

SGV Conversations

Lorelie Quiambao-Osial, President & CEO of Shell Pilipinas Corporation (SPC), shares her story and talks about a wide range of topics including Diversity, Equity & Inclusivity, Sustainability, and Industry insights for the Oil & Gas sector.





Foreword

It's our pleasure to bring you the latest issue of SGV Conversations, which is a platform for us to engage with leaders, thinkers and doers around the world on a multitude of topics. As we celebrate International Women's Day, we are thrilled to feature the insights of Ms. Lorelie Quiambao-Osial, the first Filipina to be appointed President and CEO of Shell Pilipinas Corporation. Serving as a backdrop in this conversation is the Philippine's economic outlook.

Last year, the Philippine economy grew by 7.6%, beating expectations. This year, however, could prove challenging, with inflation remaining stubbornly high. We began the year with an inflation rate of 8.7%, a fourteen-year high. While the inflation rate cooled off a bit in February to 8.6%, core inflation, an indicator of short-term inflation expectations, actually rose from 7.4% to 7.8%. Furthermore, the country faces external headwinds such as an uncertain global economic outlook.

With these downside risks, the government marked a lower growth target range this year of 6-7.0%, down from 6.5-8.5%. The government, nevertheless, set a more ambitious growth rate target of 6.5-8.0% for next year through 2028. The multilateral financial institutions (MFIs), Asian Development Bank (ADB), the International Monetary Fund, and the World Bank project the Philippine economy growing between 5-6.0% this year before speeding up to 5.9-6.0% next year, with inflation settling to a more manageable level next year. If realized, 2023 may become a transition year that will lead to more economic stability in 2024.



Vicky L. Salas

*Assurance Partner
SGV & Co.*



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Introduction

Evolving energy demand and pricing outlooks are transforming the oil and gas industry. Oil and gas companies must find ways to adapt their businesses to be competitive in the new environment. The industry is not new to volatility and the current situation reinforces the constant pressure for oil and gas companies to reduce cost, increase efficiencies and adapt their business models to remain competitive. These pressures are gaining greater prominence as the energy transition builds momentum and competition from alternative energy sources intensifies.

Evidence of climate change continues to accumulate and we foresee increasing pressure on governments, consumers and the energy industry to decarbonize the production and use of energy. As such, there is an increasing focus on sustainability within this industry as more companies strive to reduce their carbon footprint, while still meeting customer demands.

In the early days of the pandemic, global demand for oil tanked, dragging down commodity prices with it. Despite the pandemic, inflation, geopolitical issues and other factors, analysts believe that there is strong potential for market growth in the sector. In fact, gas businesses have a window of opportunity to be a market influencer or even a market driver. In this publication, we took a deep dive to understand how Shell Pilipinas Corporation is playing a significant role in energy delivery today and is enabling the energy transition for tomorrow.

It is my pleasure to introduce this issue of SGV Conversations, which takes a look at the unprecedented challenges, opportunities, and a possible futures for the oil and gas industry as a background for this dialogue between SGV Partner Vicky L. Salas and Lorelie Quiambao-Osial, President and CEO of Shell Pilipinas Corporation, on a wide range of topics including her career, Diversity, Equity and Inclusivity (DE&I), Industry Insights, and Sustainability.



Jose Pepito E. Zabat III

*Assurance Partner
Oil & Gas Sector Leader
SGV & Co.*

Featuring Insights from:

Lorelie Quiambao-Osial

President & CEO, Shell Pilipinas Corporation

Age: 47

Country Chairman

- ▶ Shell Companies in the Philippines (SciP)

Vice President

- ▶ Global Finance Operations-Expenditure in Shell Shared Services (Asia) BV



Background and History with Shell



■ **Lorelie Quiambao-Osial**
President & CEO, Shell Pilipinas Corporation (SPC)

You are the first Filipina to be appointed president and CEO of Shell Pilipinas. Can you tell us how your journey in Shell began?

By background, I am a licensed CPA. Following my successful completion of the CPA licensure exam, I joined Pepsi-Cola in the Philippines as a Management Trainee where I rotated and got hands-on experience around different departments such as sales, marketing, manufacturing, quality control and others. During that experience, I discovered that I love understanding the story behind the numbers and I learned to appreciate what drives value for the company.

A few years later, I had the opportunity to join the upstream business of Shell in the Philippines as the operator of the Malampaya Gas-To-Power Project.

The Malampaya project signaled the birth of the natural gas industry in the Philippines and remains one of the largest and most significant industrial endeavors in Philippine history.

Malampaya ensured a more stable supply of cleaner energy from an indigenous source, and at that time, it fueled 20% of the electricity needs of the country. I joined right before it started its commercial operations, when its workforce was composed of around 90% Shell expatriates. I found it a great opportunity to be part of an organization that can make a positive impact on the country and society and be among the first Filipinos to work in the upstream industry in the country. I also resonated with Shell's core values of Honesty, Integrity, and Respect for People, with a focus on safety and ethical business.

Since then, Shell has continued to provide opportunities for me to grow and develop. I have been with Shell for over 21 years and over that time, I continue to be part of assignments that allow me to learn, thrive and grow.



Background and History with Shell

People have pre-conceived notions about how certain industries are dominated by certain genders. If we look even further back in your journey, was there something in your upbringing that you would say brought you to where you are now?

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A lot of people cannot be what they cannot see.

I grew up with strong female and male role models. I had strong female role models in my grandmother, who took in five kids below the age of 10 from captivity during World War 2 and kept them safe, and in my mother, the kindest woman I know, who had a full-time career and raised four kids with my father. As the youngest, I learned from my two brothers and sister to find my voice, make decisions, and set my mind that I could be whoever I want to be.

Growing up in that environment, I found that trying new things may not always be comfortable. It was my first barrier to trying new things, but I learned to temper my apprehension over doing something different. Sometimes it was daunting, but the joy of discovery was also priceless. I just had to remember that you lose 100% of the opportunities you don't take.

As I grew as a person and as a professional, I also learned more about myself, what motivates me and what makes me bounce out of bed every morning. Over time, I defined my purpose and what matters to me, then aligned what matters with how I spend my energy and my time.

Taking the mantle of leadership in such a large organization is undoubtedly a huge role and there are many dimensions to you that go along being president and CEO; you're also a mother, wife, daughter and sibling. Do these multiple roles have a hand in expanding the toolkit you draw from? How do you balance this role with your personal life?

We are all multi-dimensional beings, and that combination is what makes each of us unique and makes us a whole person. The different roles we play bring out different strengths and new areas to grow and develop. These roles drive us to be better versions of ourselves, but they also create dilemmas on how we spend our limited time. It is very challenging.

Here are some life lessons I find helpful.

- ▶ *Figuring out what's important and being clear on what success looks like in each of my personal roles and my roles at work. For my personal roles, I ask, "How do I want to be remembered (as a wife, as mother, a daughter...)"*
- ▶ *"When you're there, be there." This means maximizing my time and trying my best to be fully present.*
- ▶ *Focus my energy on things that I can control, do my best on the things I can influence and accept that I cannot change the past nor predict the future (well at least not 100%).*

I am blessed to have a good support system in my husband and my family.



Background and History with Shell

Shell has a long history, having been formed in 1907 through the merger of Royal Dutch Petroleum Company of the Netherlands and the Shell Transport and Trading Company of the United Kingdom. You've been a large part of that history, especially when you were assigned in Iraq, one of the toughest external environments where Shell operates. What unique experiences from your overseas posts would you say developed your leadership style?

Prior to coming back to the Philippines in 2016, I was the Finance Manager Projects for Basrah Gas Company (BGC) in Iraq, where I was responsible for the start-up and provision of world class Finance to a portfolio of approximately 80 projects. This was in the biggest flare reduction project in the world in a pioneering environment and one of the toughest external environments within the Shell portfolio.

It was a tremendous challenge to be one of the pioneering team members in a country that had gone through numerous wars for over 30 years, and where bulletproof vests and armored vehicles were part of the mix, on top of the planning and execution of a USD 17 billion capital investment.

My experience in Iraq taught me how to navigate through adversity and ambiguity and cross barriers to create an inclusive working environment where one can value the differences in people and bring out the best in them.

When we started the joint venture, Basrah only had two hours of electricity during the summer. I had an Iraqi employee who did not speak English and had never used a computer in his life. By the time I left and started my move back to the Philippines (around three years later), we were able to increase electricity supply for up to 11 hours per day, while the development continued and still continues to this day.

And my Iraqi employee? He was uploading journals in SAP in English. It was about making a positive impact that matters to the country and powering lives and livelihoods.

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Access to energy is fundamental to fulfilling the basic needs of society, driving economic growth and fueling human development.

Of all the overseas working environments you've been exposed to, which did you enjoy the most? On that note, which did you find the most challenging?

Access to energy is fundamental to fulfilling the basic needs of society, driving economic growth and fueling human development. As a global energy company, Shell has continued to provide me with opportunities to be part of that. I joined Shell in Finance and did various roles in the Philippines, South Asia, Middle East and North Africa, participating in multi-million/billion-dollar business activities, and covering the exploration and development of onshore and offshore fields and the production of conventional, deep-water and shale oil and gas and liquefied natural gas (LNG).

It is not always easy. Each role comes with significant external and internal challenges, but surmounting them brings fulfillment. Most of all, you meet fantastic people who make the journey meaningful and purposeful.



Industry Insights



The COVID-19 crisis remains impactful in many ways. It can be seen accelerating certain trends while slowing down others that may have already been in motion before the pandemic. The Philippine oil and gas market is one of the industries undergoing rapid transformation. Despite inflation and other factors, analysts believe that there is strong potential for market growth in the sector. What are your thoughts on this, and how does this affect Shell Pilipinas' commitment to ensure continued supply for the country's growing fuel demand? What is your outlook on the future of the oil and gas industry, given the shift to renewable energy, and geopolitical factors? At the same time, how is Shell Pilipinas responding in the face of unprecedented challenges, opportunities, and a range of possible futures?

Historically, if you look at how countries have progressed, energy has played a major role in socio-economic growth, livelihood and human development. The Philippines has significant growth ambitions, and we have a lot going for us - abundant natural resources, strong macroeconomic fundamentals and a very young median age to name a few. The Department of Energy has forecasted an increasing demand for energy in the years to come. We have to deal with climate change, one of the biggest threats to the natural environment and societies around the world, if not the biggest. We are facing a growing economy's dilemma where we want to grow but we also need to reduce carbon emissions.

Shell has been in the Philippines for 109 years as a partner in nation building and that is something I want to continue. We will support the Philippines in its growth plans and ambitions. We will leverage our global and local technology and expertise as we evolve our portfolio and grow. We want to keep moving the Philippines forward by meeting the country's energy needs today and for the future.



Diversity, Equity & Inclusion; CSR

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Shell has a long heritage in promoting diversity and we continue that journey today.

As you know, International Women’s Day celebrates the social, economic, cultural and political achievements of women and this year’s theme is #EmbraceEquity. With the energy landscape changing, it is more apparent than ever that women deserve their seat at the table. You once said in another interview that you grew up with the view that leadership has no gender; how are you approaching the gender representation issue in the energy sector and what positive changes are ahead for women in Shell Pilipinas?

Shell is in the energy sector, which has traditionally been predominantly male. Globally, it still lags behind on gender equality. Shell has a long heritage in promoting diversity and we continue that journey today. One of the goals of Powering Progress is Powering Lives and Livelihoods, and embedding diversity and inclusion in our plans ensures that we reach our goal of becoming one of the most competitive and innovative organizations in the world. We will not be able to achieve this without a diverse and inclusive workforce that reflects the diversity of our partners, customers, and the countries in which we operate.

Collaboration is critical to our success. Inclusion and inclusive behaviors are at the heart of effective collaboration, be it with team members and colleagues in other parts of our company, partners in our joint ventures, or most importantly, our customers.



A diverse workforce and inclusive environment that respects and nurtures different perspectives and contributions is our source of strength for improving our business performance.

At Shell companies in the Philippines, over 60% of our staff are currently women. We are at around 50% on leadership roles but this tends to go down to over 40% in senior leadership roles. Women representation is also not yet consistent across all the businesses and levels, so while I am proud of what we have achieved, I think there is more to be done.

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Diversity, Equity & Inclusion; CSR



The past few years have seen many organizations take strides to build diversity, equity, and inclusion (DE&I) into their policies and hiring practices. Studies show that organizations that are diverse, equitable, and inclusive are better able to respond to challenges, win top talents and meet the needs of different customer bases.

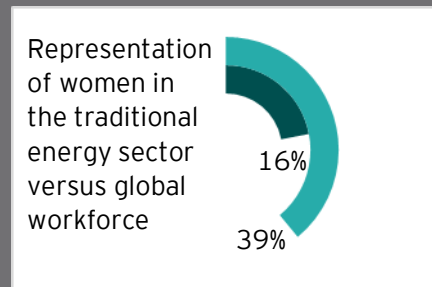
While the state of DE&I efforts varies by company, industry and geography, a growing number of management teams have recognized the importance of, and the urgency behind, joining the conversation and taking positive action to make progress on DE&I.

That being said, many oil and gas companies have only recently begun to commit to this journey in earnest. Although the oil and gas industry has made significant progress toward greater diversity, much remains to be done to gain the performance and productivity benefits that a diverse workforce provides.

A 2021 collaborative report by the World Petroleum Council and Boston Consulting Group released during the 23rd World Petroleum Congress, which took place in Houston, Texas, states that the percentage of women working in the oil and gas industry remains unchanged at 22%, the same level reported in 2017 when they first examined attitudes about gender balance in oil and gas industry.

The pandemic and the subsequent instability in oil prices has likely impacted industry progress, but there are glimmers of hope. According to the report, the number of DE&I policies and programs introduced by companies is up by about 50% since 2017, indicating that even though outcomes were stalled, the commitment to act and lay foundations for future progress strengthened throughout the period.

Oil and gas companies' DE&I initiatives have improved significantly over the last five years. All the companies included in the 2021 study now offer maternity leave, compared to 90% in 2017, and more than 95% support equal pay and offer paternity leave, up from 67% and 56%, respectively. Over 95% of companies now also have sexual harassment policies in place. This change has not gone unnoticed by employees, 70% of whom believe that the industry has improved its approach to diversity and inclusion since 2017.



(Source: IEA)

These days, however, DE&I no longer just means giving equal access to men and women in the workplace, but to accommodate or account for the collective mix of all human characteristics, whether visible (such as race, gender, and disability) or invisible (such as socio-economic status and SOGIE (Sexual Orientation and Gender Identity Expression)). Over the last few years, COVID-19 and the social justice movement have been strong reminders about the importance of DE&I in all aspects of our society. Investors, customers and employees are also becoming more aware of companies' social responsibilities. They expect that businesses engender positive impacts in relation to DE&I through their policies, processes and behaviors, both within the organization and throughout including their supply chains. Diversity goes beyond an organization's operational impact. Diversity within supply chains can make supply chains more resilient and adaptable, which is particularly critical now as businesses and industries have been forced to pivot during the pandemic.

Diversity, Equity & Inclusion; CSR

Shell, for its part, demonstrates its bold goal to become one of the world's most diverse and inclusive companies, a place where everyone - from employees to customers, partners, and suppliers - feels valued, respected, and has a strong sense of belonging. Shell envisions itself to be a place where the inclusion strategy is absolutely about everyone so employees can be free to be their most authentic selves and contribute positively to Shell's inclusive culture.

Shell has come a long way when it comes to representation of women. In 1997, when Shell Global first set out to outline their diversity goals, which sets the tone for other Shell entities worldwide, just 4% of their senior leadership were women. Today, the organization is working to reach or exceed 40% women in senior leadership by 2030. Through their global forum, Shell Global Allies for Gender Equity (enGAGE), which was created in 2021, Shell has created a safe space that brings the voices from gender-focused employee resource groups together across the globe to share and leverage ideas and act as a valuable resource for employees as well as senior leadership. It focuses on global allyship to increase awareness of gender imbalance and also provides development, mentoring, and networking opportunities to strengthen Shell's talent pipeline.

In terms of supplier diversity, Shell aims to work with suppliers, including contractors, that behave in an economically, environmentally, and socially responsible manner, as set out in the Shell General Business Principles and Shell Supplier Principles. Shell further recognizes their suppliers as critical to their ability to run the businesses. They are involved in almost every step of Shell operations - and are often key to having a positive impact on local communities and achieving successful business outcomes. Shell wants to make a positive difference to countries and local communities by creating jobs, training people, supporting local businesses, and buying goods and services from local suppliers. In 2020, Shell companies globally spent USD\$39.3 billion on goods and services, of which 84.5% was purchased from suppliers based in the same country of operation.



Sustainable Initiatives

Your strategy of Powering Progress, which is to accelerate the transition of your business to net-zero emissions, sets the course for the company to create value for your shareholders, customers, and the wider society. With this as your guide and inspiration, what impact do you see in your business, your customers, and the communities you serve? How would you describe success in this effort for Shell Pilipinas?

Climate change is one of the biggest - if not the biggest - threat to the natural environment and the societies around the world. It is a complex challenge that covers environment, biodiversity, economy, health, among others. We therefore need a multi-sectoral approach to tackle this challenge and key to that is collaboration.

Countries around the world signed the Paris Agreement to reduce emissions and work together to adapt to the impacts of climate change, and the call to strengthen commitments of countries over time continues. So as countries and societies reexamine their practices and policies to address the different issues, so does Shell.

Achieving the goal of the Paris Agreement will require simultaneous growth in supply and demand for low-carbon energy. Crucially, it will also require significant changes to the way our customers use energy, whether they are motorists, households, or businesses. This requires a whole-of-society approach that includes energy producers, consumers, and policymakers. We all need to take action.

How do you think is the sustainability agenda changing the way we do business? As an oil and gas company, what are your thoughts and considerations in transitioning to cleaner energy resources and energy conservation in general? How did this transformation affect Shell and where is the company currently at?

The way the world produces and uses energy is visibly changing. To meet the goals of the Paris Agreement, change needs to happen. Shell is an energy business that will continue to meet the energy needs of today and for the future. To that end, we will help drive that change.

We will build on our strengths, our global scale and deep knowledge of energy markets to help grow demand for low-carbon energy. In this way, we continue to build a strong business while playing an important role in the transition to low-carbon energy.

We continue to look for sustainable opportunities in the Philippines as an energy solutions provider. We are doing this through: Reducing Absolute Operational Emissions, Reducing Emissions from Products Sold, and Sectoral Decarbonization.



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We will build on our strengths, our global scale and deep knowledge of energy markets to help grow demand for low-carbon energy.



Last September, Shell Pilipinas was conferred by the ECCP with the 2022 Europa Award for Smart and Safer Mobility for creating innovative, sustainable, and smart solutions. Can you tell us about your company's journey in terms of promoting sustainability? What more can you tell us about your mobility stations, and sites of the future?

We continue to look for opportunities in the:

- ▶ *Reduction of waste and absolute operational carbon emissions through a change in the supply chain model, renewable energy powering our import terminal & mobility sites (solar panels), use of eco-bricks in infrastructure sites for the future, green offices/green spaces through LED lights, inverter technology, and using solar energy to power the office and reduce waste management, and self-irrigating plant walls*
- ▶ *Reduction of emissions from products sold, such as low carbon products that include Bitufresh Air, Lubricants, and Shell Helix OW, low carbon fuels, low carbon services (electric vehicle charging stations, B2B & B2C carbon offsets, and the A2Z program helping customers in their decarbonization journey), non-fuels retailing, and use of renewable energy*
- ▶ *Power trading and renewable energy projects*



Together with our social arm, Shell Pilipinas Foundation, Inc., we launch programs such as:

- ▶ *Shell NXplorers, which helps develop creative and innovative thinkers as we tackle complex and interconnected global challenges and ensure a sustainable future;*
- ▶ *Shell Livewire, which stimulates entrepreneurship, innovation and meaningful employment while supporting individuals and groups turn ideas into successful businesses; and*
- ▶ *The Gas Mo Bukas Ko Project (You Fuel My Future), which enables a better future for Shell forecourt champions staff through technical and vocational training.*

Our mobility sites for the future are focused on enhancing customer experiences, enabling more forms of transportation, and lowering carbon footprint through innovation. We cater to everyone who moves – from motorists to passengers, from cyclists to pedestrians – all while promoting sustainability and inclusive mobility. We also have site features like dedicated service areas for cyclists and support for the local economy, offering not just fuels but other essentials in the form of food and unique finds that a locality is known for.

Sustainable Initiatives

The customer-centric design gives extra attention to convenience, sustainability, and well-being. We are doing this by merging global expertise with our local insights for our vision of the future. This vision is to create not just a fuel station, but a destination that is energy-efficient and lowers carbon emissions of its operations through sustainable technology (solar panels, upcycled plastics called eco-bricks, rainwater harvester, LED lights and inverters) coupled with consistent, environmentally responsible behavior from our people such as turning off lights and saving water.



What are the future areas you and your team may want to tap in order to meet Shell's ambition to be a net zero emission energy company by 2050?

We are working with our customers, partners, government, and communities to meet the energy needs of today and accelerate an energy transition that is in step with society. This also means protecting the environment as we move towards lower carbon operations and cleaner energy solutions.

We play three critical roles in energy transition:

- ▶ We are an energy provider.
- ▶ We are an energy user.
- ▶ We are a partner for change.

The Shell companies in the Philippines have been partners in nation building for over 109 years and we power progress by energizing Filipinos through energy solutions, innovations, environment, social, governance and sustainability efforts.



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Sustainable Initiatives: Downstream Oil Industry



Maintaining Social License to Operate through Social Investment

The oil and gas downstream sector is committed to maintaining its social license to operate by making meaningful social investments in the communities where they operate. These social investments are focused on creating long-term environmental, economic and social benefits for those living near their operations. Examples of such initiatives include supporting local education systems, investing in skills development and training opportunities, providing access to healthcare services, and engaging in collaborative partnerships with NGOs and other stakeholders.

By demonstrating a commitment to being good corporate citizens through these initiatives, the oil and gas sector can ensure a positive public perception of their activities, which will positively contribute to their ongoing success as well as benefit local communities. Therefore, it is essential that organizations continue making significant contributions to the communities they serve - both within the sector and beyond. Only then can they ensure that their social license to operate is maintained for years to come.

The Transition to a Low Carbon Economy

The oil and gas downstream sector is one of the most important industries in the world, providing energy for transportation, manufacturing, heating and many other activities. However, it also has a major environmental impact due to its reliance on fossil fuels. As such, there is an increasing focus on sustainability within this industry as more companies strive to reduce their carbon footprint, while still meeting customer demands.

The oil and gas sector holds immense potential for averting the worst effects of global climate crisis. To limit long-term increase in average temperatures worldwide, reducing carbon dioxide (CO₂) emissions globally down to net zero by 2050 must be achieved - an ambitious task requiring radical and far-reaching changes in how we generate, transport, and use energy. Fortunately, there has been significant progress on reaching this goal with a growing political consensus calling for action.

The pathway to global net-zero emissions by 2050 is increasingly being adopted on a large scale, with pledges from around 70% of countries responsible for the majority of CO₂. While this signifies important progress towards reducing our collective carbon footprint, it's essential that near-term policies and measures are put in place to ensure these commitments can be successfully implemented. Despite the initial decrease in emissions from COVID-19, global temperatures are still on an upward trajectory. Decisive action must be taken to reverse these trends for us to successfully achieve net zero by 2050.

To meet the challenge of achieving net-zero emissions, rapid and widespread implementation of clean energy technologies is essential. According to the IEA's *Net Zero by 2050 - A Roadmap for the Global Energy Sector* report, a proposed pathway where global economic output will rise by 40%, while overall energy use decreases 7% is feasible. However, a concerted effort is needed to increase the annual rates of energy efficiency improvements from their current levels over the next decade. In addition, there should be a dramatic scaling of solar and wind energy generation, while hydropower and nuclear play an important role in the transition. At the same time, sales of electric vehicles are expected to grow significantly by 2030.

There should also be urgent deployment and advancement of existing technologies, which must be coupled with ambitious innovation initiatives over this decade. Over the next few years, there are major innovation opportunities in three key technology areas: direct air capture and storage, hydrogen electrolyzers and advanced batteries, which can make significant contributions to reducing our carbon emissions in the future.

Lastly, achieving net zero emissions by 2050 means transitioning society to a new level of global sustainability. This pathway requires active participation from everyone and will have an impact on multiple everyday aspects, including transport, energy consumption in the home, urban planning and jobs. So, engaging with customers and other stakeholders will be important.



Economic Outlook

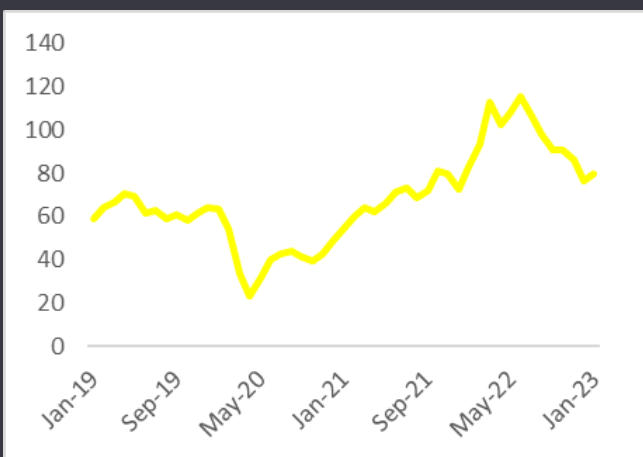
According to the Downstream Oil Industry Deregulation Act of 1998, the downstream oil industry refers to “the business of importing; exporting, re-exporting, shipping, transporting, processing, refining, storing, distributing, marketing and/or selling crude oil, gasoline, diesel, liquified petroleum gas (LPG), kerosene, and other petroleum products.”

The downstream oil industry in the Philippines continues to chug along the economy’s recovery. As a price-taker in the international market for energy products, however, the Philippines needs to contend with developments in the global economy.

Supply

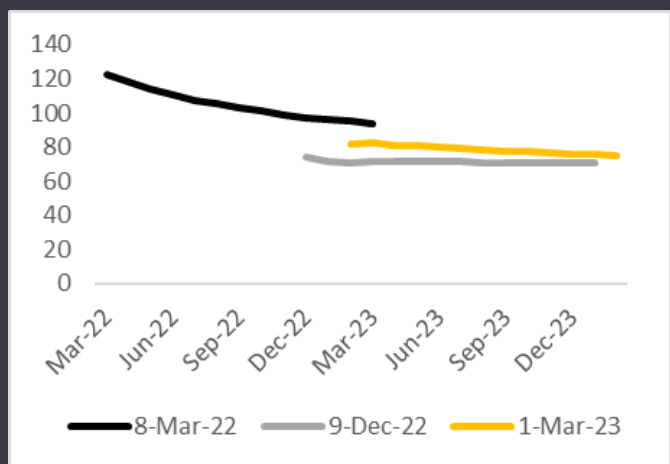
The Philippines practically imports all its petroleum requirements. As such, the country is subject to the vagaries of the global oil markets which is largely driven by the direction of the global economy and geopolitics. In the heydays of the quarantine months, global demand for oil tanked, dragging down commodity prices along with it. Dubai crude oil price, for instance, dipped to \$23.4/bbl in April 2020 as quarantine measures were being implemented, dampening demand. Then it breached the \$100/bbl mark in March 2022 as Russia, a major oil producer, began military action in Ukraine. In a span of two years, the pendulum of oil price swung from very low to very high. Indeed, oil prices are very volatile.

Figure 1 Dubai Crude Oil Price (\$/bbl)



Source: World Bank

Figure 2 Dubai Crude Oil Financial Futures Settlement (\$/bbl)



Source: CME Group



Downstream Oil Industry

Oil production is concentrated in a few countries. Thus, developments in these countries or their collective actions could have tremendous impact on the global energy market. The Organization of Petroleum Exporting Countries' (OPEC) cutting production by 2 million barrels per day (bpd), effective November of last year, could keep oil prices elevated.

While the International Monetary Fund (IMF) painted a gloomy outlook for the global economy, it has upgraded its growth outlook for China as the world's second largest economy re-opens. The multilateral financial institution (MFI) revised upward by 0.8 percentage point its growth outlook for China for this year. China's re-opening could prop oil demand, exerting upward pressure on oil prices.

Table 1 IMF's Global Economic Outlook

	January 2023 Outlook (%)		Change from Oct-22 Outlook (ppts)	
	2023	2024	2023	2024
World	2.7	3.2	0.2	-0.1
Advanced Economies	1.2	1.4	0.1	-0.2
US	1.4	1	0.4	-0.2
Euro Area	0.7	1.6	0.2	-0.2
EMDE*	4.0	4.2	0.3	-0.1
China	5.2	4.5	0.8	0.0
ASEAN-5	4.3	4.7	-0.2	-0.2
Global Inflation	6.6	4.3	1.7	0.4

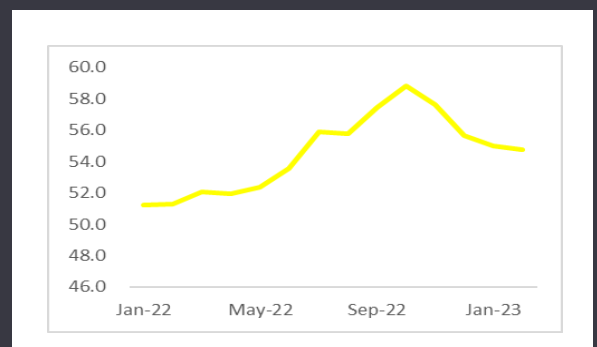
Source: IMF

Note: * - Emerging Markets and Developing Economies

The global economy faces uncertainties, given ongoing geopolitical tensions and tightening monetary policy. Since we import our petroleum requirements, not only are they dragged into the roller coaster ride of global oil markets, but they are also subject to exchange rate risks. Last year, as the US Federal Reserve raised rates to rein in on inflation, the dollar appreciated sharply against other currencies. The ongoing war in Eastern Europe once again highlighted the dollar's status as a safe-haven currency.

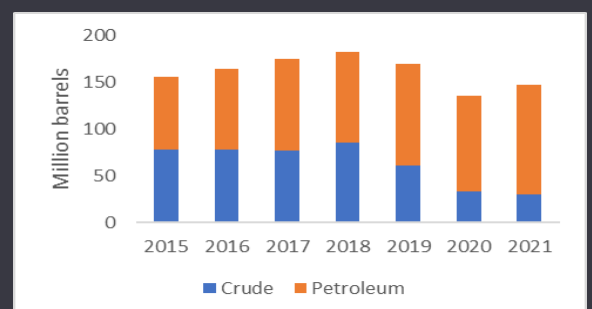
The peso was not spared. In 2022, the exchange rate was less than PHP52 to the greenback and was flirting with PHP59/\$1 in September through October. A stronger dollar means that to the country has to shell out more in peso terms to pay for import bills.

Figure 3 Exchange Rate (PHP/\$1)



Source: BSP

Figure 4 Philippine Oil Imports, 2015-2021



Source: DOE, PSA

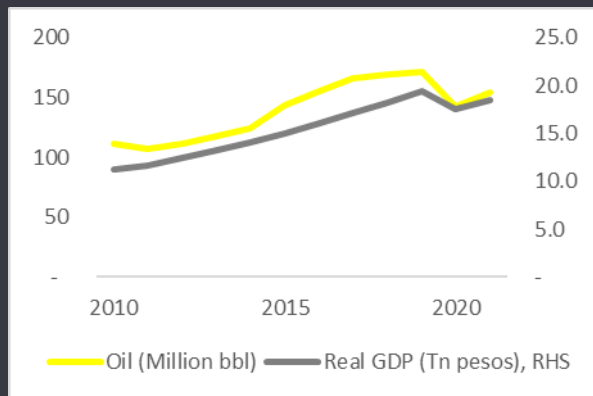
Downstream Oil Industry

The Philippines sources much of its energy requirements from abroad, importing both crude oil and petroleum products. Crude oil is mainly sourced from the Middle East such as Saudi Arabia and the United Arab Emirates (UAE) while refined petroleum products come from neighboring Asian countries such as China, Korea, and Singapore.

Demand

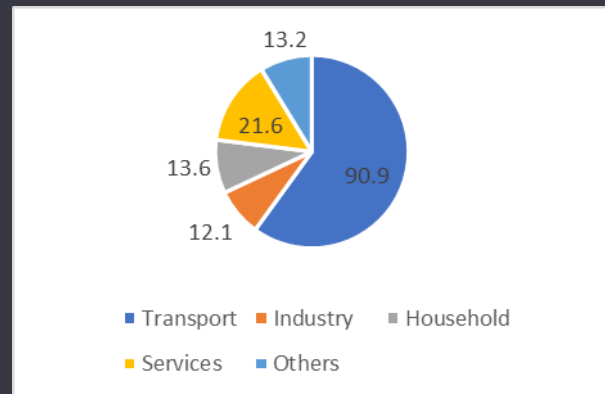
Last year, our economy grew by 7.6%, exceeding expectations of the national government. The outlook for the Philippine economy this year, however, has been downgraded on the back of lingering inflation issues, among others. Even the country's economy managers trimmed growth expectations for this year to 6-7%, down from the 6.5-8% range, citing external headwinds. Still, the Philippine economy is expected to pick up speed next year and with it, the demand for oil.

Figure 5 Oil Consumption and the Economy, 2010-2021



Sources: DOE, PSA

Figure 6 Oil Consumption by Sector (Million bbl), 2021



Source: DOE



Downstream Oil Industry

Table 2 Growth and Inflation Outlook for the Philippines by MFI

	Latest Outlook (%)		Change from previous outlook (ppts)	
	2023	2024	2023	2024
GDP Growth				
ADB	6.0	*	-0.3	*
IMF	5.0	6.0	-1.3	-0.5
World Bank**	5.4	5.9	-0.4	*
Inflation				
ADB	4.3	*	0.0	*
IMF	4.3	3.1	0.6	0.1
World Bank***	4.2	3.9	0.3	0.4

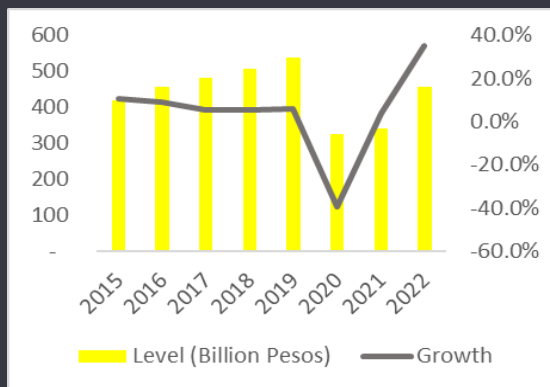
Sources: ADB, IMF, World Bank

Notes: *- Not Available; ** - Change from Sep outlook; *** -Change from June outlook

The transportation sector accounts for much of oil consumption in the Philippines. In 2021, the sector accounted 60% of the country’s oil consumption. Other services sector cumulatively accounted for nearly 14% with household consuming 9% of total.

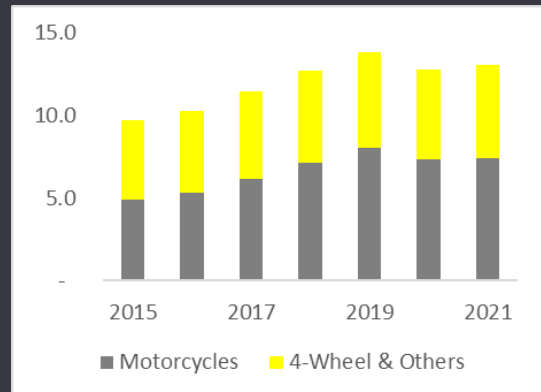
The transportation sector’s output plunged by 39.3% in 2020, following the imposition of mobility restrictions. Last year, the sector surged by as much as 35.1% as the economy continued its re-opening. While this is very welcome news, the sector still has ground to recover. As of last year, transportation’s output level is still only 85.2%, which is pre-pandemic level.

Figure 7 Transportation Gross Value-Added (GVA), 2015-2022



Source: PSA

Figure 8 Number of Registered Vehicles by Type (Million Units), 2015-2021



Source: PSA

Downstream Oil Industry

The number of registered vehicles increased through the years until the pandemic hit. Motorcycles primarily drove the rise in registration. In 2015, the country had nearly 4.9 million units, almost evenly divided between motorcycles and those with 4 wheels or higher. Pre-pandemic, there were nearly 1.4 motorcycles for every unit of other vehicles.

Moving forward, as the Philippine economy grows, domestic demand for energy products in general is also expected to rise. The government recently released the 2023-2028 Philippine Development Plan (PDP) and bats for a growth rate between 6.4-8.0% for next year through 2028. Even in the face of elevated debt levels, the government sticks by its infrastructure program amounting to 5-6% of GDP. This, together with the recently passed structural reforms such as the Public Service Act (PSA), Retail Trade Liberalization Act (RTLTA), and the Foreign Investments Act (FIA) and the recently ratified Regional Comprehensive Economic Partnership (RCEP), should provide tailwind to the Philippine economy as it navigates rough waters ahead.

Table 3 Selected Targets of PDP 2023-2028

Indicator	Baseline (Year)	2023	2024	2025	2026	2027	2028
GDP Growth, %, increased	5.7% (2021)	6.0 – 7.0	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0
Global Innovation Index (GII) improved	59 th out of 132 (2022)	57 th	54 th	52 nd	49 th	46 th	43 rd
Gross National Income (GNI) per capita increased	USD3,640 (2021)	\$4,130 - \$4,203	\$4,454 - \$4,592	\$4,814 - \$4,920	\$5,256 - \$5,563	\$5,645 - \$6,056	\$6,044 - \$6,571
Poverty Incidence (% of Population) reduced	18.1 (2021)	16.0 – 16.4	*	12.9 – 13.2	*	10.0 – 10.3	8.8 – 9.0
Food inflation rate (%) kept stable	6.1 (2022)	2.5 – 4.5	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0
Headline inflation rate (%) kept stable	5.8 (2022)	2.5 – 4.5	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0
National government (NG) deficit to GDP ratio (%) reduced	6.5% (Jan-Sep 2022)	6.1	5.1	4.1	3.5	3.2	3.0
Outstanding NG debt stock to GDP ratio (%) reduced	63.7% (Sep-2022)	60 - 62	57 - 61	56- 59	54 - 58	50 -55	48 - 53

Profiles



Lorelie Quiambao-Osial
President & CEO, Shell Pilipinas Corporation (SPC)

Lorelie Quiambao-Osial is a global leader in the energy industry, having been based in various countries for Shell plc. She is an advocate for diversity, equity and inclusion and digital transformation. Her brand of leadership is transformative, where leaders inspire and motivate people to innovate and create change that will help grow the business and shape the future. She believes that at the core of transformational leadership is compassion for staff, customers, and the communities where Shell operates.

As Vice President for Global Finance Operations-Expenditure, she manages five major processes covering Shell businesses in more than 50 countries and supports 80,000 employees globally. She has a team of almost 700 people located in Manila, Krakow, Kuala Lumpur and Chennai across four workforce generations. She was previously the Finance Director for Shell Philippines Exploration B.V., and the operator of Malampaya Deepwater-to-Gas Project that provides natural gas to power plants that supply 25% of the energy needs of the country. Before coming back to the Philippines in 2016, Lorelie was the Finance Manager Projects for Basrah Gas Company (BGC) in Iraq, the world's largest flare reduction project, where she was responsible for the start-up and provision of world-class Finance to a portfolio of approximately 80 projects with a USD 17 billion capital investment in a pioneering environment and one of the toughest external environments within the Shell portfolio.



Vicky L. Salas
Assurance, Partner
SGV & Co.

Vicky L. Salas is an SGV & Co. Assurance Partner. She has 30 years of experience in auditing, advisory and accounting. She handles the audits of local and multinational banking and other financial institutions and large conglomerates in the Philippines. She is also involved in various due diligence related to mergers and acquisitions, divestitures, initial public offering exercise, and share valuation work.

Vicky was a member of EY's Asia Pacific Advisory Council, EY's Asia Pacific Ethic Oversights Group, and SGV's Executive Committee and Partners' Income Committee. She is a member of SGV's Appointment Committee and EY Asia Pacific FSO Leadership Team as Risk Management Leader. She is a Certified Public Accountant, Certified Anti-Money Laundering Specialist and holds a Master Degree Major in Finance from the Asian Institute of Management.



Jose Pepito E. Zabata III
Assurance, Partner
Oil & Gas Sector Leader
SGV & Co.

Jose Pepito E. Zabata III is a Partner within the Financial Assurance Services practice. He has handled audit clients from the hotel, oil and gas, mining and metals, retail, airport operation, ship management and crewing/manning, sea cargo transport, manufacturing, distribution and consumer products and telecommunications industries. He has expertise in the hospitality industry, particularly hotel operations and financial reporting. He is also the Sector Leader of SGV's Oil and Gas Industry group. He also handles due diligence engagements relating to acquisitions and cross-border securities offerings under Reg S.

He completed his Master in Management degree at the Asian Institute of Management. He also graduated magna cum laude from St. Louis College, San Fernando, La Union with a Bachelor of Science degree in Accountancy.



Contacts

SGV & Co. Head Office

6760 Ayala Avenue, Makati City,
1226 Metro Manila, Philippines
PO Box 1408, Makati Central Post Office
0740 Metro Manila, Philippines

Tel: (632) 8891 0307

Fax (632) 8819 0872

(632) 8818 1377

Email: sgv.information@ph.ey.com

www.sgv.ph



Wilson P. Tan

Chairman and Managing Partner

wilson.p.tan@ph.ey.com

(+632) 8894 8127



Maria Vivian C. Ruiz

Vice Chair and Deputy Managing Partner

maria.vivian.g.cruz-ruiz@ph.ey.com

(+632) 8894 8170



Vicky L. Salas

Risk Management Leader,

APAC Financial Services Organization (FSO)

vicky.b.lee-salas@ph.ey.com

(+632) 8894 8397



Jose Pepito E. Zabat III

Partner, Assurance, Oil & Gas Sector Leader

jose.pepito.e.zabat@ph.ey.com

(+632) 8894-8240

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