

GROWTH AND INVESTMENT: Creating Value

Delivering long-term value to our stakeholders is at the heart of our service delivery. Extending the economic and social benefits of safe, reliable, and accessible fuel is our driving objective. To fuel progress for the Filipino, we continuously pursue growth opportunities in both the fuel and non-fuel segments, while maintaining a reliable and efficient supply chain.

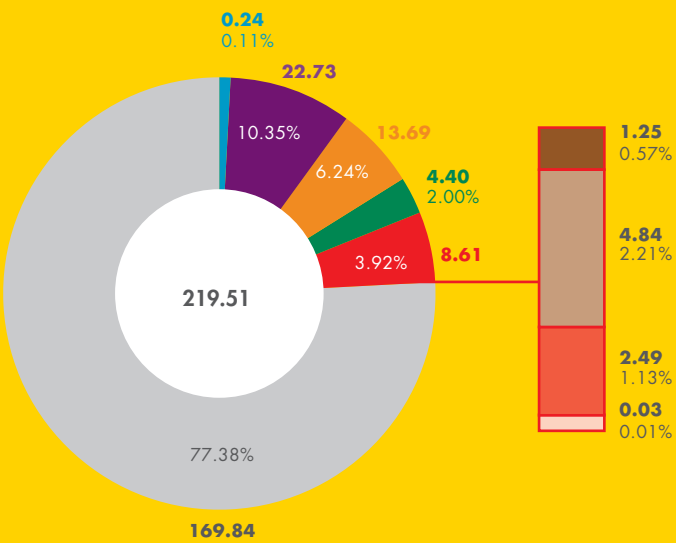
For 2018, Pilipinas Shell's capital expenditures remained at around Php 4.1 billion, distributed thus:

- 50% for the retail segment;
- 30% for manufacturing; and
- 20% for supply and distribution

This year, we established an additional 50 new retail stations in strategic locations of the country, evenly matched by geographically advantageous supply points. Our retail sites are the most efficient in the country, with an average sales volume per station of more than twice the industry standard.

Our sustainability goals propel us forward because we collectively focus on creating a better world that is fair and just for all. Our investment in the Philippines is for the long-term. We lead with impact, aligned with our strategy and vision, while safeguarding the future and driving social good.

2018 ECONOMIC VALUE GENERATED AND DISTRIBUTED
(IN PHP BILLION) 201-1



LEGEND

- Economic Value Retained
- Government (taxes, duties, levies)
- Payments to Suppliers
 - Crude and Finished Products Suppliers
 - Service Providers
 - Equipment, Property and Other Suppliers

- Employees
- Communities
- Providers of Capital
 - Shareholders
 - Creditors

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Pilipinas Shell now produces main-grade and premium-grade bitumen locally



Enhanced reliability and quality of supply through the Bitumen Production Facility

102-10

The year 2018 marked a milestone for Pilipinas Shell, as the country's only Bitumen Production Facility has become operational. Pilipinas Shell is now fully capable of producing the main-grade (Bitumen PEN 60/70) and premium-grade (Polymer Modified Bitumen or PMB, branded as Shell Cariphalte). Previously, the Company imported all of its bitumen products.

As global economies continue to expand, the demand for bitumen will remain strong. The facility enables Pilipinas Shell to address the demand from both local and regional markets. Locally, the investment can support the government's "Build, Build, Build" program and at the same time export products to international customers through the Shell Group.

The bitumen production facility also improves the refinery's flexibility by enabling the conversion of fuel oil output to bitumen, which is a more valuable product. This flexibility allows the Company to address market changes like the new regulation of the International Maritime Organization to lower the limit for sulfur content in fuel oil carried on ships to 0.5% from 3.5% starting January 2020.

Pilipinas Shell logged its first successful on-spec production in August 2018, and its first export sales to Malaysia, Taiwan, and Vietnam in the last quarter of the year. The Company is also looking to serve other Asian countries.

PRODUCT QUALITY AND ASSURANCE

As with our fuel products, customers are assured that the locally produced bitumen complies with global production and laboratory testing standards to assure quality excellence prior to release.

Pilipinas Shell guarantees that the base bitumen product already meets national specifications. The additives or enhancements that make it export-quality, which are imported from Shell Research & Development, are also fit for purpose. The mix can be adjusted to meet country-specific standards, such as for viscosity, among others.

Our Bitumen group works closely with vessel owners to ensure that customers receive the same high-quality product that leaves the refinery. The vessels have the heating capabilities to safely transport bitumen; before the product is discharged, it should meet the agreed delivery temperature. The locally produced bitumen should be of the same quality and standard offered by Shell globally.

Our bitumen products can be and have been used for various types of infrastructure projects, depending on structural functions and the development pace of our partners. Our Shell Cariphalte has paved the Formula 1 racetrack in Singapore, as well as airports in Dubai and Hong Kong. Additionally, we have a cold-mix bitumen that is suited for farm-to-market roads in small municipalities. Once a municipality has achieved a higher level of development, we are ready to supply bitumen products suited for gravel road upgrading.

We differentiate ourselves not just by the quality and diversity of our portfolio, but also by offering technical assistance, among other services, to our customers.

Retail site and refinery tour for key analysts and investors

Last August 28, 2018, Pilipinas Shell hosted a day tour of the Tabangao Refinery and the Company's retail sites to introduce the integrated business to analysts and investors. This was the first tour for analysts and investors after the Company's debut at the Philippine Stock Exchange.

The tour started with a safety orientation in the morning, and a visit to company- and dealer-owned retail sites. Participants could assess for themselves the strengths of the network, and experience world-class service through interactions with Pilipinas Shell retailers and service champions.

In the afternoon, the participants resumed their tour at the Tabangao Refinery, where they learned about the manufacturing side of the business. Apart from learning more about the refining process, they also witnessed how the Company applies some of its safety and asset integrity principles.

Through the Investor Relations team, the Company remains open to host tours in its key assets to help the investment community better understand the Company's integrated business.

The New Tabangao Gantry

We continuously improve our supply and logistics facilities to effectively reduce road congestion and enhance safety of movement in our terminals. In 2018, Pilipinas Shell invested Php260 million in the ongoing expansion of the Tabangao depot and completed the construction of an additional gantry in the Tabangao Refinery. The initiative significantly increased loading capacity and enabled quicker turnaround, cutting gate-to-gate time of delivery trucks by around half. It also allowed independent access to the fuel terminal, curbing risks of delays due to impassable traffic or repairs in the main roads.

EXPANDING RETAIL NETWORK 102-4

We aim to ensure that everything that a person can possibly need on a journey is available with one pitstop at Shell. Our Integrated Retail Offer ensures that Shell stations are a one-stop shop for the convenience of the customer, with restrooms, car service centers, automated teller machines (ATMs), and the Select shop and deli2go. Co-locators, such as popular food establishments, provide additional options for the customer.

■ Additions in 2018 ■ Total, end-2018



Retail stations
■ 50
■ 1,084



Shell Select
■ 33
■ 135



deli2go
■ 17
■ 58



Shell Helix Oil Change+ and Helix Service Centers
■ 75
■ 337

In the medium-term, Pilipinas Shell seeks to put up 50 to 70 new retail stations every year, growing to around 1,200 stations by 2020. For non-fuels retailing, the Company expects to grow 15 to 20 Shell Select convenience stores and deli2go, and 30 to 50 Shell Helix Oil Change+ and Helix Service Centers annually.

Note: Figures for new openings of Select, deli2go and SHOC+ and HSC are net of closures in 2018



Pilipinas Shell rolls out solar-powered stations



Building more energy-efficient retail stations

As consumers become more environmentally conscious, companies are expected to better manage their footprint. Pilipinas Shell is responding to this challenge by incorporating energy-saving and waste-reducing features in new retail stations and their retrofitted counterparts. By pursuing smarter solutions to energy needs, Pilipinas Shell hopes to fulfill the global sustainability and social purpose ambition of Shell Retail to reduce the network’s overall carbon footprint.

Sustainability has become integrated in the ongoing program as the Company expands, updates, and upgrades the retail network. Investments such as solar panels, sophisticated service station hardware including economic dispensing systems, and recyclable construction materials are geared toward not just operational efficiency and excellence, but also environmental protection.

Pilipinas Shell has the second biggest retail network in the Philippines. Based on footprint, establishing more sustainable retail sites and updating old sites will have significant benefits to the community. The cumulative effect will lead to reduced pressure on the power grid, fewer emissions, and less waste sent to the landfill.

Ultimately, Pilipinas Shell’s transformed retail network aims to:

- cater to the customer’s every need and support their on-the-go lifestyle while enhancing their well-being;
- do no harm to the community by maintaining stringent safety protocols and properly managing waste; and
- save on energy and contribute to lowering the overall carbon footprint of the Company.

The Company made improvements and additions to the Shell model site to create what is becoming a standard low-carbon site. Among these add-ons are:



Solar power. Solar panels are installed in some of our sites. From the pilot solar-powered site in 2017, there are now 33 solar-powered retail stations. The shift to renewable energy has resulted in less power sourced from the grid – by as much as 25% in some sites. Considering that the retail stations are found in heavily trafficked and populated urban areas, this also eases the power demand for the community.



LED lighting. Since 2011, the Company has been using more efficient light-emitting diode (LED) lighting for under-canopy lights at the retail stations; recently, this has expanded to include all in-store lights, even the lights used by the chillers.



Inverter technologies. Pilipinas Shell uses inverter technologies for refrigeration and cooling to decrease energy usage at the retail sites.



NOx paints. Apart from ensuring well-ventilated buildings at the stations, the Company also uses paints that reduce nitrogen oxides (NOx) and maintain good air quality onsite.



Oil and water separators. Any run-off from the wash bay or forecourt is collected by an oil and water separators, which is cleaned daily. There is a separate area for hazardous materials, and these are picked up separately by licensed hauliers. Petroleum products coming from the site are well contained and treated in the right manner as they leave the stations.



Double-walled tanks. Retail stations employ a wet stock management system and conduct real-time statistical inventory to ensure that possible loss-of-containment or leaks are immediately detected. Moreover, fuel tanks are double-walled to mitigate any potential leaks.



Soil and groundwater testing. Pilipinas Shell also conducts soil and groundwater testing to determine whether soil remediation is needed; when Pilipinas Shell exits a retail station, the condition of the soil is expected to be the same as when they arrived.



Eco-bricks. We started exploring the conversion of lubricant bottles from our lube bays into eco-bricks to be used for wall fencing at Pilipinas Shell’s new retail sites. The eco-brick has been proven to be cheaper than traditional bricks, offering savings in construction costs. These bricks are also sturdier, with fewer breakages during storage, and require less man-hours to construct.

Eco-bricks: One step closer to zero waste

Eco-bricks made from lubricant bottles were first used in the Philippines in December 2018. Prior to being approved for use, the eco-bricks underwent rigorous testing by global and local teams from HSSE, Engineering & Network's Force for Good team, Operations, and External Relations.

Locally, the lubricant packaging is being repurposed by a social enterprise called Green Antz Builders, Inc. Pilipinas Shell Foundation, Inc. partnered with Green Antz to build an eco-brick hub in Cagayan de Oro City that will hire locals from around Shell's North Mindanao Import Facility, collecting not only used Shell lubricant bottles from the surrounding Shell retail sites, but also plastic waste from the depot's fenceline community.

Converting the plastic waste into eco-bricks benefits both the Shell retail network and the local community, not only in terms of solid waste management, but also in terms of acquiring quality alternative construction materials. Green Antz supplies eco-bricks not just for fence-building at Shell retail sites, but also for constructing affordable housing and schools in the nearby communities.

An expansive supply chain logistics model for collection of the used retail lubricant bottles from the various Shell retail sites is currently being set up so that this impactful initiative can be replicated and scaled.

The eco-brick is a cost-efficient and sustainable solution to lower the Company's waste and carbon footprint. This is also true of the larger Shell Group. In the East region alone, Shell has the potential to repurpose around three million lubricant bottles annually, preventing 600 tons of plastic waste from going to landfill, or 1,800 tons of CO₂ from being emitted if the plastic is incinerated.

Recycling the plastic waste into eco-bricks is not only good for the environment, but also for maintaining the integrity of the Shell brand. Successful recovery of Shell-branded lubricant bottles also translates to fewer opportunities for counterfeiters to collect, refill, and repackage the empties for fraudulent sale. Limiting or removing those opportunities, locally, means that Pilipinas Shell guards against potential reputational risk.



Green Antz converts Pilipinas Shell plastics into eco-bricks that are used to build schools

GROWING NON-FUELS BUSINESS

Our retail sites are in growth thoroughfares—they are chosen based on how the market is projected to grow in the coming years. We try to anticipate what the market needs and provide the high level of customer service that Shell is known for.

Shell aims to offer what motorists want by taking care of both the drivers and their vehicles. It is a complete offer in an oasis of convenience—affordable food choices from Select and deli2go, places to relax and dine in quick service restaurants, as well as car maintenance services at Shell Helix Oil Change+ outlets.

Being primary points of contact with our customers, our retail stations are instrumental in promoting our advocacies and pushing for more people to adopt a more sustainable lifestyle. The retail station is where we encourage our customers to participate in a social or environmental cause. In 2018, for example, we implemented our Hydration campaign, which not only launched Select as a venue for replenishment where you can find a wide range of beverages, but also where a conscientious customer may avail of a Select Eco-tumbler made from recycled plastic and sourced from eco-waste advocate, Plastic Bank. [Read related story, "Changemakers...", on page 82.]



Select and deli2go:
good food on the go



For active and busy motorists, a quick bite to eat can be an afterthought, to the point that sometimes just anything will do. Pilipinas Shell motorists, however, need not worry—our retail stations put a premium on food and convenience. Both Select and deli2go specialize in a variety of delicious and affordable food options that enhance well-being.

HEALTHY SNACKING

Shell retail stations became the destination, not just a pitstop in the journey, as foodies visited our stores in 2018 to experience a delightful dessert: the charcoal-infused limited-edition black soft-served ice cream. The first of its kind in the country, this charcoal-infused ice cream offers a unique food experience while helping the body reject toxins.

We pride ourselves in offering healthier food options than the average convenience store. This year, we piloted air-fried food, which has lower fat content and calories compared to deep-fried foods, across the Select stores. Our on-the-move customers need not forego their favorite fried foods—they receive the same flavorful crisps they crave, guilt-free.

RICE MEALS AND DESSERTS, TOO

Select also elevated the ubiquitous "ulam rice" and rice toppings with Sisig rice, Tinapa rice, Tapsilog and Bistek rice to name a few. There is something for everybody, whether they prefer Spanish, Chinese, or our native Filipino food.

Finally, we also launched our branded deli2go cold-pressed juices in many more of our stores. Made of best-quality ingredients, each juice drink is made of ½ kilo of fresh fruits and 1.5 kilos of vegetables, all pressed in a compact and affordable bottle.

From 65 Select shops and opening our first deli2go in 2016, we ended 2018 with 135 Select shops and 58 deli2go to serve Filipinos nationwide.



Fuel of choice

We always look for opportunities to innovate. Our focus is not only on delivering high-quality products but also helping our customers achieve their goals. In 2018, we launched digital innovations to help our customers design and operate their processes more efficiently. [Read related story, “Digital Enablers...” on page 44.]

For consumers, the expert advice of their chosen car manufacturer is an important factor when deciding what fuel to use. “We are proud to be the fuel of choice of these brands. Their trust is an affirmation of the quality of our products,” says Mark Malabanan, Pilipinas Shell Senior Category Manager.

Through these partnerships, Pilipinas Shell is able to establish the Shell habit early with new car owners by providing them a welcome kit that includes a voucher for their first fill. Customers also receive Shell Select and deli2go gift cards, as well as a guidebook containing helpful tips for effective car maintenance and efficient travels.



TRANSFORMATIVE TECHNOLOGY
AND CUSTOMER SERVICE

Knowing our customers—understanding their most pressing problems and anticipating their emerging needs—makes it possible for Pilipinas Shell to tailor the products, services, and solutions that we offer. Our focus is on a total value proposition—consistent, high-quality products and excellent after-sales services.

DIGITAL ENABLERS: FLEET SOLUTIONS

In the B2B market, for example, Shell Fleet Solutions constantly delivers on our promise to provide the customer with reliability, convenience, control, security, savings, and sustainability. We seek to be our customer’s first choice for mobility solutions and earn the trust of the market by providing relevant leading-edge technologies.

In 2018, we launched the following new CVP features:



Site restriction: This gives fleet managers the power to decide where the cards can be used, enabling more secure transactions, depending on the geographic locations of the fleet. They have the choice to include or exclude a group of sites, or individual sites.



Product-specific restrictions (Fuel and Lubricants): The Shell Card may be used for both fuels and lubricants. Specific balances like liters for fuels and peso for lubricant can be set for each product line.



Fleet ID: This adds an extra layer of security for fleet managers. A specific ID for each driver allows for personal accountability. Managers can now identify which driver is using the vehicle, matching that driver’s authorized trip ticket and fuel allocation.



Velocities: Outside of setting daily, weekly, and monthly value limits, the Shell Card may now address annual and lifetime velocities. This provides greater flexibility in allocations, as needed, with the option to “rollover” credits.

The Shell Card continuously evolves to meet customer needs. Our global Customer Value Proposition (CVP) presents new features that target the immediate needs of our market, with benefits resonating to the driver, fleet manager, controller, and finance manager.

Providing solutions means that customers have the pick of the best and most relevant feature. A car leasing company, for example, will benefit from a Fleet ID that will indicate which among multiple drivers has control of the vehicle. Trucking companies with specific routes will benefit from Site Restriction.

Pilipinas Shell also provides a complementary Partner Card that allows the benefits to be extended to third parties, with the customer billed only for the amount that is consumed under the set limits.

Given our offerings and our efforts to reach out to customers to ensure their satisfaction with our performance, we attracted more fleet accounts in 2018, nearly double the amount from the previous year.

In 2019, Shell Fleet Solutions will also be offering the feature of One-Off Cards which can be issued in case of emergency, so that customers can continue to benefit from Shell’s products and services.

SKYPAD: AVIATION GOES DIGITAL

Last May 2018, Shell Aviation replaced the traditional invoicing process with the faster digital alternative, dubbed the Skypad, in Manila.

As a digital processing system, the Skypad eliminates paper transactions, reduces errors and improves accuracy of invoicing, and allows quicker turnaround time of the aircraft.

Capturing and recording data related to refueling transactions is no longer a tedious manual process, as the Skypad allows refueling tickets to be automatically populated with the flight information. Automated data checks contribute to invoice accuracy, and more importantly, live fuel delivery information and stock data can be easily analyzed in real time for fuel management solutions.

The refueling information and copies of electronic PODs (proofs of delivery) are also stored on our secure platform hub and may be viewed by key customers.

Shell’s safety culture extends to customers

As part of the Company’s advocacy on road safety, we leverage on our Health, Safety, Security and Environment expertise by offering additional services such as extensive roadside assistance coverage and defensive driving training for our customers.

“Our thrust of ensuring all Shell employees go home safely to their families is also the thrust we share with our customers,” says Millan Valdepeñas, Fleet Solutions Marketing Manager at Pilipinas Shell. “Pilipinas Shell is your best partner on the road.”

For 2018, Shell Card helped more than 1,500 of our customers travel safely and with ease. Roadside assistance covered everything from towing services (including secondary towing) to fuel delivery, flat tire replacement, battery boosting, locksmith service, and even delivery of a spare car key.

Meanwhile, 700 of our customers received four to six hours of training on defensive driving. The training shared our HSSE value to customers so that their drivers can be more proactive in terms of safety. It honed their protective instincts and ability to make judgment calls that save lives, time, and money despite the road conditions. Defensive driving is not only relative to other drivers but also to external, non-human factors.

More than
1,500 OF OUR CUSTOMERS

traveled in 2018 safely and with ease through enrollment in Roadside Assistance

700 OF OUR CUSTOMERS

received four to six hours of training on defensive driving

Shell Technology Forum 2018



Over **20 SPEAKERS**
across different industry sectors

More than **200 DELEGATES**
from manufacturing, construction, transport, and mining

Pilipinas Shell hosted the Shell Technology Forum, dubbed “Future Forward: Future Ready,” on May 16, 2018. The theme “Emerging Needs. Innovative Solutions. Stronger Partnerships” emphasized cooperation among industry stakeholders—an apt choice, given that the annual forum is a venue for brainstorming innovative solutions to address current and emerging needs.

“Together, anything is possible,” was Pilipinas Shell’s battlecry at the Technology Forum. Lending credence to this statement, more than 200 delegates from the construction, manufacturing, mining, and transport industries gathered to exchange their ideas. They were joined by representatives from the government and key opinion leaders from the private sector.

A change in format allowed the delegates to take part in not just the plenary sessions but also think tank discussions and breakout sessions on industry-specific developments and solutions. These discussions were facilitated by representatives from Shell Commercial Fuels, Global Lubricants, and Shell Fleet Solutions.

Shell Technology Forum 2018 updated the economic outlook for the country as well as the opportunities across the industry sectors: new methods of automation under manufacturing; the government’s ongoing “Build, Build, Build” program and what it means for the construction industry; stricter regulations and the need for quality fuel in mining; and fuel efficiency technologies vital to the transport sector.

In particular, the discussion on emerging industrial technologies and sustainable future-forward solutions allowed industry practitioners to share their current best practices, while Pilipinas Shell demonstrated our position as a strategic partner that could ease the transition into a future of low carbon energy. Among the well-received ideas were how to leverage on the benefits of Shell’s DYNAFLEX technology for heavy-duty vehicles, save costs and add mileage offered by technology, utilize telematics for a stronger network, and digitally enable fleet management.



“We recognize the everyday courage of our bikers, and Shell Bike Fair is one of the ways we can celebrate their journeys”

STEVE QUILA,
General Manager for Lubricants,
Pilipinas Shell Petroleum Corporation



Shell Bike Fair 2018

For four years now, Pilipinas Shell has hosted the Shell Bike Fair as a ‘thank you’ to motorcycle and scooter riders. With the theme, “Together, We Ride Stronger,” this year’s event gathered riders, bike enthusiasts, and the country’s bike clubs and associations. Nearly 7,000 bikers came together, more than double the attendees from the previous year. Also present were Pilipinas Shell partner distributors, retail trade outlet owners, and media practitioners.

The initial leg of the bike fair was held in July at the CAP-John Hay Trade & Cultural Center in Baguio City, while the culminating leg was held in September at the Philippine International Convention Center (PICC) in Pasay City. At both venues, activities revolved around rewarding the bikers: participants enjoyed special offers, booth games, and freebies, and raffles prizes including brand-new motorcycles.

A highlight of the event was the Shell Outriders Nationwide Search for the Best Bike Club, which attracted 17 finalists from Luzon, Visayas, and Mindanao. The chosen clubs put up exhibits at the convention hall to display their love of riding, practice of road safety, and promotion of motor tourism in the country.

At the PICC, Western Bicutan Riders Club received the “Infinity Trophy” as overall champion; Bicol Elite Mix Moto Club, 1st runner-up; and Bull Riders Club Philippines, 2nd runner-up. All three were awarded cash prizes and Shell Fuel vouchers.

The model clubs proved that there are responsible bikers and civic-minded bike clubs. They contribute not only to the riding community but also to the larger society through medical and dental missions, disaster relief operations, and education drives.

“We recognize the everyday courage of our bikers, and Shell Bike Fair is one of the ways we can celebrate their journeys,” said Steve Quila, Pilipinas Shell General Manager for Lubricants, underscoring Pilipinas Shell’s commitment to support the evolving needs of Filipino motorists.

Pilipinas Shell promotes driver education and smarter use of energy as part of the global advocacy for energy efficiency. The Shell Bike Fair 2018 also highlighted the Shell Advance motorcycle and scooter oils and Shell V-Power premium fuels, two brands that are reliable companions on the road. Shell Advance allows for a smoother ride by providing complete engine protection, while the improved Shell V-Power is designed to deliver both performance and efficiency.