



111102015000322

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

**Barcode Page**

The following document has been received:

**Receiving Officer/Encoder** : Jojit Licudine

**Receiving Branch** : SEC Head Office

**Receipt Date and Time** : November 10, 2015 10:35:42 AM

**Received From** : Head Office

**Company Representative**

**Doc Source**

**Company Information**

**SEC Registration No.** 0000014829

**Company Name** PILIPINAS SHELL PETROLEUM CORP (NEW)

**Industry Classification** Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains

**Company Type** Stock Corporation

**Document Information**

**Document ID** 111102015000322

**Document Type** 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)

**Document Code** 17-Q

**Period Covered** September 30, 2015

**No. of Days Late** 0

**Department** CFD

**Remarks**

SEC 17Q	Source	SEC requirement	Reference
PART I: FINANCIAL INFORMATION			
Item 1. Financial Statements	Finance	a. <b>statement of financial position</b> as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year.	Page 4
		b. <b>statements of income</b> for the current interim period and cumulatively for the current financial year to date, with comparative statements of comprehensive income for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.	Page 5
		c. <b>statements of comprehensive income</b> for the current interim period and cumulatively for the current financial year to date, with comparative statements of comprehensive income for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.	Page 6
		d. <b>statement of cash flows</b> cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.	Page 7
		e. <b>statement of changes in equity</b> cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. Selected explanatory notes	Page 8 Page 9 - 22
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	Finance	MD&A helps explain financial results. A reader of the MD&A should understand the financial results of the registrant's business. It shall provide information with respect to liquidity, capital resources and other information necessary to understanding the registrant's financial condition and results of operation. The discussion and analysis shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition. This would include descriptions and amounts of matters that would have an impact on future operations and have not had an impact in the past, and matters that have had an impact on reported operations and are not expected to have an impact upon future operations.	
		For interim periods, disclose the company's and its majority-owned subsidiaries' top five (5) key performance indicators. It shall include a discussion of the manner by which the company calculates or identifies the indicators presented on a comparable basis.	Page 22
		If interim financial statements are included in the registration statement or report, provide a comparable discussion that will enable the reader to assess material changes in financial condition and results of operations since the end of the last fiscal year and for the comparable interim period in the preceding year:	
		(i) Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The registrant shall indicate balance sheet conditions or income or cash flow items that it believes may be indicators of its liquidity condition. The following conditions shall be indicated: whether or not the registrant is having or anticipates having within the next twelve (12) months any cash flow or liquidity problems; whether or not the registrant is in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments; whether or not a significant amount of the registrant's trade payables have not been paid within the stated trade terms. If a material deficiency is identified, the course of action that the registrant has taken or proposes to take to remedy the deficiency should also be indicated. The registrant should identify and separately describe internal and external sources of liquidity, and briefly discuss any sources of liquid assets used. The term "liquidity" refers to the ability of an enterprise to generate adequate amount of cash to meet its needs for cash. Liquidity generally must be discussed on both a long-term and short-term basis.	• Page 23 • Note 3.1 (page 11)
		(ii) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.	Page 23
		(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.	Page 23
		(iv) Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures should be described.	Page 23
		(v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described. If the registrant knows of events that will cause material change in the relationship between costs and revenues (such as known future increases in cost of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.	Page 23
		(vi) Any significant elements of income or loss that did not arise from the registrant's continuing operations.	Page 23
		(vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item; The term "material" in this section shall refer to changes or items amounting to five percent (5%) of the relevant accounts or such lower amount, which the registrant deems material on the basis of other factors.	Page 23-24
(viii) Any seasonal aspects that had a material effect on the financial condition or results of operations.	Page 24		
PART II: OTHER INFORMATION		The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.	N/A
SEC Regulation/Memorandum (as of November 7, 2013)			
• SEC Memorandum Circular No. 6 Series of 2013		The Commission <i>En Banc</i> in its meeting on 22 April 2013, resolved to allow covered corporations to present the prescribed information and to recognize the impact of the following standards in their interim financial statements starting with the period ended June 30, 2013:	
		PAS 27 (Amended) Separate Financial Statements	Page 10
		PAS 28 (Amended) Investments in Associates and Joint Ventures	Page 10
		Amendments to PFRS 1 Government loans	Page 10
		Amendments to PFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	Page 10
		PFRS 10 Consolidated Financial Statements	Page 10
		PFRS 11 Joint Arrangements	Page 10
		PFRS 12 Disclosure of Interests in Other Entities	Page 11
		PFRS 13 Fair Value Measurement	Page 11
SIGNATURES			
			Page 25

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)

1 5 6 V A L E R O S T S A L C E D O V I L L A G E  
B A R A N G A Y B E L - A I R M A K A T I C I T Y

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

MA. LOURDES O. DINO

Contact Person

816-65-01

Company Telephone Number

0 9 3 0

Month

Fiscal Year

1 7 - Q

FORM TYPE

Month Day

3<sup>rd</sup> Tuesday of April  
Annual Meeting

Secondary License Type, If  
Applicable

C F D

Dept. Requiring this  
Doc.

Amended Articles Number/Section

361

Total No. of Stockholders

Total Amount of Borrowings

20,055,000

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended
2. Commission identification number
3. BIR Tax Identification Number
4. Exact name of issuer as specified in its chapter
5. Province, country, or other jurisdiction of incorporation or organization
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Postal code
8. Issuer's telephone number, including area code
9. Former name, former address, and formal fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or sections 4 and 8 of RSA

*Title of Class*

*Number of shares common  
stock outstanding and amount of  
debt outstanding*

11. Are any or all of the securities listed on a Stock Exchange? Yes ☐ No ☒

12. Indicate by check mark whether the registrant

(a) has filed all reports required to be filed with Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes ☒ No ☐

(b) has been subject to such filing requirements for the past ninety (90) days

Yes ☒ No ☐

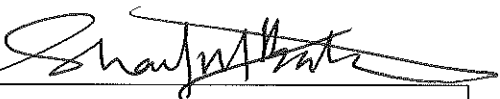
## **TABLE OF CONTENTS**

	<b>Page No.</b>
<b>PART I – FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements</b>	
Pilipinas Shell Petroleum Corporation Unaudited Balance Sheet As of September 30, 2015 and December 31, 2014	<b>4</b>
Pilipinas Shell Petroleum Corporation Unaudited Statement of Income For the period ended September 30, 2015 and 2014	<b>5</b>
Pilipinas Shell Petroleum Corporation Unaudited Statement of Comprehensive Income For the period ended September 30, 2015 and 2014	<b>6</b>
Pilipinas Shell Petroleum Corporation Unaudited Statement of Cash Flows For the period ended September 30, 2015 and 2014	<b>7</b>
Pilipinas Shell Petroleum Corporation Unaudited Statement of Changes in Stockholder's Equity For the period ended September 30, 2015 and 2014	<b>8</b>
Selected Notes to Financial Statements	<b>9-22</b>
<b>Item 2. Management's Discussion and Analysis of     Financial Conditions and Results of Operations</b>	<b>22-24</b>
<b>SIGNATURES</b>	<b>25</b>

**PART I – FINANCIAL INFORMATION****ITEM 1**

**PILIPINAS SHELL PETROLEUM CORPORATION**  
**BALANCE SHEET**  
**AS OF 30 SEPTEMBER 2015 and 31 DECEMBER 2014**  
(In Thousand Pesos)

	September 2015 Unaudited	Dec 2014 Audited
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	3,344,943	4,721,647
Receivables, Net	10,796,710	14,004,593
Inventories, Net	13,693,263	16,336,347
Prepayments and Other Current Assets	11,097,703	12,160,188
<b>Total Current Assets</b>	<b>38,932,617</b>	<b>47,222,775</b>
<b>Non Current Assets</b>		
LT Receivables, Rentals and Investments, Net	1,414,927	1,389,755
Property, Plant and Equipment, Net	20,906,366	18,630,729
Deferred Income Tax Assets, Net	3,707,647	5,293,928
Other Assets	2,145,526	965,518
<b>Total Non Current Assets</b>	<b>28,174,466</b>	<b>26,279,931</b>
<b>TOTAL ASSETS</b>	<b>67,107,084</b>	<b>73,502,706</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	16,334,546	19,892,923
Dividends Payable	9,668	9,668
ST Borrowings	4,055,000	21,550,000
Current Portion of LT Loans	0	11,000,000
<b>Total Current Liabilities</b>	<b>20,399,214</b>	<b>52,452,590</b>
<b>Non Current Liabilities</b>		
LT Loans Payable	16,000,000	12,000,000
Other Liabilities	5,170,414	5,219,474
<b>Total Non Current Liabilities</b>	<b>21,170,414</b>	<b>17,219,474</b>
<b>STOCK HOLDERS' Equity</b>	<b>25,537,456</b>	<b>3,830,642</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>67,107,084</b>	<b>73,502,706</b>




Certified by:	SHAIFUL B. ZAINUDDIN
	Vice President – Finance and Treasurer

**PILIPINAS SHELL PETROLEUM CORPORATION**  
**STATEMENT OF INCOME - UNAUDITED**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2015 AND 2014**  
(In Thousand Pesos except per share amounts)

3Q 2015 Unaudited	3Q 2014 Unaudited		YTD September 2015 Unaudited	YTD September 2014 Unaudited
39,234,886	60,289,458	Net Sales	122,360,781	181,970,220
(37,259,930)	(59,040,514)	Cost of Sales	(109,859,989)	(177,147,517)
<b>1,974,955</b>	<b>1,248,944</b>	<b>Gross Profit</b>	<b>12,500,793</b>	<b>4,822,703</b>
(2,775,685)	(2,754,961)	Selling, General and Administrative Expenses	(7,017,660)	(7,349,467)
991,896	(143,645)	Other operating income (expense), net	1,045,380	(130,154)
<b>191,166</b>	<b>(1,649,662)</b>	<b>Income from Operations</b>	<b>6,528,513</b>	<b>(2,656,918)</b>
(582,830)	(839,007)	Finance Costs, Net	(1,390,455)	(854,916)
<b>(391,664)</b>	<b>(2,488,669)</b>	<b>Income Before Provision for Income Tax</b>	<b>5,138,059</b>	<b>(3,511,834)</b>
595,184	436,726	Current Income Tax	442,563	833,782
(426,931)	484,400	Deferred Income Tax	(2,163,650)	581,989
168,254	921,126	Total Tax (Expense)/Income	(1,721,086)	1,415,770
<b>(223,411)</b>	<b>(1,567,543)</b>	<b>Net Income/(Loss)</b>	<b>3,416,972</b>	<b>(2,096,064)</b>
(0.20)	(2.27)	Earnings per share* (basic and diluted)	4.11	(3.03)

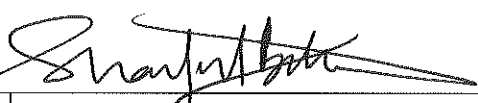
*\*Earnings per share is calculated by dividing net income over the weighted average number of common shares outstanding (Common Shares as of August 18, 2015: 1,585,944,202; Common Shares in 2014 to August 17, 2015 : 691,271,425)*

Certified by:	SHAIFUL B. ZAINUDDIN
	Vice President – Finance and Treasurer

**PILIPINAS SHELL PETROLEUM CORPORATION**  
**STATEMENTS OF TOTAL COMPREHENSIVE INCOME - UNAUDITED**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2015 AND 2014**  
(In Thousand Pesos)

3Q 2015	3Q 2014		YTD Sept 2015	YTD Sept 2014
(223,411)	(1,567,543)	Net Income (Loss)	3,416,972	(2,096,064)
		Other comprehensive income (loss)		
		Increase (Decrease) in fair value of available-for-sale		
8,725	(11,044)	financial assets	1,985	68,665
(214,686)	(1,578,587)	<b>Total Comprehensive Income for the period</b>	<b>3,418,957</b>	<b>(2,027,399)</b>
		<b>Total comprehensive income attributable to:</b>		
(214,686)	(1,578,587)	Equity holders of the company	3,418,957	(2,027,399)
		Non-controlling interest		
(214,686)	(1,578,587)		<b>3,418,957</b>	<b>(2,027,399)</b>

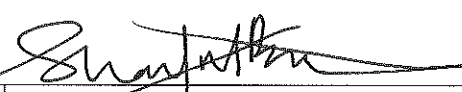


Certified by:	SHAIFUL B. ZAINUDDIN
	Vice President – Finance and Treasurer



**PILIPINAS SHELL PETROLEUM CORPORATION**  
**STATEMENT OF CASH FLOWS - UNAUDITED**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2015 AND 2014**  
(In Thousand Pesos)

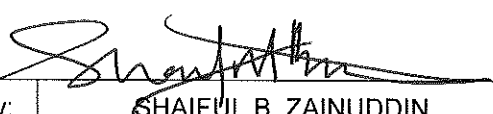
	2015	2014
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Income After Tax	3,416,972	(2,096,064)
Adjustments:		
Depreciation	1,274,347	1,481,376
Other Movement in Property, Plant and Equipment	36,406	(98,460)
(Increase) decrease in current assets other than cash and cash equivalents, and deferred tax	8,896,119	(8,752,649)
 Increase (decrease) in current liabilities other than current portion of long-term loans, and short-term borrowings	 (3,558,376)	 11,017,296
<b>Net Cash provided by (used in) Operating Activities</b>	<b>10,065,468</b>	<b>1,551,499</b>
 <b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(3,586,389)	(3,796,477)
Increase in Other Liabilities	(49,059)	(163,760)
(Increase)/Decrease in Long Term Receivable, Rentals and Investments and other assets	(1,205,179)	(119,844)
<b>Net Cash provided by (used in) Investing Activities</b>	<b>(4,840,628)</b>	<b>(4,080,082)</b>
 <b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds/(Payment) from borrowings, Net	(24,495,000)	1,462,000
Proceeds from issuance of shares	17,893,456	-
<b>Net Cash provided by (used in) Financing Activities</b>	<b>(6,601,544)</b>	<b>1,462,000</b>
 <b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>(1,376,703)</b>	<b>(1,066,583)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
January 1	4,721,647	6,161,150
<b>September 30</b>	<b>3,344,944</b>	<b>5,094,566</b>

Certified by:	SHAIFUL B. ZAINUDDIN
	Vice President – Finance and Treasurer

**PILIPINAS SHELL PETROLEUM CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2015 AND 2014**  
(In Thousand Pesos)

	2015 Unaudited	2014 Unaudited
Common Stock	18,652,341	758,885
Paid-in surplus	7,437,829	7,437,829
Fair Value Adjustments	371,879	303,106
	26,462,049	8,499,820
Retained Earnings		
Balance at beginning of the year (as reported)	(4,184,802)	4,524,373
Net Income/(Loss) for the period	3,416,972	(2,096,063)
IAS 19 impact posted to Retained Earnings	114,173	-
Other Comprehensive Income	236,169	-
Balance at the end of the period	(417,487)	2,428,310
Treasury Stock	(507,106)	(507,106)
<b>Total Stockholders' Equity</b>	<b>25,537,457</b>	<b>10,421,024</b>

Certified by:	 SHAIFUL B. ZAINUDDIN
	Vice President – Finance and Treasurer

**PILIPINAS SHELL PETROLEUM CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

AS OF AND FOR THE PERIODS ENDED

30 SEPTEMBER 2015 AND 30 SEPTEMBER 2014

(In Pesos '000 unless otherwise stated, except per share amounts)

**Note 1 – General information**

Pilipinas Shell Petroleum Corporation (the "Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on 9 January 1959 primarily to engage in the refining and marketing of petroleum products. On 5 December 2008, the SEC approved the extension of the corporate term of the Company for another fifty (50) years from 9 January 2009 to 8 January 2059.

The Company is 68% owned by The Shell Petroleum Company Limited (SPCL), a corporation registered under the laws of the United Kingdom and 32% owned by Filipino and other foreign shareholders. In early 2009, the ownership of SPCL was transferred to Shell Overseas Investments BV (SOIBV), a corporation registered under the laws of Netherlands. The ultimate parent of the Company is Royal Dutch Shell plc. (RDS) (Incorporated in the United Kingdom).

The Company is considered a public company under Section 17.2(c) of the Securities Regulation Code (SRC) Rule 68, as amended on 20 October 2011 and Rule 3.1 (i) of the Implementing Rules and Regulation of the SRC, which defines a public company, among others, as any corporation with total assets of more than P350 million or total liabilities of more than P250 million. The Company with assets of at least P50 million and having two hundred (200) or more shareholders each of which holds at least one hundred (100) shares of a class of its equity securities is also covered by additional requirements under SRC Rule 68, as amended, Part II. As at 30 September 2015, the Company has 361 shareholders (2014 – 359, 2013 – 359 and 2012 - 362), 335 of whom hold at least 100 shares of the Company's common shares (2014 – 333, 2013 – 333 and 2012 - 337).

The Company has its principal office at Shell House, 156 Valero Street, Salcedo Village, Barangay Bel-Air Makati City and has an oil refinery in Tabangao, Batangas and various oil depots and installations all over the Philippines. The Company has 765 regular employees as at 31 December 2014 (2013 - 741).

**Note 2 – Summary of significant accounting policies**

The significant accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation**

These interim financial statements for the three months ended 30 September 2015 have been prepared in accordance with Philippine Accounting Standards (PAS 34) 'Interim financial reporting'. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 of the 2014 annual financial statements:

*(a) New and amended standards adopted by the Company*

A number of new standards and amendments to standards and interpretations are effective for the first time for the financial year beginning on or after 1 January 2013 have been adopted by the Company and their impact were recognized on the interim financial statements:

*PAS 19 (Amendment), Employee Benefits* (effective 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. It also requires recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in profit or loss. The amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Company has adopted the same for the year 2013.

*PAS 27 (Revised), Separate Financial Statements* (effective 1 January 2013). As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in the separate financial statements.

*PAS 28 (Revised), Investments in Associates and Joint Ventures* (effective 1 January 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of PFRS 11.

*PFRS 1 (Amendment), Government Loans* (effective 1 January 2013). This amendment addresses how a first-time adopter would account for government loan with a below-market rate of interest when transitioning to PFRS. It also adds an exception to the retrospective application of PFRS, which provides the same belief to the first-time adopters granted to existing preparers of PFRS financial statements when the requirements was incorporated into PAS 20 in 2008.

*PFRS 7 (Amendment), Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2013). This amendment includes new disclosures required to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities on the Company's financial statements.

*PFRS 9, Financial Instruments* (effective 1 January 2015). This new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of PAS 39 that relate to the classification and measurement of financial instruments. PFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Company intends to adopt PFRS 9 beginning 1 January 2015. The Company will also consider the impact of the remaining phases of PFRS 9 when issued. However, adoption is not expected to have a significant impact on the financial statements since the Company do not have complex financial instruments.

*PFRS 10, Consolidated Financial Statements* (effective 1 January 2013). This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company has applied that guidance in assessing possible control of the Company in its interests on other entities. Based on the Company's assessment, the Company do not have investments that would qualify as an investment in a subsidiary as at all the reporting periods presented.

*PFRS 11, Joint Arrangements* (effective 1 January 2013). This new standard is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

*PFRS 12, Disclosures of Interests in Other Entities* (effective 1 January 2013). This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

*Amendments to PFRS 10, 11 and 12 - Transition Guidance* (effective 1 January 2013). These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

*PFRS 13, Fair Value Measurement* (effective 1 January 2013). This new standard aims to improve consistency and reduce complexity by providing a clarified definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements, which are largely aligned with IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within PFRS or US GAAP.

There are no other PFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## **2.2 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. There are no offsetting financial instruments as at 30 September 2015

## **Note 3 – Financial risk management**

### **3.1 Liquidity risk**

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. The Company has access to sufficient external debt funding sources (banks credit lines) to meet currently foreseeable borrowing requirements. The Treasury group centrally monitors bank borrowings, foreign exchange requirements and cash flow positions.

Surplus cash is invested into a range of short-dated money market instruments, time deposits and money funds, which seek to ensure the security and liquidity of investments while optimizing yield.

Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flow. Forecasted liquidity reserve for 2015 is as follows:

	2015
Opening cash balance for the year	4,721,647
Net cash from operating activities	8,324,784
Capital expenditures	(3,469,457)
Net cash from other investing activities	35,475
Net cash used in financing activities	(4,963,488)
Ending cash balance for the year	4,648,961

The Company has unused credit lines of PhP73.7 billion as at 30<sup>th</sup> September 2015 (PhP40.9 billion as at 31 December 2014 and PhP35.7 billion as at 31 December 2013) and undrawn borrowing facilities at floating rate amounting to PhP62.0 billion (2014 – PhP40.9 billion and 2013 - PhP24.8 billion), which is expiring within one year.

The Company has a PhP11.7 billion credit facility with Shell Treasury Center East "STCE", which does not have an expiration date.

### **3.2 Gearing ratio**

The gearing ratio is a measure of the Company's financial leverage reflecting the degree to which the operations of the Company are financed by debt. The amount of debt that the Company will commit

depends on cash inflow from operations, divestment proceeds and cash outflow in the form of capital investment, dividend payments and share repurchases. The Company aims to maintain an efficient balance sheet to be able to finance investment and growth, after the funding of dividends.

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings less cash and cash equivalents.

While the Company does not have a fixed gearing target, management considers whether the present gearing level is commercially acceptable based on the ability of the Company to operate on a stand-alone basis and gearing is set after appropriate advice has been taken from Tax, Treasury and Legal advisors.

The gearing ratios at 30 September 2015 and 31 December 2014 were as follows:

	2015	2014
Total loans and borrowings	20,055,000	44,550,000
Less: cash and cash equivalents	3,344,943	4,721,647
Net debt	16,710,057	39,828,353
Total equity (excluding fair value adjustments)	25,165,576	3,504,806
Total capital	41,875,634	43,333,159
Gearing ratio	40%	92%

The gearing ratio improved from 92% as at December 2014 to 40% as at Q3 2015 mainly due to the new equity issued in Q3 and improved operational and financial performance of the company this year.

The Company is not subject to externally imposed capital requirement.

#### **Note 4 – Cash and cash equivalents**

The account as at 30 September 2015 and 31 December 2014 consists of:

	2015	2014
Cash on Hand and in Banks	3,344,943	4,721,647
Short-term Placements	-	-
Total	3,344,943	4,721,647

The average actual interest rate on short-term placements in YTD September 2015 was 0.80% p.a, as against the market benchmark rate of 0.79% p.a., with an average tenor of 7 days compared to 0.66% in the same period in 2014 with an average tenor of 7 days. This increase in interest rate during 2015 is in line with the money market trends in the Philippines.

#### **Note 5 – Receivables**

The account as at 30 September 2015 and 31 December 2014 consists of:

	2015	2014
Trade	6,911,133	9,886,399
Related Parties	511,252	557,813
Provision for Impairment of Trade Receivables	(287,648)	(214,665)
	7,134,737	10,229,547
Related Parties (Non-Trade)	-	-
	7,134,737	10,229,547
Others:	4,456,577	4,117,972
Provision for Impairment of Other Receivables	(794,604)	(342,925)
	3,661,973	3,775,047
Total	10,796,710	14,004,594

**Note 6 – Inventories**

The account as at 30 September 2015 and 31 December 2014 consists of:

	2015	2014
Crude Oil and Products	13,393,568	18,830,491
Materials and Supplies	330,314	354,112
	13,723,882	19,184,603
Allowance for Inventory Losses	(30,619)	(2,848,256)
Total	13,693,263	16,336,347

**Note 7 – Long-term receivables, rentals and investments**

The account as at 30 September 2015 and 31 December 2014 consists of:

	2015	2014
Loans to an entity under common control	379,678	379,678
Advance rentals	729,112	850,070
Market investment loans (a)	36,822	83,817
Investments in associates and jointly-controlled entity (b)	45,988	43,676
Other long-term assets	0	7,221
	1,191,601	1,364,462
Long-term receivables (c)	242,901	44,868
Provision for impairment of long-term receivables	(19,575)	(19,575)
	223,326	25,293
	1,414,927	1,389,755

*(a) Market investments loans*

Market investment loans consist of unsecured promissory notes collectible from third party customers on various dates up to year 2016 with interests ranging from 9% to 18%.

*(b) Investments in associates and jointly-controlled entity*

In 2011, the Company purchased 44% interest in Bonifacio Gas Corporation at an acquisition price of P34 million from SGLPI.

*(c) Long-term receivables*

As at 30 September 2015 and 31 December 2014, long-term receivable of PHP20 million was impaired and fully provided for. The individually impaired receivables mainly relate to Batangas Bay Carriers Inc., which is in difficult economic situation, and are aged over a year.

As at 30 September 2015 and 31 December 2014, there are no other long-term receivables that are past due but not impaired.

The carrying amounts of the Group's long-term receivables are denominated only in Philippine pesos.

The other classes and balances within long-term receivables, rental and investments are fully performing.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

### **Note 8 – Short-term borrowings**

The account consists of unsecured short-term loans from various local commercial banks intended to fund crude and product importations and working capital requirements. The loans mature on various dates.

The average actual interest rate/cost of funds on local borrowings for Q3 2015 was 2.45% p.a., as against the market benchmark rate of 1.50%. During Q3 2015, the average tenor of borrowing was 2.67 days.

During the previous comparison period, Q3 2014 – the actual interest rate was 1.75% p.a. (market benchmark rate of 1.50% p.a.) with an average borrowing tenor of 10.27 days.

### **Note 9 – Loans payable**

On 17 January 2014, the Company entered into a loan agreement with Bank of the Philippine Islands ("BPI") to obtain an unsecured loan of PhP5 billion. Details of the loan as at 30 September 2015 follow:

Amount	Interest	Terms
5,000,000	2.7632% as at that loan date effective until next repricing.	Payable after thirty-six (36) months reckoned from the drawdown date on 17 January 2014. Principal is payable in lump sum at maturity date. Interest is reprised every three (3) months.

On 02 March 2015, the Company entered into a loan agreement with Bank of the Philippine Islands ("BPI") to obtain an unsecured loan of PhP11 billion. Details of the loan as at 30 September 2015 follow:

Amount	Interest	Terms
6,000,000	3.5803% as at that loan date effective until next repricing.	Payable after thirty-six (36) months reckoned from the drawdown date on 02 March 2015. Principal is payable in lump sum at maturity date. Interest is repriced every three (3) months.

On 02 March 2015, the Company entered into a loan agreement with Bank of the Philippine Islands ("BPI") to obtain an unsecured loan of PhP5 billion. Details of the loan as at 30 September 2015 follow:

Amount	Interest	Terms
5,000,000	3.7119% as at that loan date effective until next repricing.	Payable after thirty-six (36) months reckoned from the drawdown date on 02 March 2015. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months.

Total interest expense charged to operation on the above loans until September 2015 amounted to PhP893.51 million.

Under the loan agreements, the Company is required to comply with certain covenants, as follows:

- Maintenance of the Company's legal status.
- Ensure that at all times the loans rank at least *pari passu* with the claims of all other unsecured and unsubordinated creditors except those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.
- The Company shall not create or permit to subsist any encumbrance over all or any of its present or future revenues or assets other than a permitted encumbrance as defined in the loan agreements.
- The Company shall duly pay and discharge all taxes, assessment and charges of whatsoever nature levied upon or against it, or against its properties, revenues and assets prior to the date on which penalties attach thereto, and to the extent only that the same shall be contested in good faith and by appropriate legal proceedings.



The Company is in compliance with the covenants as at 30 September 2015.

#### **Note 10 – Other liabilities**

The account as at 30 September 2015 and 31 December 2014 consists of:

	2015	2014
Provision for legal cases	1,598,498	1,561,022
Asset retirement obligation	1,410,494	1,611,137
Operating lease	125,979	693,086
Provision for remediation and demolition costs	851,445	818,867
Cash security deposits	316,383	379,744
Other liabilities	867,617	155,618
	<b>5,170,414</b>	<b>5,219,474</b>

#### **Note 11 – Dividends**

No dividends declared for 2014 and 2015 yet.

Cash dividends declared in 2013 and 2012 are as follows:

Date				
Declared	Paid	Per share	2013	2012
16-Apr-2013	16-May-2013	0.69	475,812	-
17-Apr-2012	17-May-2012	7.04	-	9,143
17-Apr-2012	17-May-2012	7.04	-	4,854,837
14-Dec-2011	13-Jan-2012	5.20	-	-
14-Dec-2011	21-Dec-2011	5.20	-	-
26-Apr-2011	12-May-2011	3.50	-	-
			<b>475,812</b>	<b>4,863,980</b>

Included in the balance of retained earnings is the amount of PhP1.1 billion representing the retained earnings of Shell Philippines Petroleum Corporation as at 30 June 1999 upon its merger with the Company. The said amount is available only for stock dividends.

In 2015, dividends payable amounting to PhP9.7 million in the balance sheet is presented net of applicable withholding tax.

As at 30 September 2015 and 31 December 2014, the Company's accumulated earnings are set aside for dividend declaration and anticipated operating and capital expenditures.

#### **Note 12 – Earnings per share**

Computations of earnings per share for the periods ended are as follows:

	September 2015	December 2014	December 2013
Earnings available to stockholders:			
Net income/(loss) for the period ('000)	3,416,972	(8,488,580)	(912,108)
Weighted average number of shares	899,804,669	758,885,514	758,885,514
Treasury shares	(67,614,089)	(67,614,089)	(67,614,089)
	<b>832,190,580</b>	<b>691,271,425</b>	<b>691,271,425</b>
Earnings per share, basic and diluted	<b>4.11</b>	<b>(12.28)</b>	<b>(1.32)</b>

## **Note 13 – Contingencies**

### **Tax cases**

*(a) Excise tax on Importations of Catalytic Cracked Gasoline(CCG) and Light Catalytic Cracked Gasoline (LCCG)*

**Pilipinas Shell Petroleum Corporation vs. Commissioner of Customs, Collector of Customs of the Port of Batangas, Bureau of Customs and Bureau of Internal Revenue**

CTA Case Nos. 8004 and 8121, Court of Tax Appeals, 2nd Division

CTA Case No. EB 1007/1003, Court of Tax Appeals En Banc

Filed December 03, 2009

**Matter Summary:** The Bureau of Customs assessed the Company, more than **PHP7.3 billion** for claimed excise taxes on the importation of Catalytic Cracked Gasoline and Light Catalytic Cracked Gasoline (CCG/LCCG) components from 2004-2009.

The Company filed a Petition for Review with the Court of Tax Appeals to contest the ruling of the BOC. This case was consolidated with a petition against a ruling by the Commissioner of Internal Revenue dated 15 December 2009, which requires double taxation on CCG/LCCG.

The Government later accepted the Company's offer to post a surety bond to answer for any damage that a Suspension Order might cause to the government. The posting of the bond was approved by the CTA which prevented the BOC from implementing further seizures of the company importations.

**Status:** In a Resolution dated 27 November 2012, the Court granted the company's Motion for Summary Judgment and ruled that the government is enjoined from collecting the alleged unpaid excise taxes and VAT on the company's CCG/LCCG importations for the periods in 2004 to 2009. The government filed a Petition for Review with the CTA En Banc. Meanwhile, the company filed its own Petition for Review with the CTA En Banc because the CTA did not invalidate the 15 December 2009 Ruling of the CIR with respect to double taxation. The parties' memoranda were filed in November 2013.

Based on recent news reports the CTA En Banc has ruled that the Company is liable to pay the government more than PhP3-billion worth of unpaid excise taxes and Value Added Tax (VAT) for the importation of raw materials used to produce Clean Air Act compliant unleaded gasoline for the period of 2006 to 2009.

The Company has not yet received a copy of the decision of the CTA En Banc as at the end of September 2015. The Company will study the decision and will avail of appropriate legal remedies.

*(b) Batangas Local Tax Case*

**Batangas City, Maria Teresa Geron, in her capacity as City Treasurer of Batangas City and Teodulfo A Deguito in his capacity as City Legal Officer of Batangas City vs. Pilipinas Shell Petroleum Corporation**

SC-G.R. No. 187631, Supreme Court, 3<sup>rd</sup> Division

Filed in SC May 08, 2009

**Matter Summary:** In 2003, the City of Batangas assessed the company, **PhP4,000,000** for Mayor's permit and **PhP405,029,973.04** as business taxes on the basis of the volumes of petroleum products manufactured and distributed thru the company's Tabangao refinery located within Batangas City. It is the company's position that it is not liable for said amounts since petroleum products are exempt from local taxes under the Local Government Code. Batangas City, on the other hand, posits that what are being taxed are the businesses of manufacturing and distribution, and not the petroleum products themselves.

The 2nd Division of the CTA rendered a decision finding the Company not liable for these taxes and further declared that the amount assessed as mayor's permit fees was excessive. The City was further precluded from imposing taxes on the manufacture and distribution of petroleum products and was ordered to refund the excessive mayor's permit fees. The City of Batangas filed a Petition for Review with the CTA *en banc* which also affirmed the decision of the 2nd. Hence, the appeal by the City of Batangas to the Supreme Court.

**Status:** In a Decision dated July 8, 2015, the Supreme Court has affirmed that the Company is not liable for the business taxes in the amount of PhP405,029,973.04 imposed by Batangas City pursuant to the City Tax Code of 2002. The Court sustained the position that under the Local Government Code and its Implementing Rules and Regulations, local government units could not impose business taxes on the manufacture and distribution of petroleum products. The Court also affirmed the CTA decision that found that the mayor's permit fees imposed by Batangas City excessive.

*(c) Claim for Refund of Excise Taxes*

**Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation**

SC-G.R. No. 188497, Supreme Court

Filed September 7, 2010

**Matter Summary:** The Company filed for refund of excise taxes on petroleum products sold to international carriers covering October 2001 to June 2002 in the amount of **PhP95,014,284.00**. CTA Division level and En Banc granted the refund and BIR appealed to the Supreme Court. The Supreme Court First Division reversed the Decision of the Court of Tax Appeals.

Other similar claims for refund are pending.

**Status:** On 22 May 2012, the company filed its Motion for Reconsideration of the Supreme Court Decision. The CIR and OSG filed their Comments to this Motion for Reconsideration. The Company also filed a motion for leave of court to admit a supplement to the Motion for Reconsideration, which the Supreme Court approved.

On 19 February 2014, the First Division of the Supreme Court abandoned its earlier decision and directed the Commissioner of Internal Revenue to refund or issue a tax credit certificate to the company in the amount of P95,014,283.00 representing the excise taxes it had paid on products sold to international carriers from October 2001-June 2002. The Commissioner of Internal Revenue filed a Motion for Reconsideration dated 28 March 2014. On 9 June 2014, the Supreme Court maintained its Resolution dated 19 February 2014, and denied with finality the Commissioner's motion asking the Court to reconsider said resolution.

*(d) Excise tax on Importations of Alkylate*

**Pilipinas Shell Petroleum Corporation vs. Commissioner of Internal Revenue et al.**

CTA Case No. 8535, Court of Tax Appeals, 1<sup>st</sup> Division

Filed August 24, 2012

**Matter Summary:** The Bureau of Internal Revenue held that Alkylate, a raw material imported by the company, is subject to excise taxes upon importation. The BIR ordered the collection of **PhP1,994,500,677.47** in alleged excise taxes for importations of Alkylate in the period from January 2010 to June 2012.

**Status:** On 22 October 2012, the CTA issued a Suspension Order which means that while the case is pending, the government cannot enforce the collection of the alleged unpaid excise taxes on Alkylate importations from 2010 to June 2012. After the submission by the Company and the Government of arguments and counter-arguments, the CTA resolved to deny the Government's Motion to Dismiss and the subsequent motion for reconsideration. Following the denial of the Motion to Dismiss, the Bureau of Customs appealed to CTA En Banc, while the Bureau of Internal Revenue (BIR) brought the matter to the Supreme Court. In a Resolution dated 10

February 2014, the CTA En Banc dismissed the appeal filed by the Bureau of Customs which the Bureau of Customs later on elevated to the Supreme Court.

On 2 June 2014, the Company filed a Petition for Certiorari with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the SC questioning the denial of its application for the issuance of a suspension order against the assessment and collection of excise taxes on its March 2014 alkylate shipment.

On 7 July 2014, the Supreme Court consolidated the petitions which stemmed from this issue and are now pending before said court, to wit: (1) appeal filed by the Bureau of Customs raising the question of jurisdiction (SC G.R. No. 211294), (2) appeal filed by the Company challenging the denial of its application for Suspension Order for its March 2014 alkylate shipment (SC G.R. 212490), and (3) appeal filed by the Bureau of Internal Revenue likewise raising the issue of jurisdiction (SC G.R. No. 210501). The Supreme Court also issued a temporary restraining order enjoining the CTA and the tax-collecting agencies of the government from imposing excise taxes on incoming alkylate importations of the Company.

Meanwhile, the main case on the merits continues with the CTA. On 13 February 2015, the court denied the Company's Motion for Judgment on the Pleadings. The Company filed a Motion for Reconsideration of this resolution of the CTA.

*(e) Tax Credit Certificates Cases*

**1. Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation**

SC GR No. 204119-20, Supreme Court 2<sup>nd</sup> Division

Filed 5 December 2012

**Matter Summary:** This is an appeal from the Decision of the Court of Appeals which affirmed the Court of Tax Appeals in setting aside the CIR's demand for payment of the sum of PhP1,705,028,008.06 as the Company's excise tax liabilities for the years 1992, 1994-1997, which were paid by the Company through TCCs and TDMs.

**Status:** Awaiting action by the Supreme Court.

**2. Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation**

SC-G.R. No. 197945, Supreme Court

Filed October 04, 2011

**Matter Summary:** From 1988 to 1997, the Company paid some of its excise tax liabilities with Tax Credit Certificates duly assigned and transferred to it by other BOI-registered entities. In 1998, the BIR sent a collection letter to the Company demanding payment of allegedly unpaid excise taxes. This became the subject of several protests which led to various cases before the CTA.

This is an appeal from the Decision dated 22 February 2011 of the Court of Tax Appeals in CTA EB Case No. 535 which denied the CIR's petition for lack of merit and ruling that the company has duly settled its excise tax liabilities by utilizing valid and genuine TCC/TDMs, obtained in good faith and for value, and in accordance with the applicable laws and rules.

**Status:** In its Resolution dated 1 April 2014, the Supreme Court consolidated this case with the the case entitled "Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation" with SC G.R. No. 204119-20.

Awaiting further action by the court.

**3. Republic of the Philippines rep. by Bureau of Customs vs. Pilipinas Shell Petroleum Corporation & Filipino Way Industries**

SC-G.R. No. UDK 14908 now SC G.R. No. 209324, Supreme Court

**Matter Summary:** Sometime in March 1996, TCCs were issued to Filway Industries for customs duties and taxes allegedly paid on raw materials used in the manufacture, processing or production of knitted fabrics. In 1997, Filway executed a deed of assignment over the TCCs in favour of the Company. The Company then utilized said TCCs to settle its customs duties and taxes on oil importations. According to the government, it was discovered that the said credit memos were fake and spurious as they did not conform to the records. Thus, the TCCs were cancelled and BOC is demanding anew for the payment of custom duties and taxes for the Company's importations.

This is an appeal by the government from the decision of the Court of Appeals affirming the orders of RTC Manila Branch 49 that dismissed the case

**Status:** Awaiting action by the Supreme Court.

**Pandacan Zoning Ordinance**

**Social Justice Society (SJS) Officers VS Alfredo S. Lim, in his capacity as Mayor of the City of Manila and Jose L. Atienza, Jr. et.al. VS Mayor Alfredo S. Lim, et. al (Ordinance 8187)**

SC-G.R. No. 187836 consolidated with Case No. 187916, Supreme Court

Filed June 01, 2009

**Pilipinas Shell Petroleum Corp. vs. City of Manila, et al. (Re: Ordinance No. 8283), Case No. 13-1034, Regional Trial Court of Makati City**

Filed on 29 August 2013

**Matter Summary:** On 28 May 2009, the Mayor of Manila approved Ordinance No. 8187, which repeals or amends the zoning ordinances (Ordinance No. 8027 and 8119) that earlier required the closure of the Pandacan depots. Social Justice Society and former Manila Mayor Joselito Atienza separately filed their respective Petitions before the Supreme Court challenging the validity of Ordinance No. 8187.

The Company intervened in the cases and asked the Supreme Court to assign a special court or commission to receive evidence on the factual issues such those on safety and environment. The Supreme Court has ordered the consolidation of the cases.

**Status:** On 29 August 2013, The Company filed a Petition for Declaratory Relief to challenge the validity of Ordinance No. 8283. This Ordinance re-classifies the area of the Pandacan Terminal into a Commercial/Mixed Use Zone and requires the removal of the oil terminal by January 2016. In view of this, The Company informed the Supreme Court that the pending matter regarding Ordinance No. 8187 should be dismissed.

On 25 November 2014, the SC decided to declare Ordinance No. 8187 unconstitutional and invalid with respect to the continuing stay of the Pandacan depots. The Court gave the oil companies 45 days to submit a comprehensive plan and relocation schedule and then six (6) months to implement the said plan. On 5 January 2015, the Company filed its Motion for Reconsideration.

In a Resolution dated 10 March 2015, the Supreme Court denied the Company's Motion for Reconsideration. The Court ordered the observation of the prescribed timelines indicated in its decision and the proscription against the filing of further pleadings, motions or papers. In view of the Decision of the Supreme Court, the Regional Trial Court dismissed Case No. 13-1034 for being moot and academic.

### **Cases Filed by the West Tower Condominium Corporation**

**(a) West Tower Condominium Corp., on behalf of the residents of West Tower Condominium and in representation of Barangay Bangkal, and others, including minors and generations yet unborn vs. First Philippine Industrial Corporation, First Gen Corporation and their respective Board of Directors and Officers, John Does and Richard Does (Writ of Kalikasan Case)**

SC-G.R. No. 194239 Supreme Court

Filed November 21, 2010

**Matter Summary:** This is a petition for the permanent closure of the 117km white oil pipeline (WOPL) that transports finished products from the refinery to the fuel depot in Manila. First Philippine Industrial Corporation (FPIC) owns and operates the WOPL and the Company is one of FPIC's customers.

In 2010, it was discovered that the WOPL had a leak which caused fuel products to seep into the basement of West Tower Condominium. The petitioners filed the present case and applied for a Writ of Kalikasan or an environmental protection order. Since the filing of the case in 2010, the court has ordered the continued shut down of the WOPL. The issue before the court now is whether the shut down should be made permanent.

**Status:** In August 2013, the Supreme Court adopted the recommendations of the Court of Appeals, requiring the submission of a certification from the Department of Energy that the pipeline is safe for commercial operation. On 29 October 2013, the pipeline company submitted the required certification. In a Decision dated 16 June 2015, the Supreme Court essentially allowed the re-opening of the pipeline subject to further testing to be done under the supervision of the Department of Energy.

In its Decision dated 16 June 2015, the Supreme Court mandated the DOE to conduct a series of tests on the WOPL and to issue an order allowing FPIC to reopen the pipeline, should the test results warrant immediate resumption of the pipeline operations.

In its Resolution dated 01 September 2015, the Supreme Court directed the respondents to comment on the Motion for Partial Reconsideration (of the Decision dated 16 June 2015) filed by the petitioners within ten days from receipt of said resolution.

**(b) West Tower Condominium Corp. et al. vs. Judge Elpidio R. Calis et al.**

CA-GR SP No. 125104 (Appeal of Civil Case—Civil Case No. 11-256), Court of Appeals, 6<sup>th</sup> Division

Filed June 11, 2012

**Matter Summary:** The Company is a respondent in this Petition for Certiorari filed by West Tower Condominium Corp, et al. to challenge the ruling of Judge Calis requiring the payment of filing fees in the civil case for damages earlier brought by WTCC in connection with the leak in White Oil Pipeline. The issue is whether the case filed with the lower court is exempt from payment of filing fees. The trial court judge earlier ruled that the claim is an ordinary claim for damages.

**Status:** In a Decision dated 30 June 2014, the Court of Appeals affirmed the ruling of the Regional Trial Court requiring the payment of filing fees. FPIC and its Board of Directors and Officers asked the Court of Appeals to reconsider the part of its Decision retaining the party-complainants previously dropped as parties to the case arguing that the court has no jurisdiction to reinstate these party-complainants. West Tower Condominium Corporation, et al. filed its Motion for Reconsideration arguing that they have satisfied all the requirements in order that this case may be treated as an environmental case which does not necessitate the payment of the filing fees. On 26 September 2014, the Company asked the Court of Appeals to deny the motion for reconsideration filed by West Tower Condominium Corporation, et al. for lack of merit. In its resolution dated 11 December 2014, the Court of Appeals denied the motion for reconsideration

filed by the West Tower Condominium Corporation, et. al. The latter elevated the case to the Supreme Court and the same has been docketed as SC G.R. SP-No. 215901.

The Company filed its comment dated 18 September 2015.

**(c) West Tower Condominium Corp. vs. Garde, et al (Criminal Negligence)**

NPS No. XV-05-INV-11J-02709, Department of Justice

Filed October 2, 2011

**Matter Summary:** This is a complaint for criminal negligence against 11 Directors of the company and 2 Officers of the company who are also directors of FPIC. Aside from the other Directors and Officers of FPIC, also charged were Directors of First Gen Corp. and Directors of Chevron.

Each of the company's Directors (11) and Officers (2) filed their respective Counter-affidavits on the 19th of January 2011. The Directors asserted that there is no basis to find them culpable for negligence. The City Prosecutor will make a determination as to the existence of probable cause, which is necessary before the Respondents can be indicted.

**Status:** The case is pending resolution.

**Others**

**Cecilio Abenion, et al vs. Dow Chemical Co, et al.**

SC G.R. No. 202295, Supreme Court, 1<sup>st</sup> Division

SC-G.R. Case 199182-89, Supreme Court, 2<sup>nd</sup> Division

Filed December 23, 2011

**Matter Summary:** In 1996, an action for damages was filed against several U.S. corporations, including Shell Oil Company, alleged to be manufacturers and users of pesticides used in plantations in Davao City. A global compromise agreement was reached between Shell Oil Company (among others) and the claimants.

In August 2009, a Davao City trial court issued a Notice of Garnishment of the company's funds in a bank supposedly to enforce the compromise agreement. The Company sought and obtained protective relief from the courts on the basis that it was not a party to the case or to the compromise agreement subject of the case.

The Court of Appeals voided the orders of execution and ordered the judge to recuse from further presiding in the proceedings in the trial court.

**Status:** Two separate petitions for review of the Court of Appeals' decision were filed by the claimants with the Supreme Court. One of the petitions was dismissed by the Supreme Court 1st Division (SC G.R. No. 202295). The other petition is still pending with the 2nd Division (SC G.R. No. 199182-89).

**Note 14 – Changes in estimates of amounts**

There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that would have a material effect in the current interim period.

**Note 15 – Issuances, repurchases, and repayments of debt and equity securities**

On the 18th of August 2015, the Company received approval from the Securities and Exchange Commission (SEC) for its application for increase in authorized capital stock from P1,000,000,000 divided into 1,000,000,000 shares of par value of P1.00 each to P2,500,000,000 divided into

2,500,000,000 shares of the par value of P1.00 each. Out of the 1,500,000,000 shares in the increase in the Corporation's authorized capital stock, a total of 900,000,000 shares were offered to existing shareholders as of 12 May 2015 at P20.00 per share. 99.41% of said 900,000,000 shares were subscribed to and paid for by stockholders who exercised their pre-emptive rights.

The percentage ownership of shares held by major shareholders increased post the rights issue is as follows:

Shell Overseas Investments B.V. increased from 67.12% to 68.18%,  
 Insular Life increased from 19.49% to 19.55%  
 Spathodea increased from 5.06% to 5.14%.

**Note 16 – Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period**

There are no material events subsequent to the end of the interim period that has not been reflected in the financial statements for the interim period.

**Note 17 – Changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations**

There are no changes of material amount in the composition of the Company during the interim period.

**Note 18 – Changes in contingent liabilities or contingent assets**

There are no changes of material amount in contingent liabilities or contingent assets since the last annual balance sheet date.

**Note 19 – Existence of material contingencies**

There are no material contingencies, events or transactions that existed that materially impact the current interim period.

**ITEM 2**

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Key Performance Indicators**

	<b>YTD September 2015 (Unaudited)</b>	<b>2014 Full year</b>
Current Ratio	1.91	0.90
Debt-to-Equity	0.66	11.34
Debt Ratio	0.62	0.54
Return on Assets	4.86%	(11.54%)
Asset Turnover Ratio	1.74	2.94

- Current ratio is computed by dividing current assets over current liabilities.
- Debt-to-equity ratio resulted by dividing net debt (short-term and long-term borrowings less cash) over stockholder's equity (exclusive of Other Reserves).
- Debt ratio is computed as net debt divided by total assets.
- Return on assets is computed as net income after taxes divided by total assets.
- Asset Turnover Ratio is computed as net sales divided by total assets.

(Please note that the numbers for 2015 are only for YTD September while those for 2014 are for the full year).



**Known trends, demands, developments, commitments, events or uncertainties that will have a material impact on the issuer's liquidity**

The Company has reviewed the known trends, demands, developments, commitments, events or uncertainties during the reporting period and is of the opinion that there are no items which will have a material impact on the issuer's liquidity. (Refer to Note 3.1 Liquidity Risk on page 11)

**Any events that will trigger direct or contingent financial obligation**

There are no events during the interim period that would trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

**All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period**

There are no material off-balance sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

**Material commitments for capital expenditures**

For the year 2015, a budget of PHP3.5 billion has been approved for capital expenditures. Bulk of the capital expenditures has been allocated mainly for two major projects which are the new import facility in North Mindanao and the refinery upgrade to comply with Euro IV requirements.

**Known trends, events, or uncertainties that have had or that are reasonably expected to have a material favourable or unfavourable impact on Net Sales/Income from continuing operations**

Global developments, particularly volatility in oil prices and foreign exchange, will continue to impact the company's financial performance. In Q4 2015 the company is planning to conduct a shutdown of its Tabangao refinery for scheduled maintenance and start-up of its refinery upgrade project.

**Significant elements of income or loss that did not arise from the issuer's continuing operations**

There are no significant elements of income or loss that did not arise from the Company's continuing operations.

**Profitability**

**Sales revenues** decreased by 32% from PhP182.0 billion in Q3 2014 to PhP122.4 billion in Q3 2015. This decrease is mainly due to significantly lower product prices in Q3 2015 vs Q3 2014 driven by the drop in global oil prices. Sales Volume, on the other hand, increased by 4.6% from 4,249M Liters in Q3 2014 to 4,443M Liters in Q3 2015 driven mainly by Retail and Wholesale Commercial fuels.

Retail volumes increased due to successful marketing initiatives e.g. SM Advantage Card, differentiated fuels offerings, contributions of new-to-industry retail sites acquired last year and execution of its robust pricing strategy.

Commercial fuels sales volumes increased due to seasonal demand, higher lifting from power and manufacturing customers and additional volumes from the previously exported naphtha which is now locally sold to local petrochemical plant.

**Gross Margin**

Gross margin registered at PhP12.7 billion as of Q3 2015 compared to PhP4.8 billion for the same period in 2014 mainly due to stronger refinery margins, higher sales volume and lower primary transport cost.

**Operating & Other expense** decreased from PhP7.5 billion in Q3 2014 to PhP6.0 billion in Q3 2015 mainly coming from reduction in overhead cost and savings in insurance.

**Net Finance cost** increased from PhP0.9 billion in Q3 2014 to PhP1.4 billion in Q3 2015 due to increase in financing cost as well as foreign currency translation losses.

As a result of the reasons stated above the Company registered a **Net Income After Tax** for YTD September 2015 of PHP3.4 billion compared to Net loss of PHP2.1 billion for the same period in 2014.

**Financial Position**

**Cash and Cash Equivalents** decreased from PhP4.7 billion as at December 31, 2014 to PhP3.3 billion as at September 30, 2015 due to repayment of borrowings.

**Receivables** decreased from PhP14.0 billion as at December 31, 2014 to PhP10.8 billion as at September 30, 2015 mainly due to lower sales value as a result of lower product prices.

**Inventories** decreased from PhP16.3 billion as at December 31, 2014 to PhP13.7 billion as at September 30, 2015 due to reduction in oil prices and improvements in inventory management.

**Prepayments and Other Current Assets** decreased from PhP12.2 billion as at December 31, 2014 to PhP11.1 billion as at September 30, 2015 due to working capital improvement initiatives implemented by the company.

**Property Plant and Equipment, Net** increased from PhP18.6 billion as at December 31, 2014 to PhP20.9 billion as at September 30, 2015 due to the refinery upgrade and the construction of the import facility in North Mindanao.

**Deferred Income Tax Assets, Net** decreased from PhP5.3 billion as at December 31, 2014 to PhP3.7 billion as at September 30, 2015 due to the utilization of some of the deferred tax assets in Q1 to Q3 2015.

**Other Assets** increased from PhP1.0 billion as at December 31, 2014 to PhP2.1 billion as at September 30, 2015 mainly due to pension asset revaluation.

**Accounts Payable and Accrued Expenses** decreased from PhP19.9 billion as at December 31, 2014 to PhP16.3 billion as at September 30, 2015 mainly due to reduction in purchase value as a result of lower crude prices.

**ST Borrowings** decreased from PhP21.6 billion as at December 31, 2014 to PhP4.1 billion as at September 30, 2015 mainly due to the repayment of the loans and the conversion of some short-term loans to long-term loans

**Current Portion of LT Loans** decreased from PhP11.0 billion as at December 31, 2014 to Nil as at September 30, 2015 due to repayment of loans.

**Long Term Loans Payable** increased from PhP12.0 billion as at December 31, 2014 to PhP16.0 billion as at September 30, 2015 due to the conversion of short-term loan to long-term loans.

**Seasonal aspects that had a material effect on the financial condition or results of operations**

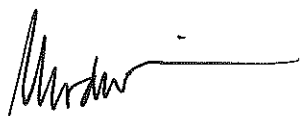
There are no seasonal aspects during the interim period that have a material effect on the financial results of operations.

## SIGNATURES

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

Issuer:

Signature and Title:

  
ATTY. MARIA LOURDES O. DINO  
Assistant Corporate Secretary

Date: November 4, 2015

Principal Financial/Accounting Officer/Controller:

Signature and Title:

  
SHAIFUL B. ZAINUDDIN  
Vice President – Finance and Treasurer

Date: November 4, 2015