

# COVER SHEET

1 4 8 2 9       
S.E.C. Registration Number

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

(Company's Full Name)

4 I S T   F L R .   F I N A N C E   C E N T E R ,   2 6 T H  
S T .   C O R .   9 T H   A V E . ,   B O N I F A C I O  
G L O B A L   C I T Y ,   B R G Y .   F O R T  
B O N I F A C I O ,   T A G U I G   C I T Y ,   M E T R O  
M A N I L A   1 6 3 5

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

ATTY. ERWIN R. OROCIO  
Contact Person

+(632) 3 499 4001  
Company Telephone Number

1 2  
*Month*

3 1  
*Day*

Fiscal Year

17-C  
FORM TYPE

0 6  
*Month*

1 6  
*Day*

2<sup>nd</sup> Tuesday of May  
Annual Meeting

CERTIFICATE OF  
PERMIT TO OFFER  
SECURITIES FOR  
SALE DATED 14  
OCTOBER 2016

Secondary License Type, If Applicable

M S R D  
Dept. Requiring this Doc.

Amended Articles Number/Section

320  
Total No. of Stockholders  
(As of 31 July 2020)

Total Amount of Borrowings

Domestic

Foreign

**To be accomplished by SEC Personnel concerned**

File Number

\_\_\_\_\_  
LCU

Document I. D.

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Cashier

STAMPS



## **Item 9 - Other Events**

### **Pilipinas Shell Strengthens Financial Position to Weather COVID-19 Storm**

Pilipinas Shell Petroleum Corporation (the "Corporation") is making strategic choices to secure the long-term sustainability of its business and thrive in both the ongoing energy transition and the new normal created by the COVID-19 pandemic.

With the price of fuel products lower than or almost equal to the cost of refining crude oil, the Corporation is permanently shutting down its refinery operations in Tabangao and transforming the facility into a world-class full import terminal to optimize its asset portfolio and enhance its cost and supply chain competitiveness.

"We have the technical capability and financial flexibility to manage and adapt to disruptive conditions. Due to the impact of the COVID-19 pandemic on the global, regional and local economies, and the oil supply-demand imbalance in the region, it is no longer economically viable for us to run the refinery," says President and Chief Executive Officer Cesar Romero.

The shift in supply chain strategy from manufacturing to full import, is a move that will further strengthen the Corporation's financial resilience amidst the significant changes and challenges in the global refining industry and the change to the new normal brought about by the COVID-19 pandemic. It also prepares the Corporation for a future that will rely on more and cleaner energy solutions.

The Corporation is in fighting form as it goes deeper into the second half of the year, narrowing its quarter-on-quarter net loss from P5.5 billion in the first quarter to P1.2 billion in the second quarter, as crude oil and product prices slightly improved and stabilized during the second quarter. Net loss booked as of end of June totaled P6.7 billion.

Despite seeing volume and earnings recovery in the months of May and June, the Corporation remains cautious given the spike of COVID-infected cases in the country and the consequent decision to place Metro Manila, Bulacan, Cavite, Laguna, and Rizal under modified enhanced community quarantine (MECQ) again.

To ensure the Corporation remains financially resilient, and to preserve cash, the Board of Directors of the Corporation has also decided to cancel 2020 dividend payouts for 2019 financial results.

"We are committed to make the right sustainable decisions now to protect our shareholders for the long-term," says Romero.

### **Uninterrupted supply**

It was a tough decision for the Corporation to suspend refinery operations last May 24. Throughout this period, the Corporation's supply of quality fuels remained uninterrupted. "Pilipinas Shell has been consistently supplying quality fuels to its customers and the motoring public," Romero says. The Corporation's access to the Shell global trading network ensures a continuous and reliable source of quality fuel products.

The Tabangao facility will continue to cater to the fuel needs of Luzon and Northern Visayas, while the North Mindanao Import Facility (NMIF) in Cagayan de Oro will serve the growing energy needs in the balance of the Visayas islands and the whole Mindanao region.

## **Demand crash**

According to the Department of Energy, demand for petroleum products declined by 20 to 30 percent in March, and by as much as 60 to 70 percent in April during the imposition of the enhanced community quarantine, compared to February 2020 levels.

This is reflected in the Corporation's performance, as the Corporation ended the first half of 2020 with P6.7 billion net loss, compared to P3.7 billion income in the same period last year.

Inventory holding losses were substantial at P5.8 billion, as the price of crude oil plummeted from \$67 per barrel at the end of December 2019 to \$20 per barrel in April.

The non-fuels retailing business contributed 13 percent in gross margin, aided by partnerships forged with delivery companies to help transport non-fuels retail products to selected parts of the country. In the first half, five new Shell Select shops, 11 Shell Helix Oil Change (SHOC)+ and 14 co-locators were opened. Shell retail stations now total 1,129 nationwide.

Aviation fuels registered 43 percent decrease in volume in the first half of 2020 compared to the same period last year. Bitumen local volume decreased by 62 percent compared to previous year's figures.

## **Financial Resilience**

"The pandemic has definitely posed some challenges, but we have a strong balance sheet, retained earnings, and a reasonable gearing of 40 percent. We intend to maintain financial resilience," says Romero.

To date, the Corporation has been making headway in its cash preservation efforts to deliver sustainable cash flow, achieving a total of P1.3 billion (P800 million in operating expenditures and P500 million in capital expenditures) against the P2 billion savings target for 2020.

"Pilipinas Shell has been here for more than 100 years and we're here for the long haul. *Kasama niyo kami sa bawat biyahe ng buhay* (we are with you in your life journeys)," he says.

## **Board-Approved Actions**

Accordingly, at the Regular Meeting of the Board of Directors of the Corporation held on 12 August 2020 via teleconferencing, at which meeting a quorum was present and acting throughout, the following matters were discussed and approved:

1. The transformation of the Tabangao Refinery into a world-class full import facility;
2. Amendment of the Primary Purpose of its Articles of Incorporation; and
3. No dividends will be declared in 2020.

On (1), Tabangao Refinery will be transformed into a world-class full import and storage terminal for finished products and components to support the long-term sustainable

plan of the Corporation. This will translate to an estimated asset impairment of P6 billion (post tax) to be recognized in 3Q2020. Said impairment will not have a cash impact on the Corporation.

On (2), the Primary Purpose of the Articles of Incorporation of the Corporation will be amended and broadened to:

“To purchase, acquire, import, manufacture, refine, transport, use and store any and all kinds of petroleum and petroleum products, components, additives, lubricants, bitumen, chemical and/or petro-chemical products; and to market, distribute and sell at wholesale, export, exchange, deal in and dispose of such products and by-products which may be produced, developed or made therefrom.”

Consequently, secondary purpose item (c) will be deleted and all subsequent secondary purposes will be renumbered accordingly.

On (3), the Corporation’s decision to take a more prudent approach to preserve cash and consequently cancel dividends for 2020 was induced by the continuous uncertainties due to the impact of COVID-19 pandemic, including the reinstatement of Modified Enhanced Community Quarantine (MECQ) from 04 to 18 August 2020.

The Corporation continues to employ strategies to address the impact and work towards business recovery.

## **SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the Corporation has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: 12 August 2020



**ERWIN R. OROCIO**  
Corporate Secretary