio is both attractive and resilient. Collaboration is critical to our success, and inclusion and inclusive behaviours are at the heart of effective collaboration. It is therefore vitally important we do not view diversity and inclusion as a ‘nice to do’ or an ‘add on’ to business as usual. It must be at the heart of our business plans in the same way that safety is.” (103-1)



#RealStories of female empowerment at Pilipinas Shell

Women have joined every aspect of the business, from field operators all the way to female executives, including three female directors in the current Board. As of last count, women account for 35% of the employees. Pilipinas Shell enables women to compete professionally and on equal footing with colleagues and peers.

This is our new normal:

**Women work in physically demanding jobs.** Andrea Nicole Acorda is a field inspector in the refinery—a job that entails working at heights, confined spaces, and biking during site inspections. Being one of the few female inspectors, she has fought against stereotyping. “I remain persistent and determined to give my best in everything I do because I’ve wanted to prove that Shell is right for entrusting such a position to a woman like me. Thanks to Shell for its strong advocacy in diversity and gender equality, for recognising females’ strengths that shifts the mind-set of the majority of the population,” she said.

**Women benefit from inclusive leadership.** Mae Ascan serves as the Regional Technical Lead for Asia at Shell Global Solutions. Her team has one male scientist; the rest are female. Not too long ago, she started work as the first female chemist assigned to the (now defunct) Pandacan Terminal laboratory. “Within four years, I became the lab manager, and it was probably 90% female,” Ascan said. She describes the transition to a more diverse laboratory as a natural outcome of the intent to be more inclusive. “It’s a work in progress,” she said.

**Women pursue higher studies and maintain a full-time job.** Mae Mojares credits Shell with supporting her dream: she pursues her law studies while working full-time as a legal administrative assistant in Pilipinas Shell. “Sometimes, I need to leave the office earlier than usual to attend to some school requirements. This is when I am grateful to my line manager and teammates in Legal; they are very considerate and sympathetic. They understand the situation and will remind you of the work that needs to be done.”



**Women negotiate a flexible schedule to achieve work-life balance.**

Kath Valentin-Ringor, HR Process and Systems Advisor at Pilipinas Shell, experienced a dilemma in 2013 when her prematurely born daughter needed to be brought to therapy thrice a week. Pilipinas Shell offered a flexible working arrangement. “It is the ideal setup for me to be able to attend to my daughter’s needs and at the same time pursue my career in Shell,” said Valentin-Ringor. “I am able to look after my priorities without giving up one over the other.”

Opportunities to lead and work in physically demanding jobs, educational support, and flexible working arrangements are only part of what makes Pilipinas Shell an ideal employer.

**Visible Pride: International Coming Out Day at Shell**

On October 11, International Coming Out Day, a riot of rainbow colours marked the lobby and various floors of Shell House in Valero, Makati. Shell delivery trucks and fuel tankers at the Tabangao Refinery in Batangas City also sported rainbow flags. In operational sites, including Shell stations, Diversity Walls – with the challenge, “Let’s make our workplace more inclusive for everyone” – prompted employees and the general public to scrawl uplifting messages. All of these signified solidarity with the lesbian, gay, bisexual, and transgender (LGBT) community.

International Coming Out Day raises awareness on the challenges faced by the LGBT community. Pilipinas Shell, on its second year of joining the global celebration, adopted the theme of “Empowering Every Employee to Bring Their Whole Self to Work.” This asserts the Shell value of respect for people, and reinforces the standard of a safe workspace for everyone – or in Cesar Romero’s words, “in Shell, you can be who you [truly] are.”

Shell celebrates difference to make a difference – that is, to #MakeTheFuture by discouraging workplace discrimination.

Pilipinas Shell remains undaunted in its advocacy. “I am a genuine believer that establishing a truly diverse and inclusive culture, despite the challenges, can be a real source of competitive advantage for the Company. A diverse and inclusive workplace, embedded with our principles of honesty, integrity, and respect, brings together remarkable people and enables them to be themselves,” said Romero.

**“A diverse and inclusive workplace, embedded with our principles of honesty, integrity, and respect, brings together remarkable people and enables them to be themselves.”**

**LOCAL COMMUNITIES**

**SOCIAL PERFORMANCE**

Good relationships lead to good business and to good profit. Our main objective is to create a positive presence and legacy in the communities where we operate. **(103-1)**

As a partner of the Philippines in progress and nation-building, we hope to enhance the communities around us, complement their efforts toward self-reliance, and help them develop together with the business.

We strive to be a good neighbour. Our efforts are geared towards sustaining the goodwill we have earned with communities over the last 103 years of responsible operations.

Social Performance is the term that Shell uses to describe how we aim to avoid, mitigate, and manage any negative impact of our business on local communities. At the same time, we seek to deliver direct and indirect benefits through local content and social investment initiatives.

Several studies point to corresponding costs when social impacts are left unmanaged. For one, a study<sup>1</sup> published by the Society of Petroleum Engineers, which was presented at the International Conference on Health, Safety and Environment in Oil and Gas Exploration and Production in September 2012, disclosed that more than 75% of operational delays and cost overruns are due to non-technical risks that arise from unmanaged social impacts.

<sup>1</sup> [www.onepetro.org/conference-paper/SPE-157575-M](http://www.onepetro.org/conference-paper/SPE-157575-M)

**ASSESSING IMPACTS ON COMMUNITIES**

The Shell Commitment on Social Performance is aligned with the Shell General Business Principles, our Core Values, and our Goal Zero Ambition. **(103-2)**

Shell’s Health, Safety, Security, Environment, and Social Performance Standard guide us in improving our social performance. The latter underscores the need to (1) assess and manage our impacts and include these in our business decisions; (2) respectfully engage our neighbours and other stakeholders; and (3) contribute to the communities where we operate.

The Social Performance (SP) Manual serves as a guide for technical and social performance for Shell assets; in the case of Pilipinas Shell, these include assets such as terminals determined to have a large impact, regardless of monetary contribution. There are 10 requirements outlined in the SP Manual, including developing a strategy and plan for social investment, as well as plans for social performance and disaster relief donations; and minimising impacts to indigenous peoples and cultural heritage.

An orientation on social performance is part of the on-boarding activity for our employees. Contractors also have social performance sessions, where they are informed that they must abide by existing local policies. They are also oriented on culture and community behaviour.

**COMMUNITY ENGAGEMENT**

Throughout the business lifecycle, Pilipinas Shell must maintain respectful engagement with stakeholders to help minimise negative impacts and maximise the benefits of our business. Assessments are done before and after the project is implemented, and are considered in decision-making.

As a matter of necessity, Pilipinas Shell provides several channels for stakeholder engagement. There are regular opportunities for members of the community to give feedback and express their concerns on our various assets. We conduct regular “sensing,” as well as periodic perception surveys (every three to five years).

We also conduct face-to-face engagements in quarterly town hall meetings, referred to as Ugnayan sa Barangay. Liaison and coordination officers, who are attached to the refinery and terminals, are charged with maintaining direct links with the community to ease communication and, when social needs have been determined, to help in the implementation of action plans.

**Feedback register and logbook**

We use a web-based Global Community Feedback Register to capture both positive and negative feedback. An “owner” is assigned to that feedback until the matter is resolved. The feedback is compiled every quarter and at the end of the year. The Tabangao Refinery maintains a complaint log, where every call made to the refinery is reported to the HSSE focal on duty, and the ER advisor or focal.

All feedback is compiled and analysed for a country performance report. The various engagement channels help Pilipinas Shell improve and refine our management of social impact. For example, when communities complained about noise from the refinery operations, action was taken to mitigate the issue immediately through the installation of noise deflectors. It is also possible to address community concerns from the very beginning through intelligent design, as was the case for NMIF, which integrated spill prevention in its design. **(103-3)**

**24/7 RESPONSE AT THE REFINERY**

Pilipinas Shell employs the “zero unresolved complaints” rule whereby it is expected that any complaint sent to the refinery must have an appropriate response within 24 hours.



The Tabangao Refinery conducts regular inspections and maintenance checks as part of its responsibility to the community.

**Government tie-ups.** Pilipinas Shell regularly partners with the Philippine Coast Guard (PCG) and the Bureau of Fire Protection (BFP) to enhance disaster preparedness through practice drills and sharing of experiences.

Since 2011, Pilipinas Shell and Pilipinas Shell Foundation Inc. (PSFI) have been conducting an annual Road Safety Camp in partnership with the Department of Education, Metropolitan Manila Development Authority, Manila Traffic and Parking Bureau, Philippine National Police Highway Patrol Group, Boy Scouts of the Philippines, and the BFP, among others.

PSFI, in partnership with local government units, also trains students and professionals on workplace safety and disaster preparedness.

**RESOLVING OUR NEGATIVE IMPACT**

We do all that we can to minimise probable negative impacts of our operations on local communities.

**Odour and noise. (413-2)** Site orientation and facility tours inform members of fenceline communities, as well as local government officials, on the mitigating measures that control and prevent odour and noise. We educate them on our process safety and our strict zero leaks and zero spills protocol. We also prepare and manage the expectations of local communities on the occasion that we conduct a scheduled refinery turnaround (flaring) and depressurisation.

For 2017, we successfully completed our two-month corrective and preventive maintenance and inspection of the Tabangao Refinery to ensure safe and reliable operations. There was no lost time injury (LTI) and no fatality recorded.

**Risk of traffic and oil spill. (413-2)** We recognise that our hauling activities could contribute to traffic, whereas our product loading and unloading has the inherent risk of an accidental oil spill. We manage

these risks through our journey management plan, in addition to our comprehensive health and road safety programmes. We see to it that our haulers are also trained to deal with an oil spill. We collaborate with local government on traffic management and road accessibility.

**Disputes over local employment. (OG10, 203-2)** In recent years, there has been increased clamour from local government units to source workers and suppliers from the community. In Batangas City, for one, City Ordinance No. 08 promotes the employment of qualified local workers for offices and facilities based in Batangas City. In compliance, the Tabangao Refinery prioritised hiring of residents from Batangas. However, due to unmatched local skill sets, disputes involving barangay officials may arise among community stakeholders. To address this, we have implemented the JobLink Programme to properly match local hires and suppliers to appropriately meet contracting and procurement requirements.

**Involuntary resettlement. (OG12, 203-2)** Our North Mindanao Import Facility (NMIF), in partnership with the Philippine Ports Authority (PPA) and the City Government of Cagayan de Oro, fulfilled settlement agreements with 88 informal settler families adjacent to the facility.

Twenty informal settler families benefited from the housing and livelihood restoration programme in partnership with Gawad Kalinga, while others opted for commercial settlement (buy-out scheme).

A budget was provided by the Company to cover both the housing requirements and settlement agreements.



**Layoffs from decommissioning. (OG11)** A change in zoning regulations necessitated the decommissioning of our Pandacan operations, which resulted in 200 employees being laid off. Those employees who were not absorbed into other areas of operations were provided separation or retirement pay. A number of these employees were rehired for the remediation project, which is set to finish in 2018.

THE SOCIAL IMPACT OF THE PANDACAN DECOMMISSIONING AND REMEDIATION



More than 200 employees, mostly local residents, were laid off when the Pandacan Terminal was decommissioned in 2015 (more on this in “A Graceful Exit: Decommissioning and Remediation of Pandacan Terminal”).

“They were given either good separation pay or retirement pay, and then they dispersed to other companies. But Pilipinas Shell tried its best to absorb as many Pandacan employees as it could, some of whom were transferred to other Shell depots,” said Jay Baquiran, Pilipinas Shell’s Senior Programme Manager, Soil and Groundwater Focus Delivery Group.

New employment opportunities also opened up for Pandacan residents when Pilipinas Shell started the soil remediation of the former terminal. “We have

new local hires just for the remediation project,” said Baquiran, adding that they were hired by contractors.

Pilipinas Shell informed the nearby communities about the planned remediation activities and the potential hazards (e.g. soil excavations might cause some noise and bad odour), as well as job openings for skilled workers. While the remediation is ongoing, community liaison officers also regularly update the barangays on the status of the remediation.

Pilipinas Shell also informed the Environmental Management Bureau of the Department of Environment and Natural Resources (DENR-EMB) about the environmental enhancement project. “We also plan to invite DENR leaders to visit so that we can show them our remediation efforts,” said Baquiran.

When all is said and done, however, the exit of Pilipinas Shell from Pandacan is seen as a loss to the community.

Patrick Manalo, who grew up in Pandacan, used to play in the Shell basketball court and recalls how neighbourhood boys would swim in the river next to the warehouse of Pilipinas Shell. Eighteen years ago, Manalo joined Shell, following in the footsteps of his grandfather, father, uncle, and cousin who also worked for Shell. “My family started from the bottom and somehow prospered because of Pilipinas Shell,” said Manalo, now a supervisor at Shell Aviation Philippines. “Pilipinas Shell had been there [in Pandacan] for 100 years, and nothing bad happened. Shell did its job.”

COMMUNITY INVESTMENTS

Social investments that are linked to business priorities are acknowledged as having greater chances of success, provide stronger social credibility, and enable the business to create value. (103-1) Shell has three global social investment themes: access to energy, community skills and enterprise development, and education focused on science, technology, engineering, and mathematics (STEM).

However, operating in a developing country also means addressing significant social issues in the community that may not necessarily fall under the three global thrusts. Pilipinas Shell therefore crafts a healthy mix of social investments tailor-fitted to the local conditions and the needs of the host communities. (103-2)

EVALUATION AND MANAGEMENT

The Social Performance Plan includes a Social Investment Strategy. The Non-Technical Risk (NTR) Management Plan per asset also outlines the risks and potential issues, stakeholder and community feedback, and risk mitigation plan. PSFI helps design and deliver strategic programmes and ensures that we maximise our resources, while looking for opportunities to partner with like-minded institutions.

OUR SOCIAL INVESTMENTS in 2017 (413-1)

Being a good neighbour to our host communities is important to Pilipinas Shell. As part of nation-building, we conduct various activities that address livelihood, health, environment, education, and disaster risk reduction and management.

BOOSTING SKILLS AND ENTERPRISE

Bridging the poverty gap by providing training and livelihood opportunities for locals to become more productive, and to improve the overall local economy

TRAINING AND LIVELIHOOD

Sanayan sa Kakayahang Industriyal (SKIL)

PSFI provided technical-vocational scholarships to 21 out-of-school youth in the fenceline community of the North Mindanao Import Facility (NMIF) in Cagayan de Oro. The SKIL scholars were sent to a school accredited by the Technical Education and Skills Development Authority (TESDA). Upon graduation, they will be linked to PSFI’s partner enterprises for apprenticeship to ease their transition to regular jobs.

|                         |   |   |
|-------------------------|---|---|
| TRAINING AND LIVELIHOOD | Sanayan sa Kakayahang Pangangalakal (SKP) (203-2) | PSFI conducted basic entrepreneurial training for 80 women from the NMIF fenceline community in Cagayan de Oro.   |
|                         | Integrated Farming Bio-Systems (IFBS)             | PSFI reached 1,562 small-scale food producers through the IFBS programme, which helps improve their agricultural productivity and incomes.  |
|                         | Livelihood Support Programme (203-2)              | PSFI taught IFBS to 210 local farmers in Camarines Sur under the Pasacao Typhoon Nina Livelihood Support Programme. In addition, 90 farmers received goats for livelihood and 25 fishermen were given boat rehabilitation subsidy.              |
|                         | JobLink (203-2)                                   | JobLink seeks to match skills available in host communities with projects of the Company, or to job openings with other companies in the area. In Tabangao, 560 applications were endorsed in August 2017 for a project with a partner company. |

COMMUNITY DEVELOPMENT

Bringing the Philippines closer to meeting the Sustainable Development Goals (SDGs) through initiatives that supplement local government programmes and take care of the fundamental needs of nearby communities

|  |   |   |
|--|---|---|
| ENVIRONMENT                                | Carbon Sink Management Programme<br><br>(a requirement of the DENR-EMB) | <p>The Tabangao Refinery is compensating for its greenhouse gas emissions through the Carbon Sink Management Programme (CSMP). As part of the programme, PSFI manages the planting, maintenance, and protection of tree seedlings.</p> <p>In 2017, 83,000 seedlings of indigenous tree species were planted in the 80-hectare land in Mt. Banahaw, Brgy. Kinabuhayan, Dolores, Quezon, which is under the jurisdiction of the National Power Corporation – Makiling-Banahaw Watershed Management Department.</p>  |
|  | Tree Planting   | Facilitated by PSFI under the Tabangao Refinery’s Environmental Stewardship programme, employees and contractors planted a total of 476 ylang-ylang seedlings around the refinery’s new administration building and residential compound.   |
|  | Joint Oil, Fire Safety, and Emergency Response Drill                    | Together with Brgy. Bagong Silang officials, 20 individuals participated in the fire drill at the Shell depot in Puerto Princesa, Palawan. They were also trained in emergency preparedness, response, and rehabilitation.  |
| EMERGENCY RESPONSE AND DISASTER RESILIENCY | Response to Communities Under Emergencies (RESCUE) Training             | NMIF trained 40 emergency volunteers in water search and rescue, and first aid. NMIF also donated firefighting equipment and 400-horsepower rubber boat to enhance the capacity for emergency response of Brgy. Puntod, Cagayan de Oro City.  |
|  | Disaster Relief   | NMIF, together with PSFI, conducted relief operations in response to flashfloods in Brgy. Puntod. 800 packs of relief goods were distributed to affected families.  |
| HEALTH                                     | Medical and Dental Mission (MDM)  | This is a bi-annual activity to help improve the health and well-being of our host communities bordering the Tabangao Refinery in TALIM (Tabangao, Ambulong, Libjo, San Isidro, and Malitam) and TSR (Tabangao to Sta. Rita). Additional services such as circumcision, eye check-ups, HIV/AIDS counselling, and a mobile library for children were also provided. The event, held in partnership with ABS-CBN DZMM, involved 46 doctors, 28 nurses, 27 dentists, 18 medical technologists, two pharmacists, 12 Philippine Air Force staff members, and 136 volunteers across Shell companies in the Philippines. |

|   |                                     |  |
|---|-------------------------------------|--|
| INFORMATION, EDUCATION, AND COMMUNICATION (IEC) | Site Orientation and Facility Tours | The teams from NMIF and Tabangao facilities hosted familiarity visits for select stakeholders in order to share best practices in HSSE and to address any concerns from the community.   |
|   | HIV/AIDS Awareness seminars         | In November 2017, PSFI conducted a series of HIV/AIDS Awareness seminars in TALIM. These were held in five schools, attended by 98 high school and 233 elementary students, and four community groups, with 224 community members. |

INVESTING IN INFRASTRUCTURE (203-1)

Pilipinas Shell, together with partner industries, lobbied for the construction of the 10-kilometre Libjo-STAR Diversion Road in Batangas City. The alternate route was proposed to decongest the city’s main roads from the passage of various utility trucks from Pilipinas Shell, JG Summit, and San Miguel Corporation, among others. Pilipinas Shell and JG Summit funded a Feasibility and Parcellary Study, which served as the basis for the project. Construction will commence in 2018.

Through PSFI, we also provided resettlement housing for hundreds of underprivileged families residing along the coastline, to better protect them from the threat of typhoon and storm surges. Pilipinas Shell partnered with Habitat for Humanity to build homes for 146 families from Anibong, Tacloban and Gawad Kalinga for 20 families from Barangay Puntod, Cagayan de Oro. In addition, Pilipinas Shell helped build 200 houses for the resettlement of Typhoon Sendong survivors in the GK-Shell Village in Brgy. Canitoan, Cagayan de Oro.

REBUILDING MARAWI (203-2)

In May 2017, the Battle for Marawi City broke out between government troops and militants calling themselves the Maute Group. The fighting would last for five months, killing more than 1,000 individuals and displacing nearly 400,000 civilians.

To help the refugees and to rehabilitate the ravaged city, Pilipinas Shell promised to match whatever the employees could raise for the relief efforts. In November 2017, Pilipinas Shell released Php 1 million to Xavier University’s (Ateneo de Cagayan) #Tabang Marawi relief fund.





## NMIF INVESTS IN REFORESTATION OF IP ANCESTRAL LANDS

Pilipinas Shell works with 12 lumad communities in the protected area of Mt. Katalungan in Bukidnon.

Pilipinas Shell is a contributor to the Payment for Ecosystem Services (PES), an environmental system intended to rehabilitate and preserve the forest resources in the upland areas wherein the members of the indigenous people (IP) communities are rewarded for being forest managers.

Under the memorandum of agreement with Xavier Science Foundation and the North Mindanao Import Facility (NMIF), PES is being piloted within the ancestral domain of the Mirayon-Lapok-Lirongan-Tinaytayan Tribal Association (MILALITTRA), which is among the 12 lumad communities in the protected area of Mt. Kalatungan in Talakag, Bukidnon.

Mt. Kalatungan Range Natural Park is the sixth highest mountain in the Philippines, and comprises 5.5% of Bukidnon's land area. Its population is composed of 80% indigenous people from the Talaandig, Higaon, and Bukidnon cultural communities.

NMIF donated Php 662,858 at the start of the project for the rehabilitation of 10 hectares of land, to be completed in 2019. Ultimately, the community development master plan of MILALITTRA aims to reforest 832 hectares, while 816 hectares will be allotted for agroforestry.

In February 23, 2017, Xavier University recognised Pilipinas Shell for being the first corporate partner in rehabilitating Mt. Kalatungan Range National Park and the headwaters that flow to the Cagayan de Oro River.



## PILIPINAS SHELL FOUNDATION INC. (PSFI): Best of 35 years in the service of the Filipino

In 2017, there were more than 90 Pilipinas Shell Foundation Inc. employees nationwide, including the team based at Shell House (in photo).

Making the Future means investing in today. For Pilipinas Shell, our commitment to nation-building means helping to create an environment where disadvantaged Filipinos can become productive and responsible members of society.

We do this through PSFI which independently implements our development programmes. Established on August 19, 1982, PSFI addresses significant social issues in the country. "We do whatever little contribution to help uplift the lives of people," said Cesar Buenaventura, PSFI's founding chairman.

Currently, PSFI's development programmes focus on Shell's global social investment thrusts of providing access to energy; developing skills and enterprises; and enabling the youth to pursue higher education courses in science, technology, engineering, and mathematics (STEM). Beyond these thrusts, PSFI also implements programmes on health, sanitation, and safety; environmental stewardship; disaster relief; and leadership enhancement and attitude development.

"We have a little more flexibility, because the funding for PSFI does not only come from Shell but also from other sources," said Buenaventura. This allows the foundation to extend its reach beyond Shell worksites and host communities to other areas of the country where help is also needed.

Buenaventura added, "We've been very fortunate because we also have a team of dedicated and devoted workers who place the well-being of all our beneficiaries to heart."

After 35 years, PSFI has touched more than 12 million lives. Moving forward, PSFI will continue to empower more Filipinos to become partners in progressive and sustainable development.



PSFI’s outstanding programmes

MOVEMENT AGAINST MALARIA

Movement Against Malaria (MAM), formerly Kilusan Ligtas Malaria or KLM, helped the country achieve Millennium Development Goal 6 (Combat HIV/ AIDS, malaria, and other diseases) in 2008; it is now contributing to achieving Sustainable Development Goal 3 (Ensuring healthy lives and promoting well-being at all ages) by 2030.

The programme started in 1999, when PSFI, funded by the Malampaya Joint Venture Partners, implemented the community-based KLM. Putting its community organising experience to good use, PSFI first worked with the Provincial Health Office and the Department of Health Regional Office to set up microscopy centres in 320 villages to ensure early diagnosis and prompt treatment of malaria.

Thanks to the programme, the number of malaria cases and deaths significantly declined in Palawan, calling the attention of the World Health Organization (WHO) and the Global Fund to Fight AIDS, Tuberculosis, and Malaria. The Global Fund invested \$14.3 million in the programme in 2006, and \$31.4 million in 2010. “We are the first corporate foundation to partner with the Global Fund,” said Buenaventura.

With the grant, PSFI first expanded MAM’s reach from Palawan to Apayao, Quirino, Sulu, and Tawi-Tawi. By 2010, they were beating the disease in 40 malaria-endemic provinces in the country; in fact, malaria was delisted from the 10 leading causes of morbidity in the Philippines after almost 50 years of consistently being on the list.

MAM’s contribution to the reduction of malaria cases earned it the distinction of “Millennium Development Goal Warrior” from the United Nations Development Programme (UNDP) in 2011.



As of last count, 42 provinces in the country are malaria-free, while 31 provinces are now in the elimination phase. There has been a 92% reduction in the total number of cases and 98% reduction in deaths due to malaria in the country in 2017 compared to the 2003 baseline.

“We’ve done quite a bit on the malaria programme; now we’re looking at HIV and tuberculosis. I guess a healthy Philippines is really something we would like to aspire for because health is a very important part of the makeup of any human being,” said Buenaventura.

Upgrading skill sets, uplifting lives

Through the years, PSFI has implemented a cluster of programmes that are designed to improve the technical-vocational skills of Filipinos and further enhance their work opportunities, benefiting more than 8,000 individuals. These include Sanayan sa Kakayahang Industriyal (SKIL, est. 1983), primarily benefiting out-of-school youth; Gas Mo, Bukas Ko (GMBK, est. 2007), which is designed for Shell retail station staff; the Driver Reward and Incentive Programme (DRIVE, est. 2010) for Class A drivers, dispatchers, safety officers, mechanics, and their dependents; and the Unlad sa Pasada (est. 2010), a scholarship programme benefiting dependents of public utility vehicle drivers who belong to the Shell

Pepeng Pasada Club, the loyalty programme of Pilipinas Shell’s Retail business.

Spurring innovation through science education

PSFI supports the Filipino youth in pursuing their studies, enabling them to innovate and create technologies, products, and services that can compete in the global markets and stimulate further economic growth for the Philippines. In 2013, PSFI partnered with the Philippine S&T Development Foundation–Manila, Inc. (PhilDev) for the Shell-PhilDev Scholarship Programme, which has provided science and engineering scholarships to 165 students; as of December 2017, 39 have graduated (two graduating magna cum laude, and 17 cum laude), while 126 are presently enrolled.

In addition, PSFI implemented the Gas Mo, Bukas Ko - Fund for University Education and Leadership Development (GMBK-FUEL) programme in 2014, which provided scholarships to 100 students of Polytechnic University of the Philippines (PUP) taking up industrial engineering, electrical engineering, accountancy, and transportation management. The programme reached its culmination in May 2017 with the graduation of 83 scholars (two graduating magna cum laude and 17 cum laude).

#MakeTheFuture #MalariaFree



2,435  
medical facilities



381,283  
anti-malaria kits for pregnant women



Decline from  
755 deaths (1999)  
to 4 deaths (2017) and  
48,441 cases (2003)  
to 4,020 cases (2017)



21,953  
health workers trained



2.2 million  
houses sprayed with residual insecticides



3.2 million  
diagnosed



8.8 million  
mosquito nets distributed





Benedicto “BenCab” Cabrera is one of the four National Artists who started their career with the Shell National Student Arts Competition.

## OUR LEGACY PROGRAMMES

For decades, some of our most recognised programmes, the Shell National Student Arts Competition (NSAC) and the Shell National Youth Active Chess Championship (SNYACC) have given the youth from all over the Philippines development opportunities. Whether it is giving up-and-coming artists a platform to exhibit their work, or giving aspiring young chess players a venue to test their skills, Pilipinas Shell has — through these programmes — contributed to the country’s cultural growth.

### 50 Years of Shell National Student Arts Competition

The Shell National Student Arts Competition (NSAC) traces its roots to 1951, with a simple art contest for works that would be exhibited in a calendar. From there, NSAC has grown to become one of the most well-known and prestigious youth art contests in the country.

This year’s theme, “The Golden Voyage, 50 years of powering student’s artistry,” underscored how NSAC has helped launch the careers of many young artists. Past winners of the contest include Jose Joya in 1952, Federico

Aguilar Alcuaz in 1954, Ang Kiukok in 1955, and Benedicto “BenCab” Cabrera in 1962, who would all later earn recognition as National Artists.

Other past winners include Juvenal Sanso, Angelito Antioni, Norma Belleza, Danila Dalena, Mario Parial, Luis “Junyee”, Jr., Nestor Olarte Vinluan, Ronald Ventura, Ivan Roxas, Rodel Tapaya, and Leeroy New, all of whom have achieved great success locally and abroad.

To mark NSAC’s 50th anniversary, over 200 pieces of artwork — all previous contest winners — were donated to the Ayala Museum in October 2017. These works, the earliest dating back to 1955, showcase a cross-section of styles and aesthetics from half a century ago to the current day.

This year, young, aspiring artists from 37 colleges submitted a total of 859 entries. An important aspect of the contest is that any college student in the country may enter; this allows NSAC to really tap into the artistic talent of young Filipinos.

Francis Eugene Andrade from Bulacan State University is a three-time NSAC winner who knows first-hand how this contest can change the course of anyone’s career as an artist. “I’ve been recognised by galleries, other people, collectors, and fellow artists. I’ve entered the art scene without expecting it,” he said.

By inspiring artists to create great artwork, NSAC has become our greatest contribution to the country’s active art scene, helping to make it even more dynamic and vibrant.

### 25 Years of Shell National Youth Active Chess Championship

Since it began in 1992, the Shell National Youth Active Chess Championship (SNYACC) has given opportunities to potential champions and grandmasters. Hundreds of chess players in three age brackets, all across the country, have been given the opportunity to join the tournament.

This 2017, its final year, the SNYACC started with 1,700 contenders playing in elimination legs in Batangas, Cebu, Manila, Cagayan de Oro, and Davao.

In total, SNYACC has produced 9 Grandmasters, 12 International Masters, 16 FIDE (World Chess Federation) Masters, 29 National Masters, 16 female International Masters, 9 female FIDE Masters, and 10 female National Masters.

SNYACC has also produced teachers. Several former SNYACC participants — including Wesley So, a former national champion and current US champion from Cavite — have gone on to become personal teachers and coaches for chess teams, helping to nurture the next generation of chess masters.

“Since it began in 1992, the Shell National Youth Active Chess Championship (SNYACC) has given opportunities to potential champions and grandmasters. ”





# HELPING TO SHAPE A MORE SUSTAINABLE ENERGY FUTURE

In the coming decades, more and cleaner energy will be needed for economic development in the face of growing environmental pressures. We continue to contribute to the public dialogue on energy and climate policy. Yet, the global challenges that the world faces are too great for one company, or one sector, to resolve. We advocate that businesses, governments and civil society work together to shape a more sustainable energy future.



# PROMOTION OF SUSTAINABLE DEVELOPMENT

At Shell, our business principles are underpinned with sustainable development. To remain a viable world-class investment opportunity, Shell looks beyond a singular bottom-line. (103-1)

In keeping with our principles and values as a Shell company, Pilipinas Shell behaves responsibly by adhering to all applicable laws, respecting human rights, and ensuring that benefits to communities are maximised, as the negative impacts of our operations are reduced. (103-2)

We advocate for reliable infrastructure and through our bitumen products, we have been instrumental in the construction of the country's roads and runways. Currently, we are building our solar-powered sites to reduce our dependence on the electrical grid. Pilipinas Shell is also supporting the establishment of the first batch of electric vehicle (EV) fast-charging posts in the Philippines with its partnership with QEV Philippines Electromobility Solutions and Consulting Group, Inc.

## SHELL ECO-MARATHON: PUSHING BOUNDARIES IN ENERGY EFFICIENCY



Held every year in Asia, Europe and the Americas, the Shell Eco-marathon is a platform for students and young engineers to hone their skills in designing, building, and driving energy-efficient cars.

The Shell Eco-marathon Asia was held in Singapore from March 16-19, 2017. Prior to this, the Shell Eco-marathon Philippine teams participated in a Challenger Event at the Clark International Speedway in Mabalacat, Pampanga from February 3-4, 2017. In all, 26 teams, composed of over 260 students from 17 schools, vied for top spots in the competition.

Team Aguila from the Mapua Institute of Technology emerged as the champion in the Internal Combustion Engine (ICE) Prototype Category as their car reached a mileage of 401.35 kilometres per litre (km/l). DLSU Eco-Car Team I.C.E. from the De La Salle University-Manila (DLSU) won in the ICE Urban Concept Category as their vehicle clocked in a record 86.33 km/l. Finally, first-time competitors Team Dagisik from the University of the Philippines won in the Urban Concept – Battery Electric Category with a mileage of 110.03 kilometres per kilowatt hour (km/kWh).

Shell looks at the competition as an avenue to help students explore their love of science, hoping that the passion ignited by their experience places them on the path to securing an energy-efficient future.



**LUBRICANTS TECHNOLOGY FORUM: CREATING SYNERGIES FOR BUSINESS SOLUTIONS**



Through the use of effective lubricants, companies can reduce total cost of ownership (TCO), or the total amount spent on vehicles or equipment over its entire working life, including cost of acquisition and operation, as well as costs due to lost productivity during downtime.

Pilipinas Shell held its 6<sup>th</sup> Lubricants Technology Forum at the EDSA Shangri-La Hotel, Mandaluyong City on June 24, 2017.

With the theme, “Synergy: Innovate. Learn. Collaborate.,” the annual forum gathered industry leaders, government officials, and Pilipinas Shell’s distributors and customers to tackle the importance of synergies in sustaining business and economic growth.

Experts from the Shell Global Technology team also showcased the company’s latest innovations in lubricants. Opportunities in the transport, construction, and manufacturing sectors were presented in the breakout sessions, followed by a discussion on the lubricant solutions specific to each sector.

Events like this strengthen Pilipinas Shell’s relationships with key industry players and support the development of innovative lubricants and services that meet the challenging demands of their operations.

**Through the use of effective lubricants, companies can reduce total cost of ownership (TCO), or the total amount spent on vehicles or equipment over its entire working life, including cost of acquisition and operation, as well as costs due to lost productivity during downtime.**

**NEW SERVICES AND PRODUCT INNOVATIONS**

There is a global drive to look for opportunities in energy solutions that combine wind and solar power with gas, for example, and new ways to connect customers to energy. As of 2017, the Company has 15 solar-powered stations.

**SHELL STATIONS IN THE PHILIPPINES TO CATER TO ELECTRIC VEHICLES**



In 2017, Pilipinas Shell partnered with QEV Philippines Electromobility Solutions and Consulting Group, Inc. to put up electric vehicle (EV) fast-charging posts in an initial 100 of its 1,044 retail stations.

ABB, a Swiss multinational company specialising in robotics power and automation technology, has been tapped to supply the electric charging posts.

EVs were introduced in the Philippines in 2008. Local government units were early adopters of EVs and, more recently, real estate developments have started utilising them.

Apart from leveraging on the large retail network of Pilipinas Shell, QEV Philippines also intends to set up charging areas for EVs in malls and other popular establishments.

Pilipinas Shell’s partnership with QEV Philippines supports the push for diversifying the country’s energy mix towards a low-carbon energy future.

**NEXT-GENERATION FUELS AND LUBRICANTS**

There is a need to constantly innovate fuels in response to changing consumer needs and preferences, and to evolving vehicle engine technologies. “At Shell, we develop new fuel formulations, while also considering the different qualities of fuels in the markets where Shell operates,” said Mae Ascan, Shell Senior Fuel Scientist and Regional Technical Lead for Asia.



Shell stations are 100% Euro IV (PH) compliant.



**FRESH FROM THE LAB:**  
**Our latest product innovations**

The Tabangao Refinery laboratory tests the fuels and other fuel products before these are distributed to the retail stations and commercial customers.

To make the future more sustainable, Shell’s research and development teams create innovative fuel and lubricant formulations that are suited to modern vehicle engine technology, safe and reliable for motorists, and backed by extensive science-based tests.

“Customer needs are changing; engines are changing. The intention is to be able to cope with more modern engines, which are becoming smaller but more powerful,” explained Mae Ascan, Shell Senior Fuel Scientist and Regional Technical Lead for Asia.

Challenges that fuel scientists have to contend with include higher operating temperatures and pressure, higher engine load, and exposure to harsher conditions. Some of these challenges are market-specific, such as climate, and the average age of the vehicle fleet or machinery in use. Add the human factor, and the focus is not just on enhancing performance but also safety, efficiency, and economy.

“Our customers are working in highly competitive industries, where operating efficiency and vehicle or equipment reliability is critical to success. As their business partners, we develop high-performing fuels to help customers get the most from their equipment investment, reducing their total cost of ownership in the long run,” said Sarah Rose Lim, Commercial Fuels Marketing Manager.

Shell studies what the market needs so it can deliver the necessary functionalities. For example, the Shell V-Power with DYNAFLEX technology took five years of research and development, testing more than 250 cars with driving time exceeding more than three million kilometres in varying road conditions. Meanwhile, the Shell Rimula R4 L was subjected to more than 64 million kilometres of testing, similar to driving around the world 1,500 times.

For 2017, Pilipinas Shell introduced the following products, with their attendant benefits:

| INNOVATION  | CATEGORY      | VARIANTS   | FUNCTIONAL BENEFIT  |
|---|---------------|--|---|
| Shell V-Power with DYNAFLEX Technology (introduced June 2017)                   | Fuel          | Shell V-Power Racing<br>Shell V-Power Gasoline<br>Shell V-Power Diesel                 | Designed to help clean key fuel system components such as intake valves and/or fuel injectors from the build-up of performance-robbing deposits.<br><br>Shell V-Power Gasoline with DYNAFLEX Technology helps to remove up to 80% of performance-robbing deposits.<br><br>Shell V-Power Diesel with DYNAFLEX Technology helps restore up to 100% of engine performance<br><br>(Actual effects and benefits may vary according to vehicle type, vehicle condition, and driving style). |
| Shell FuelSave with DYNAFLEX Technology (introduced August 2017)                | Fuel          | Shell FuelSave Diesel with DYNAFLEX Technology   | Designed to help provide better fuel economy <sup>1</sup> , improve engine efficiency <sup>1</sup> , and increase load pulling power when needed <sup>1</sup> in heavy-duty diesel engines  |
| Shell Helix High Mileage with Flexi Molecule Technology (introduced April 2017) | Motor oil     | 10W-40 (for petrol-powered vehicles)<br><br>15W-50 (for diesel-powered light vehicles) | Designed to provide up to 40% better wear protection and prolong engine life for high-mileage vehicles (Compared with API SN specification and based on Sequence IVA engine test)   |
| Shell Rimula R4 L (introduced June 2017)  | Engine oil    | 15W-40   | Designed to improve engine protection against deposits, wear, oxidation, heat, and corrosion from acids formed as fuel burns; and meets the CK-4 oil specification without sacrificing oil life or wear protection.   |
| Tellus S2 MX (introduced June 2017)   | Hydraulic oil |  | Designed to protect equipment operating in severe conditions, and achieve longer maintenance cycles; and meets the new Bosch Rexroth approval standards for hydraulic fluids  |

<sup>1</sup> Compared to regular diesel without fuel economy formula. Actual savings may vary according to vehicle, driving conditions and driving style. Internal Shell tests and with our customers have shown a range of fuel savings depending on age of vehicle and type of operations

## PRODUCT QUALITY AND ASSURANCE

We are governed by the Product Stewardship Control Framework. All products are assessed on health and safety impacts prior to launch or introduction or if there have been significant changes to the formulation. (416-1)

Shell conducts extensive product-testing based on a confidence-building test matrix that is able to discount any inherent biases in the process, eliminate any potential errors, account for practical scenarios, and increase the statistical acceptance of the test results. We also collaborate with leading engine manufacturers on fuels research and development projects, and have technical partnerships with some of the leading players in motorsport, including Scuderia Ferrari. Between development and deployment of any formulation, Shell also conducts market trials, set against either extreme conditions (e.g. very cold weather, very hot ambient temperatures) or a worst-case scenario (e.g. manual handling of a sensitive product).

Product stewardship at Shell means that all products are assessed and managed throughout their lifecycle and at each stage of the supply chain, in line with relevant standards and external commitments. Shell makes an assessment of the risks from end-to-end, including any potential health impacts and safety considerations in the formulation itself and in terms of product handling. (103-1)





All Shell products are assessed and managed throughout their lifecycle and at each stage of the supply chain.

We have taken steps in the refining process to reduce the levels of sulphur, benzene and the addition of lead in fuels. Sulphur is reduced via hydro-treating of the gasoline and diesel components. Benzene is reduced by adjusting unit operating conditions to limit feeding the benzene-precursors to the reforming (gasoline upgrading) unit. Furthermore, all specifications of products released out of the refinery meet the requirements of the national regulation. (OG8)

In general, we have a market-based approach to product development and testing. Our pre-deployment market trials ensure that our products fit the purpose they were designed for, and meet the specifications of the particular market (e.g. aromatics, benzene, and sulphur content per volume based on regulatory requirements). We conduct market-specific assessments to minimise any health and safety or environment risks.

Since January 2016, all Shell diesel and gasoline fuels in the Philippines have been Euro IV (PH) - compliant, as per Philippine National Standards specifications. The fuels have a sulphur content of 50 parts per million compared with 500 parts per million, previously, according to Department of Energy Circular No. DC2015-06-0004.

Any information needed to understand and manage the risks associated with our products is communicated to employees, contractors, and customers. Product claims and evidences are also documented in confidential technical reports to the Advertising Standards Council.

Customers are given copies of Safety Data Sheets which contain material information about the product. Pilipinas Shell conducts product/safety seminars for customers to educate them on the chemical properties (including hazards) of products as well as possible benefits vis-à-vis their requirements.

**BUILDING WITH BITUMEN**



Our Bitumen Production Facility, as part of the Tabangao Refinery in 2018, will enable Pilipinas Shell to produce bitumen locally. As the only local player who will no longer need to import its bitumen, Pilipinas Shell will be better able to manage its product allocation and logistics, and offer more competitive pricing.

In the Philippines, Shell bitumen is being used for the ongoing construction of the Bohol International Airport. Our bitumen has also been used to rehabilitate sections of the North Luzon Expressway (NLEX), as well as the 180-kilometre Agusan-Surigao Road which was damaged by a 6.7-magnitude earthquake in February 2017.

Pilipinas Shell has been relying on its Bitumen Import Facility in Villanueva, Misamis Oriental and in the Tabangao Refinery. With the newly upgraded facility, Pilipinas Shell is poised to be a part of the public-private partnerships to build the necessary infrastructure to aid Philippine businesses.

**QQ VANS: VANGUARDS OF PRODUCT QUALITY**



Pilipinas Shell takes product quality assurance on the road through the Shell Quality and Quantity Vans (SQVs). The SQVs conduct surprise product quality and quantity testing at Shell retail stations nationwide.

The SQV team tests and analyses gasoline and diesel products at designated retail stations against Shell product standards. They are equipped to calibrate dispensers in compliance with local legislation on volume delivery tolerances, and to measure pump meter readings to reconcile periodic sales versus withdrawals, or fuels purchased from the site.

The SQV team provides a monthly visit plan to the Operational Excellence Manager, and consolidated weekly results to the Sales and Operations Districts via the Territory Managers. After providing retailers the results of the testing, the SQV team can train retailers to address minor issues such as defective cam locks, pump meters, or over- and under-dispensing pumps on-site.

Each station that passes the SQV testing can proudly hang the streamer, "Tiwala Ka Sa Shell." Currently, there are four active SQVs, with each SQV able to visit around 60 sites per month nationwide.



# CONTINUING THE CONVERSATION ON SUSTAINABILITY

We at Pilipinas Shell encourage multi-sector collaboration and have invited renowned experts in the field of sustainability to speak in our sponsored events such as the Powering Progress Together Forum.

We have partnered with like-minded organisations, such as the Centre for Liveable Cities in Singapore, the Manila Observatory for Climate Resilience, and the Mind Museum for the Future Cities exhibit. (102-12)

Creating a sustainable world is not the job of one company or of one network. We are well-aware that this large task will take a progression of small victories, and an ever-widening circle of collaborators.

## GRI CONTENT INDEX (102-55)

This material has been prepared in accordance with the GRI Standards: Core option, and the Oil and Gas Sector Disclosures.

Please refer to the About the Report section on pages 4 to 5 for information on how we have prepared this Report.



Materiality Disclosures

Pilipinas Shell Petroleum Corporation

Apr 2018

Service

| GRI STANDARD                      | DISCLOSURE NUMBER | DISCLOSURE TITLE   | PAGE NUMBER | DIRECT ANSWERS   | OMISSIONS |
|-----------------------------------|-------------------|--|-------------|--|-----------|
| GRI 101 FOUNDATION 2016           |                   |  |             |  |           |
| GRI 102: GENERAL DISCLOSURES 2016 |                   |  |             |  |           |
| ORGANISATIONAL PROFILE            | 102-1             | Name of the organisation                                     | 4, 10       |  |           |
|                                   | 102-2             | Activities, brands, products and services                    | 26-27       |  |           |
|                                   | 102-3             | Location of headquarters                                     | 10          |  |           |
|                                   | 102-4             | Location of operations                                       | 27          |  |           |
|                                   | 102-5             | Ownership and legal form                                     | 11          |  |           |
|                                   | 102-6             | Markets served   | 11          |  |           |
|                                   | 102-7             | Scale of the organisation                                    | 22          |  |           |
|                                   | 102-8             | Information on employees and other workers                   | 64, 68-70   |  |           |
|                                   | 102-9             | Supply chain   | 25          |  |           |
|                                   | 102-10            | Significant changes to the organisation and its supply chain |             | In 2017, we established new supply points in Zambales, Bataan, Puerto Princesa, and Cebu.  |           |
|                                   | 102-11            | Precautionary Principle or approach                          | -           | The Company has global standards, processes, and tools in place to manage safety, the environment, and community involvement. We aim to continuously improve the way we operate to prevent incidents and identify, avoid where possible, and minimise adverse environmental and social impacts across our projects and facilities. |           |
|                                   | 102-12            | External initiatives   | 36, 94      | We also adopt the Code of Corporate Governance for Publicly Listed Companies by the Securities and Exchange Commission, and follow the Philippine Financial Reporting Standards (PFRS).  |           |
| STRATEGY                          | 102-13            | Membership of associations                                   |             | Philippine Institute of Petroleum<br>Philippine Disaster Resilience Foundation<br>Philippine Business for the Environment<br>Philippine Global Road Safety Programme<br>Philippine Business for Social Progress  |           |
|                                   | 102-14            | Statement from senior decision-maker                         | 12-15       |  |           |
|                                   | 102-15            | Key impacts, risks, and opportunities                        | 12-15       |  |           |



| GRI STANDARD                       | DISCLOSURE NUMBER                     | DISCLOSURE TITLE   | PAGE NUMBER | DIRECT ANSWERS  | OMISSIONS   |
|------------------------------------|---------------------------------------|--|-------------|---|---|
| ETHICS AND INTEGRITY               | 102-16                                | Values, principles, standards, and norms of behaviour                        | 11          |   |   |
|                                    | 102-17                                | Mechanisms for advice and concerns about ethics                              | 29          |   |   |
| GOVERNANCE                         | 102-18                                | Governance structure   | 33          |   |   |
| STAKEHOLDER ENGAGEMENT             | 102-40                                | List of stakeholder groups   | 5           |   |   |
|                                    | 102-41                                | Collective bargaining agreements   | 67-68       |   |   |
|                                    | 102-42                                | Identifying and selecting stakeholders                                       | 4           |   |   |
|                                    | 102-43                                | Approach to stakeholder engagement   | 4           |   |   |
|                                    | 102-44                                | Key topics and concerns raised   | 6-7         |   |   |
|                                    |                                       |  |             |   |   |
| REPORTING PRACTICE                 | 102-45                                | Entities included in the consolidated financial statements                   |             | Pilipinas Shell Petroleum Corp. ("PSPC", "Pilipinas Shell")   |   |
|                                    | 102-46                                | Defining report content and topic Boundaries                                 | 4           |   |   |
|                                    | 102-47                                | List of material topics  | 8-9         |   |   |
|                                    | 102-48                                | Restatements of information  |             | None  |   |
|                                    | 102-49                                | Changes in reporting   |             | None  |   |
|                                    | 102-50                                | Reporting period   | 4           |   |   |
|                                    | 102-51                                | Date of most recent report   | 4           |   |   |
|                                    | 102-52                                | Reporting cycle  | 4           |   |   |
|                                    | 102-53                                | Contact point for questions regarding the report                             | 5           |   |   |
|                                    | 102-54                                | Claims of reporting in accordance with the GRI Standards                     | 4           |   |   |
|                                    | 102-55                                | GRI content index  | 95-98       |   |   |
|                                    | 102-56                                | External assurance   |             | This report is not externally assured.  |   |
|                                    | GRI 200 ECONOMIC STANDARD SERIES 2016 |  |             |   |   |
| GRI 103: MANAGEMENT APPROACH 2016  | 103-1                                 | Explanation of the material topic and its Boundary                           | 38          |   |   |
|                                    | 103-2                                 | The management approach and its components                                   | 38          |   |   |
|                                    | 103-3                                 | Evaluation of the management approach  | 38          |   |   |
| GRI 201: ECONOMIC PERFORMANCE 2016 | 201-1                                 | Direct economic value generated and distributed                              | 58          |   |   |
| GRI 202: MARKET PRESENCE 2016      | 202-1                                 | Ratios of standard entry-level wage by gender compared to local minimum wage |             | The Company discussed compensation and benefits package as part of the overall Employee Value Proposition and aligned with Shell's Performance and Reward philosophy. | The Company did not disclose specific information on wage ratios as this is confidential and proprietary. |
|                                    | 202-2                                 | Proportion of senior management hired from the local community               | 66          |   |   |

| GRI STANDARD                                       | DISCLOSURE NUMBER | DISCLOSURE TITLE  | PAGE NUMBER                    | DIRECT ANSWERS  | OMISSIONS   |
|--|-------------------|---|--------------------------------|---|---|
| GRI 203: INDIRECT ECONOMIC IMPACTS 2016            | 203-1             | Infrastructure investments and services supported                               | 79                             |   |   |
|  | 203-2             | Significant indirect economic impacts   | 78                             |   |   |
| GRI 300 SERIES ENVIRONMENTAL STANDARDS SERIES 2016 |                   |   |                                |   |   |
| GRI 103: MANAGEMENT APPROACH 2016                  | 103-1             | Explanation of the material topic and its Boundary                              | 51-52                          |   |   |
|  | 103-2             | The management approach and its components                                      | 51                             |   |   |
|  | 103-3             | Evaluation of the management approach   | 51-52                          |   |   |
| GRI 302: ENERGY 2016                               | 302-1             | Energy consumption within the organisation                                      | 53                             |   |   |
|  | 302-4             | Reduction of energy consumption   | 53                             |   |   |
| GRI 303: WATER 2016                                | 303-1             | Water withdrawal by source  | 53                             |   |   |
|  | 303-2             | Water sources significantly affected by withdrawal of water                     | 54                             |   |   |
| GRI 305: EMISSIONS 2016                            | 305-1             | Direct (Scope 1) GHG emissions  | 54                             |   |   |
|  | 305-2             | Energy indirect (Scope 2) GHG emissions   | 54                             |   |   |
|  | 305-7             | Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions | 54                             |   |   |
| GRI 306: EFFLUENTS AND WASTE 2016                  | 306-2             | Waste by type and disposal method   | 56                             |   |   |
|  | 306-3             | Significant spills  | 56                             |   |   |
| GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT 2016    | 308-1             | New suppliers that were screened using environmental criteria                   |                                |   | Supplier environmental assessments are part of our general supplier assessment approach. All our suppliers must comply with the Shell Supplier principles, but assessment against specific criteria is based on perceived risk. |
| GRI 400 SOCIAL STANDARDS SERIES 2016               |                   |   |                                |   |   |
| GRI 103: MANAGEMENT APPROACH 2016                  | 103-1             | Explanation of the material topic and its Boundary                              | 60, 64, 68, 70, 73, 77, 87, 91 |   |   |
|  | 103-2             | The management approach and its components                                      | 60, 62, 65, 68, 70, 73, 77, 87 |   |   |
|  |                   | Evaluation of the management approach   | 62, 65, 70, 74, 77, 94         |   |   |
| GRI 401: EMPLOYMENT 2016                           | 401-1             | New employee hires and employee turnover  | 64                             |   |   |
| GRI 402: LABOUR-MANAGEMENT RELATIONS 2016          | 402-1             | Minimum notice periods regarding operational changes                            |                                | There is no "standard" minimum number of weeks as engagement plans would depend on change and the impact of the change to employees, but definitely an engagement prior to any change has to be made.   |   |
|  |                   |   |                                | None stipulated in the CBA, but the monthly LMC (Labor Management Council) meetings are a venue to inform/engage/consult the union officers of upcoming changes in policy/processes/etc. The CBA negotiations follow their respective negotiation timelines, which is typically 6-10 months prior to the expiration of the current agreement. |   |

| GRI STANDARD                                  | DISCLOSURE NUMBER | DISCLOSURE TITLE  | PAGE NUMBER | DIRECT ANSWERS  | OMISSIONS   |
|---|-------------------|---|-------------|---|---|
| GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016  | 403-2             | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities |             |   | Lost days are currently not being reported in Downstream, globally. We do, however, track Total Recordable Cases.                                     |
| GRI 404: TRAINING AND EDUCATION 2016          | 404-1             | Average hours of training per year per employee   | 66          |   | The Company currently does not have the means to capture the amount of training that employees undergo, given that many require specialised training. |
| GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016 | 405-1             | Diversity of governance bodies and employees  | 69-70       |   |   |
| GRI 406: NON-DISCRIMINATION 2016              | 406-1             | Incidents of discrimination and corrective actions taken  |             | No incidents of discrimination reported for 2017.     |   |
| GRI 413: LOCAL COMMUNITIES 2016               | 413-1             | Operations with local community engagement, impact assessments, and development programs                                      | 77-79       |   |   |
|   | 413-2             | Operations with significant actual and potential negative impacts on local communities  | 75          |   |   |
| GRI 416: CUSTOMER HEALTH AND SAFETY 2016      | 416-1             | Approach to stakeholder engagement  | 75          |   |   |
| GRI 419: SOCIOECONOMIC COMPLIANCE 2016        | 419-1             | Non-compliance with laws and regulations in the social and economic area  |             | The Company hasn't been fined for any non-compliance. |   |

OIL AND GAS SECTOR DISCLOSURES

|                                    |      |  |           |  |  |
|------------------------------------|------|--|-----------|--|--|
| ASSET INTEGRITY AND PROCESS SAFETY | OG6  | " Volume of flared and vented hydrocarbon"   | 55        |  |  |
|                                    | OG8  | Benzene, lead and sulfur content in fuels  | 92        |  |  |
|                                    | OG10 | Number and description of significant disputes with local communities and indigenous peoples   | 75        |  |  |
|                                    | OG11 | Number of sites that have been decommissioned and sites that are in the process of being decommissioned  | 57-58, 76 |  |  |
|                                    | OG12 | Operations where involuntary resettlement took place, the number of households resettled in each, and how their livelihoods were affected in the process | 75        |  |  |
|                                    | OG13 | Number of process safety events, by business activity  | 45        |  |  |
|                                    |      |  |           |  |  |



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[pilipinas.shell.com.ph/](http://pilipinas.shell.com.ph/)

