




CERTIFICATION

I, **JOSE JEROME R. PASCUAL III**, Vice President – Finance, Treasurer and Chief Risk Officer of **PILIPINAS SHELL PETROLEUM CORPORATION** (the “Corporation”), a listed company duly organized and existing under Philippine laws, with address at 41st Floor, The Finance Center, 26th Street corner 9th Avenue, Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila, 1635, hereby state that:

1. The Corporation will comply with the guidelines for the alternative filing of reports and/or documents through electronic mail with the Securities and Exchange Commission (the “Commission”) through the Corporate Governance and Finance Department (CGFD) issued on 30 March 2020 in light of the imposition of an Enhanced Community Quarantine and Stringent Social Distancing Measures over Luzon to prevent the spread of the 2019 Coronavirus Disease (COVID-2019);
2. The information contained in the **Material Information/Transactions dated 16 April 2020 containing the Corporation’s Audited Financial Statements for the year ended 31 December 2020**, as disclosed in the Philippine Stock Exchange Electronic Disclosure Generation Technology or PSE EDGE, (“Report”) is true and correct to the best of my knowledge;
3. On behalf of the Corporation, I hereby undertake to submit hard or physical copies of the Report, within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of the Commission’s normal working hours;
4. I am fully aware that non-submission of hard or physical copies of reports as well as certification that they refer to one and the same document submitted online, within ten (10) calendar days from the lifting of the Enhanced Community Quarantine period and resumption of SEC’s normal working hours, shall invalidate the reports, applications, compliance, requests and other documents submitted via email. Hence, the corresponding penalties under existing rules and regulations of the Commission shall apply without prejudice to the imposition of penalties under Section 54 of the Securities Regulation Code and other applicable existing rules and regulations for failure to comply with the orders of the Commission; and
5. This Certification is being issued to attest to the truthfulness of the foregoing statements and for whatever other legal purpose it may serve.


JOSE JEROME R. PASCUAL III
Vice President – Finance, Treasurer and
Chief Risk Officer



SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City, 1307

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **Pilipinas Shell Petroleum Corporation** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year ended **31 December 2019**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Min Yih Tan

Chairman of the Board

Signed this 26th day of March 2020

Pilipinas Shell Petroleum Corporation
41st Floor, The Finance Center
26th Street corner 9th Avenue
Bonifacio Global City
1635 Taguig City, Philippines

Tel. +63 (2) 499 4001
Website <http://www.pilipinas.shell.com.ph>



A handwritten signature in black ink, appearing to be 'C. Romero'.

Cesar G. Romero

President and Chief Executive Officer

A handwritten signature in blue ink, appearing to be 'J. R. Pascual III'.

Jose Jerome R. Pascual III

Chief Financial Officer

Signed this 26th day of March 2020

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Pilipinas Shell Petroleum Corporation
41st floor, The Finance Centre, 26th street corner 9th avenue
Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pilipinas Shell Petroleum Corporation (the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Adequacy of provision for legal cases and recoverability of claims from government

The Company is involved in legal proceedings and assessments for excise tax arising from importations of Catalytic Cracked Gasoline (CCG), Light Catalytic Cracked Gasoline (LCCG) and Alkylate. We focused on this area because the estimation of the potential liability resulting from these assessments requires significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations. In addition, the Company recognized claims from certain government agencies relating to excise duties paid under protest for certain Alkylate shipments. The recoverability of these claims requires significant judgment that is likewise dependent on the outcome of the legal proceedings discussed above.

Refer to Notes 4, 7, and 29 for the relevant disclosures on these matters.

Audit response

We discussed with management the status of the tax assessments and obtained correspondences with courts and regulatory agencies, and opinions of both the Company's internal and external legal counsels. We involved our internal specialist in the evaluation of management's assessment on whether any provision for tax contingencies should be recognized, the estimation of such amount and the assessment of recoverability of the claims. We also evaluated the tax position of the Company by considering the tax laws, rulings and jurisprudence.

Valuation of inventories

The Company's inventories substantially comprise of crude oil and finished petroleum products. As of December 31, 2019, total inventories amounting to ₱25.42 billion represents 25% of total assets of ₱102.92 billion. We considered this as a key audit matter because the prices of crude oil and finished petroleum products are highly volatile due to various factors such as global trends in demand and other economic factors. The high price volatility may give rise to a circumstance where the cost of the Company's inventories is significantly higher than its net realizable value.

Refer to Note 5 for the relevant disclosures on this matter.

Audit response

We obtained an understanding of the Company's inventory valuation process and related controls. On a sample basis, we tested the estimated selling price used by management in calculating the net realizable value by comparing with prevailing market prices and historical selling costs. We also performed recalculation of the net realizable value of inventories as of the balance sheet date.



Valuation of pension assets

The Company has a defined benefit pension plan with a net pension asset position of ₱6.44 billion, which represents about 6% of total assets of the Company as of December 31, 2019. The related plan assets include a significant unquoted equity investment, measured at fair value based on a valuation performed by an external appraiser. The valuation performed by the external appraiser depended on certain assumptions, including rental rates, characteristics of the underlying properties as well as listings of comparable properties by reference to historical data. Thus, we considered the valuation of the said pension plan asset as a key audit matter.

Refer to Note 25 for the relevant disclosures on these matters.

Audit response

We evaluated the competence, capabilities and objectivity of the external appraiser. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of the investment. We assessed the methodology adopted by reference to common valuation models, and evaluated key inputs used in the valuation, specifically rental rates and fair market value of real estate properties by reference to historical data. We also reviewed the disclosures relating to the Company's pension plan assets.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Company adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Company's accounting policy for leases. The Company also elected to use the recognition exemption for lease contracts. The Company's adoption of PFRS 16 is significant to our audit because the Company has high volume of lease agreements, the recorded amounts are material to the financial statements, and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Company is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right to use (RTU) assets and lease liability amounting to ₱13.61 billion and ₱13.05 billion, respectively, as of January 1, 2019, and recognition of depreciation expense and interest expense of ₱2.41 billion and ₱0.92 billion, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Notes 9 and 31.10 to the financial statements.

Audit Response

We obtained an understanding of the Company's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered under PFRS 16, the application of the short-term and low value assets exemption, the selection of the transition approach and any election of available practical expedients.

We tested the population of lease agreements by comparing the number of leased locations against the lease contract database in the system.

On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements), identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.



For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Company will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the



aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

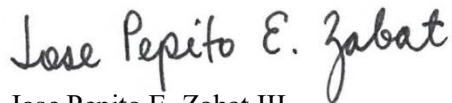


Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Pilipinas Shell Petroleum Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Jose Pepito E. Zabat III.

SYCIP GORRES VELAYO & CO.



Jose Pepito E. Zabat III

Partner

CPA Certificate No. 85501

SEC Accreditation No. 0328-AR-4 (Group A),

April 26, 2018, valid until April 25, 2021

Tax Identification No. 102-100-830

BIR Accreditation No. 08-001998-60-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125325, January 7, 2020, Makati City

March 26, 2020



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Pilipinas Shell Petroleum Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pilipinas Shell Petroleum Corporation (the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Adequacy of provision for legal cases and recoverability of claims from government

The Company is involved in legal proceedings and assessments for excise tax arising from importations of Catalytic Cracked Gasoline (CCG), Light Catalytic Cracked Gasoline (LCCG) and Alkylate. We focused on this area because the estimation of the potential liability resulting from these assessments requires significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations. In addition, the Company recognized claims from certain government agencies relating to excise duties paid under protest for certain Alkylate shipments. The recoverability of these claims requires significant judgment that is likewise dependent on the outcome of the legal proceedings discussed above.

Refer to Notes 4, 7, and 29 for the relevant disclosures on these matters.

Audit response

We discussed with management the status of the tax assessments and obtained correspondences with courts and regulatory agencies, and opinions of both the Company's internal and external legal counsels. We involved our internal specialist in the evaluation of management's assessment on whether any provision for tax contingencies should be recognized, the estimation of such amount and the assessment of recoverability of the claims. We also evaluated the tax position of the Company by considering the tax laws, rulings and jurisprudence.

Valuation of inventories

The Company's inventories substantially comprise of crude oil and finished petroleum products. As of December 31, 2019, total inventories amounting to ₱25.42 billion represents 25% of total assets of ₱102.92 billion. We considered this as a key audit matter because the prices of crude oil and finished petroleum products are highly volatile due to various factors such as global trends in demand and other economic factors. The high price volatility may give rise to a circumstance where the cost of the Company's inventories is significantly higher than its net realizable value.

Refer to Note 5 for the relevant disclosures on this matter.

Audit response

We obtained an understanding of the Company's inventory valuation process and related controls. On a sample basis, we tested the estimated selling price used by management in calculating the net realizable value by comparing with prevailing market prices and historical selling costs. We also performed recalculation of the net realizable value of inventories as of the balance sheet date.



Valuation of pension assets

The Company has a defined benefit pension plan with a net pension asset position of ₱6.44 billion, which represents about 6% of total assets of the Company as of December 31, 2019. The related plan assets include a significant unquoted equity investment, measured at fair value based on a valuation performed by an external appraiser. The valuation performed by the external appraiser depended on certain assumptions, including rental rates, characteristics of the underlying properties as well as listings of comparable properties by reference to historical data. Thus, we considered the valuation of the said pension plan asset as a key audit matter.

Refer to Note 25 for the relevant disclosures on these matters.

Audit response

We evaluated the competence, capabilities and objectivity of the external appraiser. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of the investment. We assessed the methodology adopted by reference to common valuation models, and evaluated key inputs used in the valuation, specifically rental rates and fair market value of real estate properties by reference to historical data. We also reviewed the disclosures relating to the Company's pension plan assets.

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The disclosures related to the adoption of PFRS 16 are included in Notes 9 and 31.10 to the financial statements.

Audit Response

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We tested the population of lease agreements by comparing the number of leased locations against the lease contract database in the system.

On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements), identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.



For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Company will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the



aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

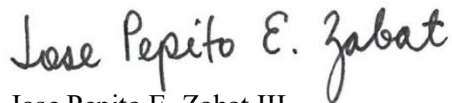


Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Pilipinas Shell Petroleum Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Jose Pepito E. Zabat III.

SYCIP GORRES VELAYO & CO.



Jose Pepito E. Zabat III

Partner

CPA Certificate No. 85501

SEC Accreditation No. 0328-AR-4 (Group A),

April 26, 2018, valid until April 25, 2021

Tax Identification No. 102-100-830

BIR Accreditation No. 08-001998-60-2018,

February 26, 2018, valid until February 25, 2021

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March 26, 2020

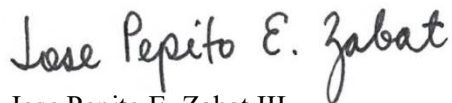


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Pilipinas Shell Petroleum Corporation
41st floor, The Finance Centre, 26th street corner 9th avenue
Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Pilipinas Shell Petroleum Corporation as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, included in this Form 17-A and have issued our report thereon dated March 26, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-4 (Group A),
April 26, 2018, valid until April 25, 2021
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125325, January 7, 2020, Makati City

March 26, 2020

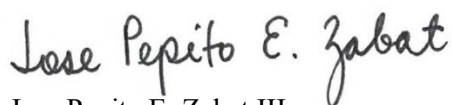


INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Pilipinas Shell Petroleum Corporation
41st floor, The Finance Centre, 26th street corner 9th avenue
Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Pilipinas Shell Petroleum Corporation (the Company) as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 26, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-4 (Group A),
April 26, 2018, valid until April 25, 2021
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125325, January 7, 2020, Makati City

March 26, 2020



COVER SHEET

SEC Registration Number

1	4	8	2	9					
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COMPANY NAME

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																			

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

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

Form Type

A	F	S
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Department requiring the report

S	E	C
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Secondary License Type, If Applicable

N	/	A
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COMPANY INFORMATION

Company's Email Address

www.shell.com
--

Company's Telephone Number

(632) 4994219

Mobile Number

N/A

No. of Stockholders

319

Annual Meeting (Month / Day)

05/12

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Jose Jerome Pascual III

Email Address

J.Pascual@shell.com

Telephone Number/s

+63234994001

Mobile Number

N/A

CONTACT PERSON's ADDRESS

41st Floor, The Finance Center, 26th Street corner 9th Avenue Bonifacio Global City, Brgy. Fort Bonifacio Taguig City, Metro Manila

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

Pilipinas Shell Petroleum Corporation

Financial Statements

For the years ended December 31, 2019 and 2018

Pilipinas Shell Petroleum Corporation

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PILIPINAS SHELL PETROLEUM CORPORATION
STATEMENTS OF FINANCIAL POSITION

As at December 31, 2019

(All amounts in thousands Philippine peso, except par value per share)

	Note	2019	2018
ASSETS			
Current assets			
Cash	3	4,778,877	4,455,124
Trade and other receivables, net	4	15,767,566	12,992,819
Inventories, net	5	25,422,717	19,642,836
Prepayments and other current assets	6	1,500,241	3,687,782
Total Current Assets		47,469,401	40,778,561
Noncurrent Assets			
Long term receivables, rentals and investments, net	7	4,622,849	4,659,005
Property, plant and equipment, net	8	30,925,797	28,128,715
Right to use assets	9	12,649,096	-
Other assets, net	11	7,252,325	6,600,096
Total Noncurrent Assets		55,450,067	39,387,816
TOTAL ASSETS		102,919,468	80,166,377
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	12	29,684,153	25,180,133
Short term loans	13	9,752,000	3,261,000
Dividends payable		17,054	15,622
Total Current Liabilities		39,453,207	28,456,755
Noncurrent Liabilities			
Long-term debt, net of current portion	14	9,000,000	9,000,000
Lease liabilities	9	10,477,414	-
Deferred tax liabilities	10	1,000,115	693,574
Provisions and other liabilities	15	3,160,418	3,044,237
Total Noncurrent Liabilities		23,637,947	12,737,811
Equity			
Share capital - P1 par value	16	1,681,058	1,681,058
Share premium		26,161,736	26,161,736
Treasury shares	16	(507,106)	(507,106)
Retained earnings	17	11,937,980	11,074,898
Other reserves	11, 25	554,646	561,225
Total Equity		39,828,314	38,971,811
TOTAL LIABILITIES AND EQUITY		102,919,468	80,166,377

See accompanying Notes to Financial Statements.

PILIPINAS SHELL PETROLEUM CORPORATION
STATEMENTS OF INCOME

For the year ended December 31, 2019

(All amounts in thousands Philippine peso, except earnings per share)

	Note	2019	2018	2017
NET SALES				
Sale of goods	31.21	224,288,584	223,817,699	174,470,235
Sales discounts and rebates		(5,885,630)	(4,949,023)	(4,994,423)
		218,402,954	218,868,676	169,475,812
COSTS AND EXPENSES (INCOME)				
Cost of sales	19	194,952,649	196,573,873	143,070,566
Selling expenses	20	12,132,582	11,644,884	11,570,642
General and administrative expenses	20	2,316,041	2,741,716	2,289,457
Other operating income, net	21	(388,440)	(583,862)	(489,417)
		209,012,832	210,376,611	156,441,248
INCOME FROM OPERATIONS		9,390,122	8,492,065	13,034,564
OTHER INCOME (CHARGES)				
Finance income	22	511,707	45,117	68,393
Finance expense	22	(1,880,632)	(1,245,034)	(721,905)
Other non-operating income, net	23	-	-	1,379,168
		(1,368,925)	(1,199,917)	725,656
INCOME BEFORE INCOME TAX		8,021,197	7,292,148	13,760,220
PROVISION FOR INCOME TAX	10	2,400,042	2,215,822	3,391,986
NET INCOME		5,621,155	5,076,326	10,368,234
EARNINGS PER SHARE - BASIC AND DILUTED	18	3.48	3.15	6.43

See accompanying Notes to Financial Statements.

PILIPINAS SHELL PETROLEUM CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

(All amounts in thousands Philippine peso)

	Note	2019	2018	2017
NET INCOME		5,621,155	5,076,326	10,368,234
OTHER COMPREHENSIVE INCOME				
<i>Items not to be reclassified to income or loss in subsequent periods:</i>				
Remeasurement gain/(loss) on retirement benefits, net of tax	25	140,291	1,592	1,521,534
Increase in fair value of equity through OCI financial assets, net of tax	11	57,263	93,298	-
<i>Items to be reclassified to income or loss in subsequent periods:</i>				
Increase in fair value of AFS financial assets	11	-	-	14,590
TOTAL OTHER COMPREHENSIVE INCOME		197,554	94,890	1,536,124
TOTAL COMPREHENSIVE INCOME		5,818,709	5,171,216	11,904,358

See accompanying Notes to Financial Statements.

PILIPINAS SHELL PETROLEUM CORPORATION

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

(All amounts in thousands Philippine peso)

	Share Capital (Note 16)	Share premium (Note 16)	Treasury shares (Note 16)	Retained Earnings (Note 17)	Other Reserves Share-based Reserve (Note 25)	Fair value Reserve (Note 11)	Total
At January 1, 2017	1,681,058	26,161,736	(507,106)	5,111,868	173,260	307,457	32,928,273
Income for the year	-	-	-	10,368,234	-	-	10,368,234
Increase in fair value of AFS financial assets	-	-	-	-	-	14,590	14,590
Remeasurement gain on retirement benefits (net of tax amounting to P652,086)	-	-	-	1,521,534	-	-	1,521,534
Total comprehensive income	-	-	-	11,889,768	-	14,590	11,904,358
Transactions with owners							
Share-based compensation	-	-	-	-	(35,060)	-	(35,060)
Cash dividends	-	-	-	(2,662,183)	-	-	(2,662,183)
Total transactions with owners for the year	-	-	-	(2,662,183)	(35,060)	-	(2,697,243)
Balances at December 31, 2017	1,681,058	26,161,736	(507,106)	14,339,453	138,200	322,047	42,135,388
Balances at January 1, 2018	1,681,058	26,161,736	(507,106)	14,339,453	138,200	322,047	42,135,388
Income for the year	-	-	-	5,076,326	-	-	5,076,326
Impact of adoption of PFRS 9	-	-	-	(49,370)	-	-	(49,370)
Increase in fair value of equity through OCI (net of tax amounting to P74,562)	-	-	-	-	-	93,298	93,298
Remeasurement gain on retirement benefits (net of tax amounting to P682)	-	-	-	1,592	-	-	1,592
Total comprehensive income	-	-	-	5,028,548	-	93,298	5,121,846
Transactions with owners							
Share-based compensation	-	-	-	-	7,680	-	7,680
Cash dividends	-	-	-	(8,293,103)	-	-	(8,293,103)
Total transactions with owners for the year	-	-	-	(8,293,103)	7,680	-	(8,285,423)
Balances at December 31, 2018	1,681,058	26,161,736	(507,106)	11,074,898	145,880	415,345	38,971,811
Balances at January 1, 2019	1,681,058	26,161,736	(507,106)	11,074,898	145,880	415,345	38,971,811
PFRS 16 deferred tax transition adjustment	-	-	-	(58,031)	-	-	(58,031)
Income for the year	-	-	-	5,621,155	-	-	5,621,155
Increase in fair value of equity through OCI (net of tax amounting to P10,137)	-	-	-	-	-	57,263	57,263
Remeasurement loss on retirement benefits (net of tax amounting to P60,125)	-	-	-	140,291	-	-	140,291
Total comprehensive income	-	-	-	5,703,415	-	57,263	5,760,678
Transactions with owners							
Cash dividends	-	-	-	(4,840,333)	-	-	(4,840,333)
Share-based compensation	-	-	-	-	(63,842)	-	(63,842)
Total transactions with owners for the year	-	-	-	(4,840,333)	(63,842)	-	(4,904,175)
Balances at December 31, 2019	1,681,058	26,161,736	(507,106)	11,937,980	82,038	472,608	39,828,314

See accompanying Notes to Financial Statements.

PILIPINAS SHELL PETROLEUM CORPORATION
STATEMENTS OF CASH FLOWS

For the year ended December 31, 2019

(All amounts in thousands Philippine peso)

	Note	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		8,021,197	7,292,148	13,760,220
Adjustments for:				
Depreciation expense	8, 9, 11	4,361,760	1,957,576	1,959,441
Amortization of prepaid lease payments		1,569,461	1,675,750	1,582,625
Interest and finance charges	22	1,803,128	634,114	496,333
Pension (income)/expense	25	(246,038)	(106,509)	114,558
Accretion expense	22	67,804	110,388	81,993
Share-based compensation	25	123,287	129,648	72,755
(Gain) loss on disposal of property and equipment	21	9,797	(36,230)	18,375
Write-off of assets		165,977	-	4,452
Interest income	22	(1,564)	(5,551)	(6,371)
Unrealized mark to market (gain) loss, net	21	(33,859)	258,264	(7,502)
Unrealized foreign exchange gain, net	22	(83,432)	(39,566)	(62,022)
Share in (profit) loss of associates	7	(10,405)	(54,197)	(36,744)
Reversals of provisions for ARO and remediation	15	(5,064)	(12,750)	(101,128)
Provision (reversal of) for legal case, net	15, 21, 23	34,197	(20,956)	(1,379,168)
Operating income before working capital changes		15,776,246	11,782,129	16,497,817
Net increase in inventories, trade and other receivables, prepayments and other assets		(10,255,155)	(229,607)	(9,512,799)
Net increase in trade and other payables and provisions and other liabilities		1,471,438	3,148,828	4,106,172
Cash generated from operations		6,992,529	14,701,350	11,091,190
Income tax expense		-	(482,649)	-
Pension contributions paid	25	(95,374)	(75,127)	(159,769)
Net cash flows from operating activities		6,897,155	14,143,574	10,931,421
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment		(4,728,020)	(3,942,808)	(4,140,851)
Decrease (increase) in long term receivables and rentals, net		(233,418)	(533,184)	(433,481)
Dividend received		54,716	44,882	19,040
Proceeds from sale of property, plant and equipment			134,046	9,240
Interest received	22	1,564	5,551	6,371
Proceeds from sale of property and equipment		1,887		
Net cash flows used in investing activities		(4,903,271)	(4,291,513)	(4,539,681)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from (settlements of) short-term borrowings		6,491,000	(796,000)	(1,313,000)
Repayment of long term loan		-	(11,000,000)	-
Drawdown of long term loan		-	9,000,000	-
Cash dividends paid		(4,838,901)	(8,293,103)	(2,662,183)
Interest and finance charges paid		(887,941)	(630,779)	(493,506)
Principal elements of lease payments		(2,434,304)	-	-
Net cash flows used in financing activities		(1,670,146)	(11,719,882)	(4,468,689)
NET INCREASE (DECREASE) IN CASH		323,738	(1,867,821)	1,923,051
EFFECT OF EXCHANGE RATE CHANGES ON CASH		15	159,684	(34,056)
CASH AT BEGINNING OF YEAR	3	4,455,124	6,163,261	4,274,266
CASH AT END OF YEAR	3	4,778,877	4,455,124	6,163,261

See accompanying Notes to Financial Statements.

PILIPINAS SHELL PETROLEUM CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

1. Corporate information

Pilipinas Shell Petroleum Corporation (the “Company”) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on 09 January 1959 primarily to engage in the refining and marketing of petroleum products. On 05 December 2008, the SEC approved the extension of the corporate term of the Company for another fifty (50) years from 09 January 2009 to 08 January 2059.

Prior to its initial public offering (“IPO”), the Company is 68% owned by Shell Overseas Investments BV (“SOIBV”), a corporation registered under the laws of the Netherlands and 32% owned by Filipino and other foreign shareholders. The ultimate parent of the Company is Royal Dutch Shell plc. (“RDS”), incorporated in the United Kingdom. The Company conducted its IPO to list in the Philippine Stock Exchange on 03 November 2016. The offer was composed of a Primary Offer of 27,500,000 common shares and Secondary Offer of 247,500,000 common shares with an overallotment option of up to 16,000,000 common shares, with an offer price of P67.0 (USD1.39) per share. After the IPO, Shell Overseas Investments BV owns 55% of the total outstanding shares of the Company. The Company used the net proceeds from the Primary Offer to fund capital expenditure, working capital and general corporate expenses. Net proceeds amounted to P1.36 billion (USD 0.03 billion). The IPO proceeds have been fully utilized as at 31 December 2017.

Certain operations of the Company is registered with the Board of Investments (BOI) and entitled to Income Tax Holiday (ITH) provided under Republic Act 8479, otherwise known as the Downstream Oil Deregulation Act of 1998 (see Note 28).

The Company’s principal place of business, was previously located at Shell House, 156 Valero Street, Salcedo Village, Makati City.

Starting 2019, the Company’s registered office, which is also its principal place of business, is 41st Floor, The Finance Centre, 26th Street corner 9th Avenue Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila, 1635. During the Annual Stockholders’ Meeting of the Corporation on 03 May 2018, the stockholders of the Corporation have approved the amendment of its Articles of Incorporation to change its Principal Office. The Company has obtained the requisite endorsement of the Department of Energy and approval of the Securities and Exchange Commission on 25 September 2018 and 25 January 2019, respectively.

The Company owns an oil refinery in Tabangao, Batangas and various oil depots and installations all over the Philippines. The Company has 681 regular employees as at 31 December 2019 (31 December 2018 - 703).

The financial statements have been authorized for issue by the Company’s Board of Directors on 26 March 2020 upon endorsement by the Board Audit and Risk Oversight Committee on 18 March 2020.

2. Operating segments

The Company solely operates under the downstream oil and gas segment. The Company’s integrated downstream operations span all aspects of the downstream product supply chain, from importing crude oil and its refining, to importing and distributing refined products to its customers across the Philippines. The products it sells include gasoline, diesel, heating oil, aviation fuel, marine fuel, lubricants and bitumen.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

3. Cash

The account as at 31 December 2019 and 2018 consists of cash in banks which are earning interest at the prevailing bank interest rates. The Company maintains cash deposits with universal and commercial banks in the Philippines. Universal and commercial banks represent the largest single group, resource-wise, of financial institutions in the country.

	2019	2018
Universal bank	3,640,929	3,252,242
Commercial bank	1,137,948	1,202,882
	<u>4,778,877</u>	<u>4,455,124</u>

4. Trade and other receivables, net

	Note	2019	2018
Trade receivables			
Third parties		11,246,826	10,318,584
Related parties	24	1,318,369	685,969
Provision for impairment of trade receivables from third parties		(252,621)	(185,107)
		<u>12,312,574</u>	<u>10,819,446</u>
Non-trade receivables from related parties	24	277,129	171,325
Other receivables			
Creditable withholding tax		623,092	521,240
Duty drawback and other claims		1,387,271	383,124
Non-trade receivables from third party		359,578	214,125
Miscellaneous		856,311	919,149
Provision for impairment of other receivables		(48,389)	(35,590)
		<u>3,177,863</u>	<u>2,002,048</u>
		<u>15,767,566</u>	<u>12,992,819</u>

Miscellaneous receivables pertain to rental from co-locators in retail service stations and other non-trade receivables.

The gross carrying amounts of the Company's trade, non-trade and other receivables are denominated in the following currencies:

	2019	2018
Philippine peso	14,479,011	12,066,287
US dollar	1,568,114	1,144,330
Other currencies	21,450	2,898
	<u>16,068,575</u>	<u>13,213,515</u>

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

4. Trade and other receivables, net (continued)

The Company holds collaterals for trade receivables from third parties as at 31 December 2019 valued at P1.2 billion (31 December 2018 - P3.8 billion) consisting of cash securities, letters of credit or bank guarantees and Real Estate Mortgages (REM). These securities can be applied once the related customer defaults on settlement of the Company's receivables based on agreed credit terms. The maximum exposure of the Company is P11.4 billion as at 31 December 2019 (2018 - P7.2 billion) (see Note 32.b). These balances relate to a number of independent customers with whom there is no recent history of default. The carrying amount of trade and other receivables at the reporting date approximated their fair value.

a) Past due receivables but not impaired

The aging of past due but not impaired trade receivables from third parties as at December 31, 2019 and 2018 are as follows:

	2019	2018
Less than 30 days	244,736	156,535
31 - 60 days	134,933	260,531
61 - 90 days	58,307	111,893
Greater than 90 days	157,481	169,249
	<u>595,457</u>	<u>698,208</u>

These balances relate to a number of independent customers with whom there is no recent history of default.

(b) Impaired receivables

Impaired receivables are fully provided and movements in the provision for impairment of the receivables are presented in the table below.

	Trade	Others	Total
At 01 January 2018	135,653	45,839	181,492
Provisions (Reversals)	50,292	(10,249)	40,043
Write-off	(838)	-	(838)
At 31 December 2018	185,107	35,590	220,697
Provisions	83,487	12,799	96,286
Write-off	(15,973)	-	(15,973)
At 31 December 2019	<u>252,621</u>	<u>48,389</u>	<u>301,010</u>

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

4. Trade and other receivables, net (continued)

For the year ended 31 December 2019, trade receivables written off directly to statement of income amounted to P15.8 million (2018 - P8.2 million and 2017 - P13.0 million) based on the Company's assessment of recoverability.

(c) Neither past due nor impaired

The credit quality of trade receivables from third parties that are neither past due nor impaired that are fully recoverable has been assessed by reference to historical information about counterparty default rates:

Trade receivables (counterparties with internal credit rating)	2019	2018
A	1,141,113	1,760,357
B	1,915,455	1,641,799
C	5,582,695	4,622,298
D	1,759,485	1,410,815
Total trade receivables	10,398,748	9,435,269

A - Customers with strong financial performance and with low probability of default.

B - Customers with good financial strength but with some elements of risk in one or more financial or non-financial inputs.

C - Customers with low credit risk and balance is secured with post-dated checks and other collateral.

D - Customers with a medium risk of default, however, concerned group of customers have been historically able to faithfully settle their balances. The receivables are deemed performing hence impairment provision is not necessary.

Trade and non-trade receivables from related parties are within the due date. The remaining balances within trade and other receivables do not contain past due and impaired amounts.

There are no receivables that are either past due or impaired that have been renegotiated as of 31 December 2019 and 2018.

5. Inventories, net

	2019	2018
Crude oil and finished products	25,170,506	19,345,555
Materials and supplies	252,211	297,281
	25,422,717	19,642,836

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

5. Inventories, net (continued)

Details of allowance for inventory write-down and obsolescence as at 31 December 2019 and 2018 are as follow:

	Crude oil and finished products	Materials and supplies	Total
At 01 January 2018	26,452	-	26,452
Provisions, net	126,204	-	126,204
At 31 December 2018	152,656	-	152,656
Provisions, net	10,994	-	10,994
As at 31 December 2019	163,650	-	163,650

The allowance for inventory resulting from the write-down of crude and finished products to net realizable value amounted to P136.3 million as at 31 December 2019 and the allowance for obsolescence of finished products amounted to P27.4 million as at 31 December 2019 (2018 - P28.2 million and 2017 - P26.5 million).

Of the total amount of inventories, the inventories with a cost of P4,283.6 million as at 31 December 2019 (2018 - P925.2 million) are carried at net realizable value, this being lower than cost which approximates the inventories fair value less cost to sell.

Cost of inventories included as part of cost of sales amounted to P158.3 billion for the year ended 31 December 2019 (2018 - P169.8 billion and 2017 - P130.4 billion) (see Note 19).

6. Prepayments and other current assets

	2019	2018
Input VAT net of output VAT (a)	192,587	1,083,898
Prepaid specific tax (b)	756,806	966,174
Prepaid corporate income taxes (c)	226,863	669,025
Advance rentals	153,997	693,895
Derivative financial assets (d)	3,715	22,780
Prepaid duties and taxes	5,438	4,646
Advances to suppliers	-	115,114
Deposits	121,793	107,660
Others	39,042	24,590
	1,500,241	3,687,782

(a) Input VAT, net of output VAT

Input VAT represents the taxes paid on purchases of goods and services which can be recovered as tax credit against future output VAT liability of the Company.

(b) Prepaid specific tax

These are excise tax deposits made to the Bureau of Internal Revenue (BIR) and utilized upon removal of taxable products from the refinery.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

6. Prepayments and other current assets (continued)

(c) Prepaid corporate income tax

These are claimed against income tax due, represent amounts that were withheld from income tax payments and carried over in the succeeding period for the same purpose.

(d) Derivative financial assets

The Company enters into commodity forward contracts to hedge the commodity price risks arising from its crude oil and other oil products requirements. As at 31 December 2019, the notional principal amount of the outstanding commodity forward contracts amounted to P0.5 billion (2018 - P2.2 billion). As at 31 December 2019, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P3.7 million (2018 - P22.8 million).

During the year, the Company realized a loss of P35.4 million (2018 - gain of P169.6 million and 2017 - loss of P39.6 million) from mark-to-market settlement of derivatives which was recognized in other operating income, net in the statements of income (see Note 21).

For the year ended 31 December 2019, net fair value changes of the outstanding commodity forward contracts amounting to a gain of P33.9 million (2018 - loss of P258.3 million; 2017 - gain of P7.5 million) was recognized in other operating income, net in the statements of income (see Note 21).

7. Long-term receivables, rentals and investments, net

	2019	2018
Advance rentals (c)	135,798	1,062,648
Customer grants (b)	36,783	54,071
Investments in associates (d)	30,532	74,843
	203,113	1,191,562
Long term receivables (a)	4,828,278	3,876,435
Provision for impairment of long-term receivables	(408,542)	(408,992)
	4,419,736	3,467,443
	4,622,849	4,659,005

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
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7. Long-term receivables, rentals and investments, net (continued)

(a) Long-term receivables

Long-term receivables include claims from government agencies amounting to P4.7 billion and P3.7 billion as at 31 December 2019 and 2018, respectively, representing the amount to be recovered from the government on various taxes paid. Included in this P4.7 billion is P1.1 billion of excise duties and VAT paid under protest for certain Alkylate shipment (see Note 29(b)).

As at 31 December 2019, allowance for impairment amounts to P408.5 million (31 December 2018 - P409.0 million).

Movements in provision for impairment of long-term receivable are as follows:

	2019	2018
At 01 January	408,992	497,767
Reversal	(450)	(88,775)
At 31 December	408,542	408,992

As at 31 December 2019 and 2018, there are no other long-term receivables that are past due but not impaired. 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 carrying value of each class of receivable mentioned above. The carrying amount of long-term receivables approximate their fair value (see Note 32.3).

(b) Customer grants

Customer grants consist of business development funds used to help customers expand their operations. The payments of the funds are secured by long-term sales contracts with the customers. The carrying amount of customer grant approximate their fair value (see Note 32.3)

(c) Advance Rentals

The decrease in advance rentals is on account of implementation of PFRS 16.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

7. Long-term receivables, rentals and investments, net (continued)

(d) Investments in associates

	2019	2018
Cost	23,073	23,073

The details of assets, liabilities and results of operations of associates, all of which are incorporated in the Philippines, are as follow:

	Interest	Assets	Liabilities	Net Assets	Income	Share of profit
2019						
Bonifacio Gas Corporation	44%	337,796	283,555	54,241	165,815	72,362
Kamayan Realty Corporation	40%	23,116	5,783	17,333	6,126	2,450
2018						
Bonifacio Gas Corporation	44%	275,151	104,946	170,205	124,066	54,589
Kamayan Realty Corporation	40%	21,808	4,757	17,051	5,856	2,342
2017						
Bonifacio Gas Corporation	44%	219,379	94,013	125,366	80,022	35,210
Kamayan Realty Corporation	40%	40,829	4,697	36,132	24,925	9,970

Bonifacio Gas Corporation is an entity engaged in wholesale distribution of LPG and was established to operate a centralized gas distribution system within Bonifacio Global City. Kamayan Realty Corporation is an entity engaged in leasing and selling of real properties in the Philippines.

There are no contingent liabilities relating to the Company's interest in the associates.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

8. Property, plant and equipment

Property, plant and equipment as at 31 December 2019 and 2018 and the movements in the accounts for the year consist of:

	Notes	Leasehold improvements	Plant, Machinery and equipment	Furniture and fixtures	Transportation	Asset retirement obligation	Assets under construction (AUC)	Total
Cost								
At 01 January 2018		19,119,635	33,296,507	1,722,776	174,693	1,486,084	3,093,513	58,893,208
Acquisitions		-	22,553	-	-	-	4,668,793	4,691,346
Asset retirement obligation	15	-	-	-	-	52,013	-	52,013
Disposals/write-off		(59,870)	(150,202)	(41,214)	(16,631)	-	-	(267,917)
Transfers	11	1,862,122	933,823	221,850	-	-	(3,017,795)	-
At 31 December 2018		20,921,887	34,102,681	1,903,412	158,062	1,538,097	4,744,511	63,368,650
Acquisitions		-	-	-	-	-	5,438,636	5,438,636
Disposals/write-off		(241,275)	(204,205)	-	(46,314)	-	(27,026)	(518,820)
Transfers	9, 11	1,863,388	1,189,880	573,684	-	(1,538,097)	(3,680,088)	(1,591,233)
At 31 December 2019		22,544,000	35,088,356	2,477,096	111,748	-	6,476,033	66,697,233
Accumulated depreciation and amortization								
At 1 January 2018		(9,805,581)	(21,669,526)	(862,094)	(159,534)	(962,100)	-	(33,458,835)
Depreciation and amortization	19, 20	(647,821)	(1,132,135)	(61,167)	(5,636)	(104,442)	-	(1,951,201)
Disposals		17,510	95,933	41,213	15,445	-	-	170,101
At 31 December 2018		(10,435,892)	(22,705,728)	(882,048)	(149,725)	(1,066,542)	-	(35,239,935)
Depreciation and amortization	19, 20	(723,105)	(1,135,073)	(79,555)	(4,194)	-	-	(1,941,927)
Disposals/write-off		164,602	132,968	-	46,314	-	-	343,884
Transfers	9	-	-	-	-	1,066,542	-	1,066,542
At 31 December 2019		(10,994,395)	(23,707,833)	(961,603)	(107,605)	-	-	(35,771,436)
Net book values								
At 31 December 2018		10,485,995	11,396,953	1,021,364	8,337	471,555	4,744,511	28,128,715
At 31 December 2019		11,549,605	11,380,523	1,515,493	4,143	-	6,476,033	30,925,797

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

8. Property, plant and equipment (continued)

Assets under construction represent cost of ongoing capital projects in retail, commercial and refinery business.

9. Leases

The Company has lease contracts on various land, buildings, storage and pipelines and vessels used in operations. Leases of land and buildings generally have lease terms between 2 and 27 years, while others generally have a lease terms between 2 and 5 years. The Company's obligation under its leases are secured by the lessor's title to the leased assets. There are several lease contracts that include extension and termination options, which are further discussed below:

There are no leases which are within the lease terms less than or equal to 12 months and low value assets for the year 2019.

a) Right to use assets

Right to use assets recognized and movement in the accounts for the year consist of:

	Land and Buildings	Others	ARO	Total
At 1 January 2019	11,933,168	1,678,595		13,611,763
Transfer from property, plant and equipment (Note 8)			471,555	471,555
Depreciation	(1,541,231)	(812,436)	(60,726)	(2,414,393)
Additions	638,310	292,585	52,001	982,896
Derecognition			(2,725)	(2,725)
At 31 December 2019	11,030,247	1,158,744	460,105	12,649,096

b) Lease liabilities

Lease liabilities recognized and movement in the accounts for the year consist of:

	31 December 2019	1 January 2019
Current Portion (Note 12)	1,581,846	2,691,132
Non-Current portion	10,477,414	10,354,510
	12,059,260	13,045,642

	2019
Depreciation expense of right to use assets	(2,414,393)
Interest expense on lease liabilities	(921,319)
Total expenses recognized in profit or loss	(3,335,712)

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
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The Company's total cash outflows on leases amounts to P2.4 billion. The Company also has non cash additions to right of use assets and lease liabilities. There are no impact on future cashflows for leases that are yet to be commenced.

The Company has lease contracts that include extension and termination options. These options are negotiated by the management to provide flexibility, in managing the leased asset portfolio and align the business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

As at 31 December 2019, the Company does not have any contracts that have potential future rental payments.

10. Provision for income tax; deferred tax assets (liabilities)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts at 31 December 2019 and 2018 are as follows:

	2019	2018
Deferred income tax assets (liabilities)		
Asset retirement obligation	420,811	427,354
PFRS16 Lease Liability & Lease straightlining accrual	394,807	285,686
Unamortized past service cost, net	174,590	237,915
Provision for doubtful debts	208,495	187,628
Provision for remediation costs	88,266	95,116
Provision for inventory losses	66,018	63,579
Share-based compensation	22,122	38,489
Mark to market (gain)/loss	(521)	9,637
Retirement benefit asset	(1,905,376)	(1,757,724)
Prepaid duties and taxes	(595,203)	(385,614)
Unrealized foreign exchange gain	(117,160)	(95,359)
Other provisions	243,036	199,719
Net deferred income tax	(1,000,115)	(693,574)

The gross movements in net deferred income tax assets (liabilities) are as follow:

	2019	2018
At 01 January	(693,574)	(702,049)
Credited/(charged) to profit and loss	(236,279)	69,977
Credited to other comprehensive income	(70,262)	(61,502)
At 31 December	(1,000,115)	(693,574)

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

10. Provision for income tax; deferred tax assets (liabilities) (continued)

Realization of the future benefits related to the deferred income tax assets is dependent on many factors, including the Company's ability to generate taxable income in the future. The Company's management has considered these factors in arriving at its conclusion that the deferred income tax assets as at 31 December 2019 and 2018 are fully realizable.

The Company has completely utilized the Net Operating Loss carry Over ('NOLCO') and the MCIT credit in year 2017. The details of the utilization are explained in the table below.

Year of incurrence	Year of expiration	NOLCO				MCIT					
		2019	2018	2017	2016	2019	2018	2017	2016	2015	2014
2013	2016	-	-	-	-	-	-	-	182,328	182,328	182,328
2014	2017	-	-	-	6,857,670	-	-	-	22,876	22,876	22,876
2015	2018	-	-	-	-	-	-	54,745	330,340	330,340	-
2016	2019	-	-	-	-	-	-	-	-	-	-
2017	2020	-	-	-	-	-	-	-	-	-	-
2018	2021	-	-	-	-	-	-	-	-	-	-
		-	-	-	6,857,670	-	-	54,745	535,544	535,544	205,204
Expired		-	-	-	-	-	-	-	-	-	-
Applied		-	-	-	(6,857,670)	-	-	(54,745)	(480,799)	-	-
		-	-	-	-	-	-	-	54,745	535,544	205,204
Tax rate		30%	30%	30%	30%	-	-	-	-	-	-
		-	-	-	-	-	-	-	54,745	535,544	205,204

The Company was granted an income tax holiday (ITH) in line with its registration as an existing industry participant with new investments in the modernization of the Tabangao Refinery with the Board of Investments (BOI) in 09 May 2014 to produce Euro IV products. BOI issued a Certificate of ITH Entitlement on 03 April 2017 for the taxable year 2016.

On 20 December 2017, the Company filed its ITH segmented statement of income to recognize the ITH benefits from 2016 results of operations. This resulted to a change in the income tax position of the Company from RCIT to MCIT. Further, on 19 September 2018, the company filed a revised segmented financial statements in line with the BOI requirement for its ITH application.

The Company availed the ITH benefit to arrive at the income tax liability as of 31 December 2019.

The details of provision for income tax for the year ended 31 December 2019, 2018, and 2017 are as follows:

	2019	2018	2017
Current tax	2,221,794	2,285,799	3,492,089
Deferred tax	178,248	(69,977)	(100,103)
	2,400,042	2,215,822	3,391,986

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

10. Provision for income tax; deferred tax assets (liabilities) (continued)

The reconciliation of provision for income tax computed at the statutory rate to actual provision for income tax shown in the statements of income is shown below:

	2019	2018	2017
Income tax at statutory rate of 30.0%	2,406,359	2,187,644	3,643,563
Income tax effect of:			
Adjustment to current tax from prior years	-	55,843	100,582
Non-deductible expense	92,713	48,490	55,105
Limitation on deductible interest expense	84	61	117
Interest income subject to final tax	(243)	(183)	(354)
Income subjected to 8% final tax	(9,117)	(7,367)	(11,048)
Non-taxable income	(109,799)	(53,781)	(11,196)
Movement of deferred tax	-	(39,806)	(406,496)
Provision for income tax before final taxes	2,379,997	2,190,901	3,370,273
Final taxes on interest and other charges	20,045	24,921	20,097
Prior year current tax	-	-	1,616
Provision for income tax at effective tax rate	2,400,042	2,215,822	3,391,986

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on 19 December, 2017 and took effect 1 January, 2018 which changed existing tax laws and included several provisions.

11. Other assets, net

	Note	2019	2018
Pension asset	25	6,441,783	5,899,956
Equity through OCI (a)		584,107	516,707
Deferred input VAT (b)		123,013	127,707
Intangible assets (c)		103,422	55,726
		7,252,325	6,600,096

(a) Equity through OCI and available-for-sale financial assets

Equity through Other Comprehensive Income (Equity through OCI) financial assets mainly represent equity securities and proprietary club shares which are carried at fair value in 2019. The available-for-sale financial assets for 2019 represent equity securities and proprietary club shares which are carried at fair value (see Note 32.3). Details of the account as at 31 December 2019 and for 2018 are as follow:

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11. Other assets, net (continued)

	2019	2018
Cost		
As at 01 January	26,800	27,994
Reclassified to intangible asset	-	(1,194)
As at 31 December	26,800	26,800
Fair value adjustments recognized directly in OCI		
Balance at the beginning	489,907	322,047
Changes during the year	67,400	167,860
	557,307	489,907
Balance at the end	584,107	516,707
Non Current portion	584,107	516,707

The Company does not intend to sell equity instruments within 12 months from 31 December 2019 and 2018.

(b) Deferred input VAT

Deferred input VAT will be recovered more than 12 months from the reporting date. Hence, the same is presented as non-current asset as at 31 December 2019 and 2018.

(c) Intangible assets

Intangible asset consists of program software and others. The movements in the accounts for the years consist of:

	Note	2019	2018
Cost			
At 01 January		950,323	949,129
Reclassifications from AUC	8	53,136	-
Reclassification from equity through OCI		-	1,194
At 31 December		1,003,459	950,323
Accumulated amortization			
At 01 January		(894,597)	(888,222)
Amortization for the year	19, 20	(5,440)	(6,375)
At 31 December		(900,037)	(894,597)
Net book value		103,422	55,726

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

12. Trade and other payables

	Note	2019	2018
Trade payables			
Third parties		6,595,947	7,554,917
Related parties	24	15,800,160	11,740,362
		22,396,107	19,295,279
Non-trade payables from related parties	24	473,463	407,110
Project-related costs and advances		2,593,866	1,575,540
Lease liabilities	9	1,581,846	-
Employee benefits		450,909	669,109
Advertising and promotions		340,556	379,069
Rent and utilities		305,242	1,578,017
Supply and distribution		218,860	185,382
Provision for remediation		179,184	206,425
Duties and taxes		158,180	88,308
Derivatives (a)		1,979	54,903
Others (b)		983,961	740,991
		29,684,153	25,180,133

(a) As at 31 December 2019, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P2 million (2018 - P54.9 million).

(b) Others include the current portion of asset retirement obligation of P12.3 million (2018 - P26.5 million) and various other accruals.

13. Short-term loans

The account as at 31 December 2019 consists of an unsecured short-term loan from various banks as per below, intended solely for working capital requirements and corporate expenses

Bank	Loan Value	Maturity date	Tenure
Metropolitan Bank and Trust Company	3,500,000	2 January 2020	10 days
Metropolitan Bank and Trust Company	2,800,000	2 January 2020	6 days
Metropolitan Bank and Trust Company	902,000	2 January 2020	6 days
Bank of The Philippine Islands	650,000	2 January 2020	6 days
Bank of The Philippine Islands	1,319,000	3 January 2020	11 days
Metropolitan Bank and Trust Company	581,000	3 January 2020	11 days
	9,752,000		

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

13. Short-term loans (continued)

As at 31 December 2018, unsecured short-term loan amounted to P3,261.0 million from Metropolitan Bank and Trust Company with tenure of 5 days which matured on 02 January 2019 (see Note 22).

The loans were intended solely for working capital requirements and corporate expenses.

The average interest rate on local borrowings for the year 31 December 2019 was 4.81% (2018 - 3.60% and 2017 - 2.54%). Total interest expense charged to operations for the year ended 31 December 2019 arising from short-term loans amounted to P397.6 million (2018 - P234.1 million and 2017 - P108.5 million) (see Note 22).

14. Long-term debt, net of current portion

Details of the loan agreements with Bank of the Philippine Islands (BPI) as at 31 December 2019 and 2018 are as follows:

2019	2018	Interest	Terms
		3.67% as at 31st December 2019 effective until next re-pricing	Payable after sixty (60) months reckoned from the drawdown date on 08 March 2018. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months.
9,000,000	9,000,000		
9,000,000	9,000,000		
		2019	2018
Loans			
Current		-	-
Non-current		9,000,000	9,000,000
Total		9,000,000	9,000,000

Total interest expense charged to operations for the year ended 31 December 2019 arising from these loans amounted to P475.5 million (2018 - P400.0 million and 2017 - P387.8million) (see Note 22).

There are no borrowings related to acquisition, construction or production of a qualifying asset in 2019 and 2018. The borrowings are intended solely for general corporate expenses.

There are no collaterals pledged as security against these borrowings.

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 insubordinated creditors except those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.
- The Company shall not create nor permit to subsist any encumbrance over all or any of its present or future revenues or assets other than permitted encumbrance as defined in the loan agreements.

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For the year ended December 31, 2019

14. Long-term debt (continued)

- 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 reporting periods presented. See also Note 32.1.c for the maturity analysis of these loans.

15. Provisions and other liabilities

	2019	2018
Asset retirement obligation (ARO) (a)	1,832,255	1,738,315
Cash security deposits	280,058	308,516
Provision for legal cases (b)	273,243	239,046
Provision for remediation (c)	65,345	69,977
Other liabilities (d)	709,517	688,383
	<u>3,160,418</u>	<u>3,044,237</u>

(a) Asset retirement obligation

Movements in the provision for asset retirement obligation follow:

	Note	2019	2018
At 01 January		1,738,315	1,617,668
Additions	9	52,001	52,013
Accretions	22	66,792	106,833
Reversals		(5,064)	(8,049)
Transferred to short term		(19,789)	(30,150)
At 31 December		<u>1,832,255</u>	<u>1,738,315</u>

Asset retirement obligation represents the future estimated dismantling costs of various assets used in retail, depot and commercial operations. Average remaining life of the related assets is 7 years as at 31 December 2019 (2018 - 7 years). These are stated at present value at 31 December 2019 using a discount rate of 3.9% (2018 - 6.7%).

(b) Provision for legal cases

The account represents provisions arising from disputes/legal matters in the ordinary course of business. The Company has recorded provisions for tax and legal items relating to the regular operations of the Company. Movements in the provision for legal case follow:

	2019	2018
At 01 January	239,046	256,806
Provisions (reversal), net	34,197	(17,760)
At 31 December	<u>273,243</u>	<u>239,046</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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15. Provisions and other liabilities (continued)

(c) Provision for remediation

Movements in the provision for remediation follow:

	Note	2019	2018
At 01 January		69,977	80,350
Accretion	22	1,012	3,555
Transferred to short term		(5,644)	(9,227)
Reversal of provisions		-	(4,701)
At 31 December		65,345	69,977

Provision for remediation pertains to provision for environmental liabilities recorded where there is a constructive or legal obligation to remediate any known environmental damages arising in the ordinary course of business. The amount recorded is generally based on independent evaluation of environmental firms. The estimated amount of provision is recorded at net present value discounted as at 31 December 2019 at 3.9% (2018 - 6.7%).

(d) Other liabilities

Other liabilities include the provisions for rewards to be paid to the customers, redundancy provisions, interest and others.

16. Share capital; Treasury shares

Capital stock and treasury shares as at 31 December consist of:

	2019		2018		2017	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Authorized capital stock, common shares at P1 par value per share	2.5 billion	2,500,000	2.5 billion	2,500,000	2.5 billion	2,500,000
Issued shares	1,681,058,291	1,681,058	1,681,058,291	1,681,058	1,681,058,291	1,681,058
Treasury shares	(67,614,089)	(507,106)	(67,614,089)	(507,106)	(67,614,089)	(507,106)
Issued and outstanding shares	1,613,444,202	1,173,952	1,613,444,202	1,173,952	1,613,444,202	1,173,952

As at 31 December 2019, the Company has 320 shareholders excluding treasury shares (31 December 2018 - 316), 283 of whom, hold at least 100 shares of the Company's common shares (31 December 2018 - 280).

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

17. Retained earnings

	2019	2018	2017
Unappropriated retained earnings, unadjusted	9,406,819	8,625,997	11,892,146
Remeasurement gain on retirement benefits, net of tax closed to retained earnings	2,589,192	2,448,901	2,447,307
PFRS 16 Deferred tax	(58,031)		
Unappropriated retained earnings, adjusted	11,937,980	11,074,898	14,339,453

At the special meeting of the Board held on 20 April 2017, the Board approved the distribution of a cash dividend to stockholders on record as of 18 May 2017 amounting to P2.7 billion out of the unrestricted retained earnings available for cash dividends as of 31 December 2016.

At the special meeting of the Board held on 14 March 2018, the Board approved the distribution of cash dividend to stockholders on record as of 28 March 2018 amounting to P8.3 billion out of the unrestricted retained earnings available for cash dividends as of 31 December 2017.

At the regular meeting of the Board held on 21 March 2019, the Board approved the distribution of cash dividend to stockholders on record as of 5 April 2019 amounting to P4.8 billion out of the unrestricted retained earnings available for cash dividends as of 31 December 2018.

Cash dividends declared in 2019, 2018 and 2017:

Declared	Date Paid	Per share	2019	2018	2017
20 April 2017	18 May 2017	1.65	-	-	2,662,183
14 March 2018	19 April 2018	5.14	-	8,293,103	-
5 April 2019	30 April 2019	3.00	4,840,333	-	-
			4,840,333	8,293,103	2,662,183

As at 31 December 2019, cost of treasury shares, accumulated earnings of its associates, unrealized mark to market gains and fair value gain on retirement assets are not considered for dividend declaration.

18. Earnings per Share

Computation of earnings per share (EPS) for the years ended 31 December are as follows:

	Notes	2019	2018	2017
Earnings available to stockholders:				
Profit for the year		5,621,155	5,076,326	10,368,234
Weighted average number of Shares		1,681,058,291	1,681,058,291	1,681,058,291
Treasury shares	16	(67,614,089)	(67,614,089)	(67,614,089)
		1,613,444,202	1,613,444,202	1,613,444,202
Earnings per share, basic and diluted		3.48	3.15	6.43

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

18. Earnings per Share (continued)

As at 31 December 2019, 2018 and 2017, the Company does not have any potentially dilutive shares of stocks.

19. Cost of Sales

	Note	2019	2018	2017
Crude and product costs	5	158,313,494	169,840,584	130,436,084
Duties and specific tax		30,938,353	20,095,032	6,945,479
Logistics and transshipment		1,629,007	2,205,995	1,938,678
Manufacturing expenses		1,811,037	1,947,346	1,357,062
Freight and wharfage		952,448	1,130,441	893,076
Depreciation and amortization	8, 11	642,155	655,839	793,686
Salaries and other employee benefits		666,155	698,636	706,501
		194,952,649	196,573,873	143,070,566

The significant components of manufacturing expenses consist of maintenance of manufacturing units, professional services and other costs.

20. Selling, general and administrative expenses

The components of selling, general and administrative expenses for the years ended 31 December are as follows:

	Selling expenses			General and administrative expenses		
	2019	2018	2017	2019	2018	2017
Depreciation on right to use assets	2,342,758	-	-	71,635	-	-
Outside services	2,157,712	2,128,350	2,070,039	640,946	666,366	769,661
Logistics, storage and handling	2,154,523	2,535,168	2,745,602	-	-	-
Repairs and maintenance	1,379,314	1,252,856	928,974	17,882	26,947	38,750
Depreciation and amortization (Notes 8 and 11)	1,281,582	1,295,370	1,157,652	23,630	6,367	8,103
Compensation and employee benefits	1,139,354	1,209,833	1,458,289	536,639	580,252	500,635
Advertising and promotions	757,128	935,623	841,917	164,425	131,066	73,896
Rentals	162,636	1,630,311	1,755,247	28,654	457,322	87,657
Travel and transportation	155,882	245,105	223,498	45,680	54,917	49,750
Communication and utilities	113,591	79,345	162,635	388,362	350,843	355,720
Write-off/Impairment (reversal) of receivables (Notes 4 and 7)	95,792	(41,935)	182,895	-	(30)	2,685
Insurance	-	-	-	59,872	61,262	93,521
Miscellaneous	392,310	374,858	43,894	338,316	406,404	309,079
	12,132,582	11,644,884	11,570,642	2,316,041	2,741,716	2,289,457

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

21. Other operating (income)/expense

	Note	2019	2018	2017
Retailer fee, rental income and franchise commission		(661,775)	(559,134)	(426,640)
Realized trading (gain)/ loss, net	6	35,397	(169,606)	39,554
Reversal of provision for environmental remediation	12, 15	-	-	(167,848)
Royalties		(162,858)	(145,529)	(123,450)
Loss (gain) on disposal of property and equipment	8	9,797	(36,230)	18,375
Reversal of asset retirement obligation	9, 12, 15	(5,848)	1,030	(39,810)
Commissions		61,020	58,672	190,842
Unrealized mark-to-market (gain) loss, net	6	(33,859)	258,264	(7,502)
Write-off of assets		163,252	-	4,452
Provision for legal cases		34,198	-	-
Environmental service cost		143,308	31,546	26,659
Others		28,928	(22,875)	(4,049)
		(388,440)	(583,862)	(489,417)

22. Finance income/(expense)

	Note	2019	2018	2017
Finance Income				
Unrealized foreign exchange gain, net		83,432	39,566	62,022
Realized foreign exchange gain, net		426,711	-	-
Interest income	3	1,564	5,551	6,371
		511,707	45,117	68,393
Finance expense				
Interest on debts and borrowings	13, 14	(881,809)	(634,114)	(496,333)
Interest expense on lease liability	9	(921,319)	-	-
Realized foreign exchange loss, net		-	(493,183)	(141,381)
Accretion expenses	15	(67,804)	(110,388)	(81,993)
Bank Charges	3, 13, 14	(9,700)	(7,349)	(2,198)
		(1,880,632)	(1,245,034)	(721,905)

23. Other non-operating income, net

	Note	2019	2018	2017
Reversal of provision for legal cases	15	-	-	1,379,168
		-	-	1,379,168

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

24. Related party disclosures

In the normal course of business, the Company transacts with companies, which are considered related parties under PAS 24, "Related Party Disclosures".

Related Party Transactions (RPT) with a contract value that equals or exceeds 5% of the Company's reported net assets of the previous year or aggregate RPT within a twelve month period that breaches the materiality threshold of 10% of the Company's total assets, will be endorsed by the Related Party Transactions Committee to the Board of Directors for approval.

The transactions and outstanding balances of the Company with related parties as at and for the year ended 31 December 2019 are presented in the table below.

(a) Entities under common shareholdings

	Note	Transactions	Receivables (Payables)	Terms and conditions
Purchases of goods and services (i)	12	130,038,302	(16,100,004)	Payable balances are to be settled in cash and are due within 30 to 60 days from date of each transaction. These are unsecured, non-interest bearing and not covered by any guarantee. See (i), (ii) and (iv).
Leases (iii)	9	388,772		- Payable balances are to be settled in cash and are due within 30 to 60 days from date of each transaction. These are unsecured, non-interest bearing and not covered by any guarantee. See (i), (ii) and (iv).
Sales	4	6,012,660	1,318,369	Receivable balances are to be settled in cash and are due within 30 to 60 days from date of each transaction. These are unsecured, non-interest bearing and not covered by any security.
Royalty fee (iv)		1,209,786		- Payable balances are to be settled in cash within 30 days from month end.
Admin billings (v)				
Charges to the Company	12	2,055,591	(173,619)	The non-trade balances are settled in cash and are due within 15 days from month end. These are unsecured, non-interest bearing and are not covered by any security.
Charges by the Company	4	812,328	277,129	
Contributions to the plan	25	95,374		- Contributions to the plan and investing transactions of the plan are approved by the Retirement Plan Board of Trustees.

(b) Parent company

	Note	Transactions	Payable	Terms
Dividends declared	17	2,672,581	-	Dividends are usually paid in cash within 12 months from reporting date.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

24. Related party disclosures (continued)

(c) Key management personnel

Category/ Transaction	Note	Transactions	Balances	Terms
Current				
Salaries and other short-term employee benefits		123,243,110	-	The terms and arrangements of these non-current employee benefits are summarized in the related notes.
Non-Current				
Post-employment benefits	25	6,502,540	-	
Share-based compensation		29,346,310	-	

(d) Entities with common director

The Company has a long term loan from Bank of Philippines (BPI) amounting to P9.0 billion as at 31st December 2019 in which a director of the Company holds office as a director.

The transactions and outstanding balances of the Company with related parties for the comparative figures as at and for the years ended 31 December 2018 and 2017 are presented in the table below. The terms and arrangements presented for 2019 also apply to the transactions and balances for 2018 and 2017.

(a) Entities under common shareholdings

	Note	2018		2017	
		Transactions	Receivables (Payables)	Transactions	Receivables (payables)
Purchases of goods and services	12	131,847,894	(12,098,377)	102,235,731	(11,196,545)
Leases	4, 12	233,761	(13,964)	158,793	12,785
Sales	4	6,677,749	685,969	2,274,778	593,441
Royalty fee (iv)		1,313,515	-	810,998	-
Admin billings (v)					
Charges to the Company	12	807,704	(35,131)	592,883	(19,703)
Charges by the Company	4	666,118	171,325	437,434	72,781
Pension	25		-	-	-
Contributions to the plan		75,127	-	159,769	-

(b) Parent company

	Note	2018		2017	
		Transactions	Payable	Transactions	Payable
Dividends declared	16	4,579,022	-	1,469,919	-

(c) Key management personnel

	Note	2018		2017	
		Transactions	Balances	Transactions	Balances
Current					
Salaries and other short-term employee benefits		132,277	-	116,309	-
Non-Current	25				
Post-employment benefits		7,220	-	7,119	-
Share-based compensation		29,640	-	18,301	-

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

24. Related party disclosures (continued)

i. The Company purchases crude and other oil products from Shell International Eastern Trading Co. (SIETCO), an entity under common shareholdings. The Company's crude purchases are being processed through its refinery in Batangas. Cost of gross purchases for year ended December 2019 amounted to P125.7 billion (2018 - P124.9 billion and 2017 - P97.3 billion). As at 31 December 2019, balances payable to SIETCO amounted to P15.3 billion (2018 - P11 billion and 2017 - P4 billion).

ii. Under existing agreements with Shell International Petroleum Company (SIPC) of the United Kingdom and Shell Global Solutions International B.V. (SGS) of the Netherlands, entities under common shareholdings, SIPC and SGS provide management advisory, business support, and research and development and technical support services to the Company under certain terms and conditions. These agreements shall remain in full force until terminated by either party by giving the other party not less than 12 months prior written notice to that effect. Cost of the services charged to operations amounted to P1.39 billion during the year ended 31 December 2019 (2018 - P1.2 billion and 2017 - P1.5 billion). As at 31 December 2019, balances payable to SIPC amounted to P10.3 million (2018 - P35 million and 2017 - P7.9 million).

iii. The Company leases land from Tabangao Realty, Inc. (TRI), for several depots and retail sites located around the country. Lease term ranges from 5 to 50 years and is renewable, thereafter. Rent expense charged to operations amounted to P388.8 million for the year ended 31 December 2019 (2018 - P233.8 million and 2017 - P158.8 million). As at 31 December 2019, outstanding payable amounted to nil (outstanding payable of 2018 - P14.0 million and excess payment of 2017 - P12.8 million).

iv. On 01 January 2008, the Company and Shell Brands International AG (SBI), an entity under common shareholdings, entered into Trade Marks and Manifestation License Agreement pursuant to which SBI, the licensor, grants the Company, the licensee, a non-exclusive right to reproduce, use, apply and display the Shell trade mark and other manifestation. In consideration, the Company shall pay a royalty fee, which shall be computed as certain percentage of sales. Royalty rate varies from 0.03% to 1.3% depending on product type. This agreement can be terminated by either party without any penalty.

v. The Company receives billings from entities under common shareholdings for group-shared expenses related to IT maintenance, personnel and other administrative costs. On the other hand, the Company charges entities under common shareholdings for group-shared expenses related to personnel and other administrative costs and other services.

25. Employee benefits

Retirement plan

The Company has two separate and distinct retirement plans for the benefit of its regular employees. The assets of the plans are maintained by a trustee bank. The plans provided for payment of benefits in lump sum, upon attainment of the normal retirement age of 60, or upon retirement/separation at an earlier age.

The Company submitted an application to the BIR on 02 July 2012 for a revised retirement benefit plan with defined benefit for existing members and a new defined contribution provision for prospective members. This revised plan was approved by the BIR on 24 August 2015 and became effective on 01 September 2015.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

25. Employee benefits (continued)

Under the amended plan, the normal retirement eligibility at age 60 and Early Retirement Eligibility at age 50 were changed from 15 to 10 years of service. Alongside with this slightly improved benefit vesting schedule for early retirees and leavers, the life pension option was removed. Starting 01 September 2015, all new employees will be entitled to a new plan under a defined contribution arrangement with a 10% sponsor contribution. As at 31 December 2019 and 2018, the number of employees entitled to the defined contribution plan were 130 and 108, respectively.

Under the defined contribution plan, the employer then provides an additional contribution to the fund of 10% of the employees' monthly salary. Although the plan has a defined contribution format, the Company regularly monitors compliance with Republic Act (R.A.) 7641. As at 31 December 2019 and 2018, the Company is in compliance with the requirements of R.A. 7641.

Based on the latest actuarial valuation report prepared by the independent actuary for the year ended 31 December 2019 and 2018 the principal assumptions were:

	2019	2018
Discount rate	5%	7.30%
	Age 20-30: 18%	Age 20-30: 18%
	Age 31-40: 10%	Age 31-40: 10%
	Age 41-50: 7%	Age 41-50: 7%
Future salary increases	Age >50: 5%	Age >50: 5%

Assumptions regarding future mortality experience are set based on published statistics and experience in each territory. The average age in years of a pensioner is 70 and the expected future service years is 16.

The overall investment policy and strategy of the retirement plan is based on the Board of Trustees' suitability assessment, as provided by its investment advisors, in compliance with Bangko Sentral ng Pilipinas requirements. The Company does not perform an asset-liability matching study. However, the retirement plan has a Risk and Audit Committee who performs quarterly review of risks relevant to running the retirement fund.

The same committee prepares review highlights for presentation to the retirement plan Board of Trustees. Responsibility for governance of the retirement plan lies with the Board of Trustees.

The details of the pension expense and pension asset (obligation) for the year ended 31 December 2019 and 2018 are as follow:

	2019 Defined Benefit	2019 Defined Contribution	2019 Total	2018 Defined Benefit	2018 Defined Contribution	2018 Total
Pension benefit expense (income)	(254,116)	8,078	(246,038)	(112,817)	6,308	(106,509)
Pension asset (obligation)	6,444,687	(2,904)	6,441,783	5,901,136	(1,180)	5,899,956

The amount of pension asset (obligation) recognized in the statement of financial position is determined as follows:

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

25. Employee benefits (continued)

	2019 Defined Benefit	2019 Defined Contribution	2019 Total	2018 Defined Benefit	2018 Defined Contribution	2018 Total
Present value of defined benefit obligation	(4,090,264)	(27,880)	(4,118,144)	(3,143,321)	(15,700)	(3,159,021)
Fair value of plan assets	10,534,951	24,976	10,559,927	9,044,457	14,520	9,058,977
Pension asset (obligation)	6,444,687	(2,904)	6,441,783	5,901,136	(1,180)	5,899,956

The movement in the pension asset recognized in the statement of financial position as at 31 December are follows:

	2019 Defined Benefit	2019 Defined Contribution	2019 Total	2018 Defined Benefit	2018 Defined Contribution	2018 Total
01 January	5,901,136	(1,180)	5,899,956	5,716,838	(793)	5,716,045
Pension income (expense)	254,116	(8,078)	246,038	112,817	(6,308)	106,509
Actual contributions	86,485	8,889	95,374	68,408	6,719	75,127
Remeasurement gains (losses)	202,950	(2,535)	200,415	3,073	(798)	2,275
Balance at the period	6,444,687	(2,904)	6,441,783	5,901,136	(1,180)	5,899,956

Pension expense recognized in the statements of income for year ended 31 December is as follows (Note 20):

	2019 Defined Benefit	2019 Defined Contribution	2019 Total	2018 Defined Benefit	2018 Defined Contribution	2018 Total
Current service cost	180,637	8,323	188,960	210,390	6,435	216,825
Net interest income	(434,753)	(245)	(434,998)	(323,207)	(127)	(323,334)
	(254,116)	8,078	(246,038)	(112,817)	6,308	(106,509)

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

25. Employee benefits (continued)

Changes in the present value of the defined benefit obligation are as follow:

	2019 Defined Benefit	2019 Defined Contribution	2019 Total	2018 Defined Benefit	2018 Defined Contribution	2018 Total
01 January	3,143,321	15,700	3,159,021	3,335,068	9,693	3,344,761
Current service cost	180,637	8,323	188,960	210,390	6,435	216,825
Interest cost	224,856	1,143	225,999	184,149	542	184,691
Benefits paid	(436,215)	-	(436,215)	(356,194)	-	(356,194)
Transfer of employees from/to entities under common control	-	151	151	-	-	-
Demographic adjustments	2,963	6	2,969	(49,386)	(349)	(49,735)
Remeasurement (gains) losses from:						
Changes in economic assumptions	793,557	1,197	794,754	(230,972)	(252)	(231,224)
Experience adjustments	181,145	1,360	182,505	50,266	(369)	49,897
Balance at the period	4,090,264	27,880	4,118,144	3,143,321	15,700	3,159,021

Changes in the fair value of the plan assets follow:

	2019 Defined Benefit	2019 Defined Contribution	2019 Total	2018 Defined Benefit	2018 Defined Contribution	2018 Total
01 January	9,044,457	14,520	9,058,977	9,051,906	8,901	9,060,807
Interest income	659,609	1,387	660,996	507,356	669	508,025
Contributions	86,485	8,889	95,374	68,408	6,719	75,127
Benefits paid	(436,214)	-	(436,214)	(356,194)	-	(356,194)
Transfer of employees from/to entities under common control	-	151	151	-	-	-
Return on plan assets	1,180,614	29	1,180,643	(227,019)	(1,769)	(228,788)
31 December	10,534,951	24,976	10,559,927	9,044,457	14,520	9,058,977

The carrying value of the plan assets as at the year ended 31 December 2019 and 2018 are equivalent to the fair values presented above and are comprised mainly of investments in equity securities, which account for 66% of total plan assets in 2019 (2018: 86%). Plan assets are comprised of:

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

25. Employee benefits (continued)

	2019 Defined Benefit	2019 Defined Contribution	2019 Total	2018 Defined Benefit	2018 Defined Contribution	2018 Total
Cash and cash equivalent	91,183	24,976	116,159	243,494	14,520	258,014
Investments in debt securities:						
Government bonds and securities	1,877,769	-	1,877,769	153,264	-	153,264
Corporate bonds	61,177	-	61,177	801,415	-	801,415
Unquoted equity instruments	5,324,821	-	5,324,821	4,235,375	-	4,235,375
Unit investment trust funds	3,180,001	-	3,180,001	3,548,860	-	3,548,860
Others	-	-	-	62,050	-	62,050
Balance at the period	10,534,951	24,976	10,559,927	9,044,458	14,520	9,058,978

The defined benefit plan typically exposes the participating entities to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liability. A decrease in government bond yields will increase the defined benefit obligation although this will be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the participating entities. The Company believes that due to the long-term nature of the retirement liability, the mix of debt and equity securities holdings of the plan is an appropriate element of the long-term strategy to manage the plan efficiently.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in unit investment trust funds.

Expected contribution to the plan in 2020 is P108.9 million for defined benefit plan and P11.5 million for defined contribution plan.

The expected undiscounted maturity benefit payments for the next 10 years as at 31 December are the following:

	2019 Defined Benefit	2019 Defined Contribution	2019 Total	2018 Defined Benefit	2018 Defined Contribution	2018 Total
Following year	149,668	136	149,804	126,113	81	126,194
Between 2 to 3 years	445,316	1,302	446,618	348,196	562	348,758
Between 3 to 5 years	715,653	3,481	719,134	645,946	2,454	648,400
Over 5 years	1,741,440	20,746	1,762,186	1,881,780	15,975	1,897,755

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

25. Employee benefits (continued)

Share-based compensation:

RDS operates a Performance Share Plan (PSP) covering all of its subsidiaries' employees who are not members of the Executive Committee. PSP for conditional shares are awarded to eligible employees based on their sustained performance and value. Shares are finally delivered at the end of a three-year performance period but delivery depends on the performance of the Shell group.

A Monte Carlo option pricing model is used to estimate the fair value of the share-based compensation expense arising from the Plan. The model projects and averages the results for a range of potential outcomes for the vesting conditions, the principal assumptions for which are the share price volatility and dividend yields for RDS and four of its main competitors over the last three years and the last ten years.

Movements of the shares granted in respect of the Company for the year ended 31 December are:

	2019		2018	
	Shares	Weighted average fair value (in U.S. Dollar)	Shares	Weighted average fair value (in U.S. Dollar)
Shares granted as at 01 January	190,728	27.84	191,523	28.36
Grants during the year	68,700	25.40	70,205	24.02
Shares delivered during the year	(60,627)	31.06	(64,195)	31.14
Cancelled/forfeited during the year	(5,760)		(6,805)	-
Shares granted as at 31 December	193,041	28.10	190,728	27.84

The total share-based compensation recognized in the statements of income during the year amounted to P123.3 million (2018 - P129.6 million).

26. Lease, commitments and other arrangements

Before 1 January 2019

- The Company has depots for the distribution of oil products located in various sites all over the country. All of these depots are leased from various lot owners for periods ranging from 5-25 years contracts renewable upon mutual agreement by both parties. These are integral part of the downstream network as fuel products are stored and loaded to tank trucks and barges from these depots. Amount charged to operations for the year ended 31 December 2018 is P1.7 billion and 2017 - P1.5 billion.
- The Company has existing agreements with various lessors covering a number of retail stations. Such agreements have terms ranging from 1 to 25 years renewable upon mutual agreement of the parties. Likewise, the Company entered into various lease agreements covering offices, retail sites and storage points. Amount charged to operations for the year ended 31 December 2018 is P1.8 billion and 2017 - P1.6 billion.
- The Company has separate agreements with various ship owners for the use of white and black oil vessels for a fixed time charter fee per day. Amount charged to operations under this contract for the year ended 31 December 2018 amounted to P0.9 billion and 2017 - P1.4 billion.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

26. Lease, commitments and other arrangements

The long-term portion of advance rentals on these leases is included under 'Long-term receivables, rentals and investments, net' account (see Note 7); the current portion is included under 'Prepayments and other current assets' account (see Note 6) in the statement of financial position.

Under PAS 17, Leases the Company recorded additional lease accruals amounting to P9.7 million arising from straight lining of operating lease for year ended 31 December 2018 and 2017 - P27.2 million. Lease payments recognized as expense are included under Note 20.

d. The Company entered into agreements with oil companies at Mandaue terminal, Cabadbaran, Cebu and a few other terminals for the joint use and rationalization of storage and handling facilities, conserving future capital expenditures and reducing exposure to operational risk.

Under PAS 17, the Company's future minimum rental and other similar commitments related to the above leases as at 31 December 2018 is P17.66 million and 31 December 2017 is P16.82 million.

After 1 January 2019

Under PFRS 16, the Company's future minimum rental and other commitments related to leases as at 31 December 2019 is as below:

	2019
Within one year	2,443,973
More than one year but not more than five years	5,297,468
Over five years	10,029,288

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

27. Foreign currency denominated assets and liabilities

The Company's foreign currency assets and liabilities as at 31 December are as follows:

Currency	Assets	Liabilities	Net foreign currency assets (liabilities)	Exchange Rate	Peso equivalent
2019					
US dollar	53,672	332,320	(278,648)	50.65	(14,113,521)
UK pound	43	841	(798)	66.52	(53,083)
Euro	1,127	3,217	(2,090)	56.79	(118,691)
Singapore dollar	-	883	(883)	37.63	(33,227)
Malaysian ringgit	1,500	136	1,364	12.37	16,873
Australian dollar	-	440	(440)	35.48	(15,611)
Japanese yen	-	317,841	(317,841)	0.47	(149,385)
Chinese yuan	-	18	(18)	7.27	(131)
New Zealand dollar	-	176	(176)	34.05	(5,993)
Indian rupee	-	2,243	(2,243)	0.71	(1,593)
Polish zloy	-	135	(135)	13.34	(1,801)
Pakistani rupee	-	3,760	(3,760)	0.33	(1,241)
					(14,477,404)
2018					
US dollar	(15,028)	248,015	(263,043)	52.72	(13,867,627)
UK pound	43	342	(299)	66.73	(19,952)
Euro	855	1,513	(658)	60.31	(39,684)
Singapore dollar	-	323	(323)	38.47	(12,426)
Australian dollar	-	35	(35)	37.07	(1,297)
Japanese yen	-	356,895	(356,895)	0.48	(171,310)
Chinese yuan	-	108	(108)	7.68	(829)
New Zealand dollar	-	60	(60)	35.32	(2,119)
					(14,115,244)

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
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27. Foreign currency denominated assets and liabilities (continued)

2017					
US dollar	28,973	209,887	(180,914)	49.92	(9,031,227)
UK pound	-	273	(273)	67.12	(18,324)
Euro	947	993	(46)	59.61	(2,742)
Singapore dollar	-	367	(367)	37.32	(13,696)
Malaysian ringgit	-	2	(2)	12.28	(25)
Australian dollar	2	1	1	38.91	39
Japanese yen	-	198,971	(198,971)	0.44	(87,547)
Chinese yuan	-	432	(432)	7.64	(3,300)
Thai Baht	3	310	(307)	1.53	(470)
New Zealand dollar	-	98	(98)	35.37	(3,466)
					(9,160,758)

28. Income Tax Holiday Registration with BOI

The Company is registered with the BOI and entitled to ITH exemptions provided under Republic Act 8479, otherwise known as the Downstream Oil Deregulation Act of 1998.

Registered Activity	Existing Industry Participant with New Investments in the Modernization / Conversion of the Tabangao Refinery – Batangas City
ITH Entitled Period	01 January 2016 to 31 December 2020 (5 years without extension or bonus year)

Registered Activity	Existing Industry Participant with New Investments for Production of Bitumen (Penetration Grade 60/70 and Penetration Grade 80/100)
ITH Entitled Period	01 February 2018 to 31 January 2023 (5 years without extension or bonus year)

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

29. Contingencies

(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
SC G.R. Nos. 227651 & 227087 Filed 03 December 2009

Matter Summary:

From 2004 to 2009, the Company imported shipments of CCG and LCCG into the Philippines in accordance with the BIR Authority to Release Imported Goods (ATRIG) stating that the importation of CCG and LCCG is not subject to excise tax. Upon payment of VAT as assessed in the ATRIGs, the Bureau of Customs (BOC) allowed the entry of the imported CCG and LCCG without payment of excise tax. CCG and LCCG, being intermediate or raw gasoline components, are then blended with refinery products to produce unleaded gasoline that is compliant with applicable Philippine regulatory standards, particularly the Clean Air Act of 1999 and the Philippine National Standards (the “resulting product”). Prior to the withdrawal of the resulting product from the Company’s refinery, the Company paid the corresponding excise taxes.

In 2009, the District Collector of the Port of Batangas issued a letter demanding from the Company the payment of deficiency excise tax, VAT and penalties covering importation entries from 2006 to 2008. The Company requested the cancellation of the demand letter for lack of factual and legal basis. The District Collector of the Port of Batangas denied the request of the Company and declared that the law mandated the payment of excise tax on importation of unleaded gasoline and that it made no distinction or qualification on whether or not it was for consumption or sale to the domestic market. The District Collector of the Port of Batangas then reiterated his previous demand and threatened enforcement of Section 1508 of the Tariff and Customs Code of the Philippines (TCCP) which would hold the delivery or release of imported articles when an importer has an outstanding and demandable account.

The Company appealed before the Commissioner of Customs (COC). In the meantime, the Director of the DOE-Oil Industry Management Bureau issued a letter reiterating the earlier DOE finding that CCG and LCCG imports were raw materials or blending components in the production or processing of gasoline in its finished form. The then BIR Commissioner issued a memorandum confirming and reiterating the initial ruling in 2004 to the effect that CCG and LCCG are intermediate products or blending components which are not subject to excise tax under Section 148 of the NIRC.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

29. Contingencies (continued)

The COC denied the appeal of the Company and demanded the payment of excise tax and VAT for the Company's CCG and LCCG importations this time from 2004 to 2009. The Company filed a motion for reconsideration of the Letter-Decision, which was denied by the COC. The COC then ordered the Company to pay the principal amount of P7.35 billion and pay the excise tax and VAT on all incoming CCG and LCCG shipments.

The Company thereafter filed a petition for review with the Court of Tax Appeals (CTA) for the purpose of appealing the ruling of the COC as well as to apply for the issuance of a temporary restraining order (TRO) to immediately prevent the COC from seizing future shipments of the Company pursuant to Section 1508 of the TCCP. The Company likewise applied for the issuance of a suspension order for the purpose of ensuring the preservation of the status quo while the merits of the appeal are being heard by the CTA.

While the case was pending in the CTA, the BIR Commissioner at that time issued on 15 December 2009 a Letter-Ruling declaring that the CCG and LCCG imports of the Company were subject to excise tax on the ground that the law did not make any distinction or qualification on whether or not the imports were intended for consumption or for blending with other substances. The ruling effectively reversed the earlier rulings of former BIR Commissioners.

Following the reversal of the ruling by the BIR Commissioner, the BOC started collecting excise taxes in January 2010 on shipments of the Company. The Company paid the BOC assessments under protest and on 27 January 2010, filed a Supplemental Petition seeking to annul the 15 December 2009 ruling by the BIR Commissioner.

In view of the paramount public interest, the government agreed not to exercise Section 1508 of the TCCP on condition that the Company posts a surety bond.

On 04 March 2010, the CTA approved the surety bond posted by the Company and enjoined the COC, the Collector of Customs at the Port of Batangas, the BOC and all persons acting under their direction or authority from undertaking any actions under Section 1508 of the TCCP and/or from all remedies to collect from petitioner the excise taxes and VAT, with increments, subject of the case.

On 27 November 2012, the CTA 3rd Division issued a Resolution granting the Company's Motion for Summary Judgment. The Court deemed that BOC's demand for the payment of excise taxes on importations of LCCG/CCG during the period 2004 to 2009 without merit, rendering the discussion on whether the CCG/LCCG are properly classified (under Section 148(e) or Section 148(f) of the NIRC, as amended) moot and academic. The CTA 3rd Division ruled in favour of the Company and respondent was prohibited from collecting the alleged unpaid excise taxes and VAT thereon, on the Company's importations of CCG/LCCG for the relevant periods in 2004 to 2009.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

29. Contingencies (continued)

The BOC 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 - first, upon importation and the other upon withdrawal of the finished grade products from the refinery.

In its 28 September 2015 decision, the CTA en banc reversed the CTA Third Division, ruled partially in favour of the BOC and the BIR and held that the Company is liable to pay excise taxes and VAT on the importation of CCG and LCCG but only for the period from 2006 to 2009. The CTA en banc recognized the Company's defense of amnesty applied for periods from 2004 to 2005, thereby partially reducing the liability to shipments made from 2006 to 2009. Both parties filed motions for reconsideration of the CTA en banc decision. The BIR and BOC filed an Omnibus Motion for Partial Reconsideration and Clarification to question the decision of the CTA en banc in relation to the assessment of the unpaid excise taxes, VAT and penalties for the years 2004 and 2005. The Company, in turn, filed an Opposition to the said motion. The Company likewise filed a motion for reconsideration of the CTA en banc decision in relation to the assessment of the unpaid excise taxes, VAT and penalties for the years 2006 to 2009.

On 21 September 2016, the Company received an Amended Decision of the CTA en banc upholding its 28 September 2015 ruling and holding that the Company is liable to pay the Government for alleged unpaid taxes for the importation of CCG and LCCG for the period from 2006 to 2009 totalling P5.72 billion.

On 06 October 2016, the Company filed the appropriate appeal with the Supreme Court. The BOC and the BIR also filed their Petition for Review on Certiorari seeking to bring back the liability of the company to P7.35 billion plus interest and surcharges.

Status:

The Supreme Court consolidated the said petitions and the parties have filed their respective Comments. The Government and the Company filed their Reply on 22 January 2018 and 06 June 2018, respectively.

Management believes that provision should not be recognized as at 31 December 2019 and 31 December 2018 since it is the Company's assessment that liability arising is not probable because its factual and legal positions are strong. The Company continues to take appropriate legal action and remediation with respect to such case.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

29. Contingencies (continued)

(b) 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, 2nd Division

Filed 24 August 2012

Matter Summary:

Following the ruling of the BIR authorizing the collection of excise taxes on CCG/LCCG importations, the Company began importing Alkylate as its blending component. The COC issued Customs Memorandum Circular No. 164-2012 directing the BOC and its officers to take the “appropriate action” in relation to BIR Ruling dated 29 June 2012 (Ruling No. M- 059-2012) issued by the BIR Commissioner. In the ruling dated 29 June 2012, the BIR Commissioner held that Alkylate is also subject to excise tax upon importation. The BIR Ruling further held that the Company is liable for the amount of P1.9 billion representing the unpaid taxes, on the importations of Alkylate from 2010.

A Petition for Review of the BIR ruling was filed with the CTA. On 18 September 2012, the Company filed a Motion for the Issuance of a Suspension Order to stop the implementation of Ruling No. M-059-2012.

On 22 October 2012, the CTA issued a Resolution approving the issuance of a Suspension Order stopping the collection of alleged deficiency excise taxes (and VAT) for the period from 2010 to June 2012, upon the posting by the Company of a surety bond. Said bond was duly filed and the CTA approved the same on 30 October 2012.

In a Resolution dated 28 January 2013, the CTA denied the BIR/BOC Motion to Dismiss the case. Subsequent appeals (Petitions for Certiorari) from the denial of the Motion to Dismiss have been filed by the BOC and the BIR with Supreme Court.

On 02 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 SC 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, in the main case before the CTA, on 31 July 2014, the Company filed a Motion for Judgment on the Pleadings. This Motion was denied by the tax court on 13 February 2015. On 16 March 2015, the Company filed a Motion for Reconsideration from this denial of the Motion for Judgment on the Pleadings.

As disclosed in Note 7, the Company has excise duties and VAT paid under protest amounting to P1.1 billion for certain Alkylate shipments.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

29. Contingencies (continued)

Status:

Trial on the merits is pending with the Court of Tax Appeals (“CTA”). Jurisdictional issues are pending with the Supreme Court. No change in status as of January 2020

(c) Republic of the Philippines rep. by Bureau of Customs vs. Pilipinas Shell Petroleum Corporation & Filipino Way Industries

SC G.R. No. 209324 Supreme Court

Civil Case No. 02-103191, Regional Trial Court of Manila

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.

The Court of Appeals had earlier upheld the dismissal of the case by the RTC Manila Branch 49 that dismissed the case. In a Decision dated 09 December 2015, the Supreme Court remanded the case to the RTC for the conduct of the trial proceedings so that the Bureau of Customs could attempt to prove the alleged fraudulent acquisition and use of TCCs.

Status:

Pilipinas Shell Petroleum Corporation will file its formal offer of evidence on 30 January 2020. A status hearing is set on 25 March 2020.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

29. Contingencies (continued)

(d) Excise Tax Refund Case

There are also tax cases filed by the Company for its claims from the government amounting to P733.1 million that are pending as at 30 June 2018 and 31 December 2017 in the CTA and SC. Management believes that the ultimate outcome of such cases will not have a material impact on the Company's financial statements.

(e) Other significant case

Case filed by the West Tower Condominium Corporation (WTCC)

West Tower Condominium Corp. et al. vs. Judge Elpidio R. Calis et al

SC G.R. No. 215901, Supreme Court

Filed 11 June 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. West Tower Condominium Corporation, et al.'s filed with the Supreme Court the present petition dated 11 February 2015 seeking a review of the decision of the Court of Appeals. The Company has filed its Comment with Opposition dated 18 September 2015 asking the Supreme Court to dismiss the petition and to deny the application for a temporary restraining order. Awaiting Supreme Court's action. No change in status as of January 2020.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
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30. Deregulation Law

On 10 February 1998, RA No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the “Act”) was signed into law. The law provides, among others, for oil refiners to list and offer at least 10% of their shares to the public within three years from the effectivity of the said law.

In a letter to the Department of Energy (DOE) dated 12 February 2001, the Department of Justice (DOJ) rendered an opinion that the 3 year period in Section 22 of RA 8479 for oil refineries to make a public offering is only directory and not mandatory. As to when it should be accomplished is subject of reasonable regulation by the DOE.

On 3 November 2016, the Company became a public listed company with the Philippine Stock Exchange, in compliance with Philippine Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 and it’s implementing rules and regulations.

31. Summary of significant accounting policies

31.1. Basis of preparation

Basis of Preparation:

The accompanying financial statements have been prepared on a historical cost basis, except for equity through OCI, derivatives and retirement assets that are measured at fair value. The financial statements are presented in Philippine peso, the functional and presentation currency of the Company. All amounts are rounded off to the nearest thousand peso unit unless otherwise indicated.

Statement of Compliance:

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures:

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to previously issued PAS and PFRS. which were adopted as at 01 January 2019.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PFRS 16, *Leases*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.1. Basis of preparation (continued)

Changes in Accounting Policies and Disclosures: (continued)

- *Annual Improvements to PFRSs 2015-2017 Cycle*
 - Amendments to PFRS 3, *Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*
 - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
 - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

New and amended standards and interpretations

PFRS 16, *Leases*

The Company applied PFRS 16 for the first time in 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Company has adopted PFRS 16 Leases with effect from 1 January 2019. Under the new standard, all lease contracts, with limited exceptions, are recognized in the financial statements by way of right-of-use assets and corresponding lease liabilities. On adoption of PFRS 16, the Company has recognized lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of PAS 17 Leases. At January 1, 2019, additional lease liabilities were recognized for leases previously classified as operating leases applying PAS 17. These lease liabilities were measured at the present value of the remaining lease payments and discounted using entity-specific incremental borrowing rates at January 1, 2019. In general, a corresponding right-of-use asset was recognized for an amount equal to each lease liability, adjusted by the amount of any prepayment relating to the specific lease contract, as recognized on the balance sheet at December 31, 2018.

The Company has applied the modified retrospective transition approach, and consequently comparative information is not restated. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6% to 7.5 %.

In applying PFRS 16 for the first time, the Company has applied the following practical expedients permitted by the standard:

- 1) No reassessment was performed of contracts that were previously identified as leases and contracts that were not previously identified as containing a lease applying PAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease.
- 2) Leases for which the lease term ends within 12 months of the date of initial application of PFRS 16 has been treated as short-term leases.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.1. Basis of preparation (continued)

New and amended standards and interpretations (continued)

Impact of transition:

On transition to PFRS 16, the Company recognized right of use assets and lease liabilities. The impact on transition is summarized below:

	At 1 January 2019
Right-of-use-asset - Property, plant and equipment (Note 9)	13,611,763
Lease liabilities	13,045,642

The reconciliation of differences between the operating lease commitments disclosed under the prior standard and the additional lease liabilities recognized on the balance sheet at January 1, 2019 is as follows:

Lease liabilities reconciliation:

Undiscounted future minimum lease payments under operating leases at December 31, 2018	17,672,320
Impact of discounting	(4,784,862)
Leases not yet commenced at January 1, 2019	-
Short-term leases	(3,601)
Long-term leases expiring before December 31, 2019	(22,794)
Other reconciling items	184,579
Total lease liability at January 1, 2019	13,045,642

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, Income Taxes. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.1. Basis of preparation (continued)

The Company is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Company shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Company concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Based on the Company's assessment, it has no material uncertain tax treatments, accordingly, the adoption of this Interpretation has no significant impact on the financial statements.

Standards Issued But Not Yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Company.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PAS 17, *Insurance Contracts*

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.1. Basis of preparation (continued)

Deferred effectivity

- Amendments to PFRS 10, Financial Statements, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

31.2. Cash

Cash consists of deposits held at call with banks. It is carried in the statement of financial position at face amount or nominal amount. Cash in banks earns interest at the respective bank deposit rates.

31.3. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes a financial instrument in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial assets - Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through OCI, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under PFRS 15.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets - Subsequent Measurement

i. Financial assets at amortized cost

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes trade and other receivables.

ii. Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under *PAS 32 Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its equity investments under this category.

iii. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

Included in this category are the Company's derivative financial assets (see Note 6).

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as part of other operating income in the statement of income.

Financial instruments may be designated as at FVPL on initial recognition when any of the following criteria is met:

The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis (accounting mismatch); or The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Included in this category are the Company's derivative financial assets (see Note 6).

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

The rights to receive cash flows from the asset have expired

Or

The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established probability of default rates for third party trade receivables based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company applies the historical credit loss method in case undue cost or effort is involved in calculating the ECL by considering the forward-looking factors. For inter-group trade receivables, the Company has established probability of default rates based on internal credit rating of the customers. Internal credit ratings are based on methodologies adopted by independent credit rating agencies. Therefore, the internal ratings already consider forward looking information.

The Company consider a financial asset to be in default when contractual payments are 180 days past due. However, Company considers internal or external information when there are indicators that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

Financial liabilities - initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, dividends payable and derivative financial instruments.

Financial liabilities - Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

i. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of income.

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Company as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

A financial liability is designated as financial liability at fair value through profit or loss upon initial recognition if: such designation significantly reduces measurement or recognition inconsistency that would otherwise arise; the financial liability forms group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about its grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives requiring separation, and PAS 39 permits the entire combined contract (asset or liability) to be designated as FVPL.

Included in this category are the Company's derivative financial liabilities under accounts payable and accrued expenses account in the statement of financial position.

ii. Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of income.

This category generally applies to interest-bearing loans and borrowings, accounts payable and accrued expenses.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

Financial liabilities - Derecognition

A financial liability is derecognized when the obligation under the liability has been discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties. As at 31 December 2019 and 2018, there are no financial assets and financial liabilities that were offset.

Derivative financial instruments

The Company uses derivatives in the management of interest rate risk, foreign exchange risk and commodity price risk arising from operational activities. A derivative financial instrument is initially recognized at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, that are not already required to be recognized at fair value, and that are not closely related to the host contract in terms of economic characteristics and risks, are separated from their host contract and recognized at fair value; associated gains and losses are recognized in income.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognized in profit or loss in the period when changes arise.

31.4. Receivables

Trade receivables arising from regular sales with average credit term of 30 to 60 days and other current receivables are initially recorded at fair value and subsequently measured at amortized cost, less provision for impairment. Fair value approximates invoice amount due to short-term nature of the financial assets. Other long-term receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.5. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in first-out (FIFO) method for crude oil and finished products, materials and supplies. Cost of products sold includes invoice cost, duties, excise taxes, refinery production overhead, freight and pipeline costs and excludes the borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion, and estimated cost necessary to make the sale. Provision for inventory losses is provided, when necessary, based on management's review of inventory movement and condition of inventory item. Inventory losses, if any, is charged as part of cost of sales in the Company's statement of income.

The amount of any reversal of inventory write-down, arising from an increase in net realizable value, is presented under crude and products costs in the period in which the reversal occurred.

Crude oil and finished products are derecognized when sold, and materials and supplies are derecognized when consumed. The carrying amount of these inventories is charged to cost of sales in statement of income, in the period in which the related revenue is recognized.

31.6. Prepayments and other current assets

Prepaid expenses are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepaid expenses expire and are recognized as expense either with the passage of time or through use or consumption.

Advance tax payments related to inventories are recognized initially as prepayment and charged to operations when products are sold.

Input VAT claims is stated at face value less provision for impairment, if any. Provision for unrecoverable input VAT, if any, is maintained by the Company at a level considered adequate to provide for potential uncollectible portion of the claim. The Company, on a continuing basis, reviews the status of the claim designed to identify those that may require provision for impairment losses. A provision for impairment of unrecoverable input VAT is established when there is objective evidence that the Company will not be able to recover the claims. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of income. As at 31 December 2019 and 2018, the Company has no provision for impairment of input VAT (see Note 6).

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.7. Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (MCIT over RCIT), to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

Deferred tax assets and liabilities are derecognized when relevant temporary differences have been realized and settled, respectively. The Company reassesses at each statement of financial position date the need to recognize a previously unrecognized deferred income tax asset.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.8. Property, plant and equipment

Property and equipment are carried at historical cost less accumulated depreciation and amortization and accumulated impairment losses. Historical cost includes its acquisition cost or purchase price and expenditure that is directly attributable to the acquisition of the items necessary to bring the asset to its working condition and location for its intended use. Costs of assets under construction are accumulated in the accounts until these projects are completed upon which they are charged to appropriate property accounts.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Asset retirement obligation (ARO) represents the net present value of obligations associated with the retirement of property and equipment that resulted from acquisition, construction or development and the normal operation of property and equipment. ARO is recognized as part of the cost of the related property and equipment in the period when a legal or constructive obligation is established provided that best estimate can be made. ARO is derecognized when the related asset has been retired or disposed of.

Depreciation on property and equipment is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful lives (in years), as follows:

Leasehold improvements	5 to 40 or term of lease, whichever is shorter
Furniture and fixtures	5 to 20
Machinery and equipment	3 to 30
Transportation	5 to 25

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.8. Property, plant and equipment (continued)

Depreciation of property and equipment begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

Assets under construction are not subject to depreciation until these are put into operation.

ARO is amortized on a straight-line basis over the estimated life of the related assets or lease term (in case of leased assets) whichever is shorter.

Major renovations are depreciated over the remaining useful life of the related asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Property and equipment are derecognized upon disposal or when no future economic benefits are expected from its use or disposal and related gains and losses on disposals are determined by comparing proceeds with the carrying amount of assets. The cost and related accumulated depreciation of assets sold are removed from the accounts and any resulting gain or loss is credited or charged to other operating income (expense) in the statement of income.

Fully-depreciated property and equipment are maintained in the accounts until these are no longer in use.

31.9. Intangible assets - computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of five years from the time the software has been ready for its intended use in operations.

Costs associated with maintaining computer software programs are recognized as an expense as incurred in the statement of income.

Intangible assets are derecognized upon disposal or when no future economic benefits are expected from its use or disposal and related gains and losses on disposals are determined by comparing proceeds with the carrying amount of assets. The cost and related accumulated amortization of intangible assets disposed are removed from the accounts and any resulting gain or loss is credited or charged to other operating income (expense) in the statement of income.

The Company's intangible asset is classified under other assets account in the statement of financial position (see Note 11).

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.10. Leases

The Company has applied PFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under PAS 17 and IFRIC 4. The details of accounting policies under PAS 17 and IFRIC 4 are disclosed separately.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease as in PFRS 16.

This accounting policy is applied to contracts entered into, on or after 1 January 2019

a) Lessee

Classification and measurement

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The Company recognizes asset retirement obligation relating to lease land and buildings which would need to be restored to previous state and condition. For accounting policies refer Note 31.8.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company's uses its incremental borrowing rate as the discount rate.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.10. Leases (continued)

The Company determines the incremental borrowing rate representing the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate applied to each lease was determined taking into account the risk-free rate, adjusted for factors such as the credit rating of the Company and the terms and conditions of the lease.

Lease payments included in the measurement of the lease liability comprise the following:

- 1.Fixed payments, including in-substance fixed payments;
- 2.Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- 3.Amounts expected to be payable under a residual value guarantee; and
- 4.The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Right of use assets are presented separately in the statement of financial position. Expenses related to leases previously classified as operating leases are presented under Selling, distribution and administrative expenses in 2019 and 2018.

With effect from 2019, payments related to leases previously classified as operating leases are presented under Cash flow from financing activities, in 2018 these were reported in Cash flow from operating activities.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.10. Leases (continued)

Subsequent measurement

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. For remeasurements to lease liabilities, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and where the lease term is less than or equal to 12 months (short-term leases). The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

31.11. Investments in associates and joint arrangements

Associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Investments in associates are accounted for using equity method. Under this method, the investment is carried at cost, increased or decreased by the equity in the net earnings or losses of the investee since the date of acquisition. Dividends received, if any, are treated as reduction in the carrying value of the investment.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.11. Investment in associates and joint ventures (continued)

Joint Arrangements

A joint arrangement is an arrangement of which the Company has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor.

Joint operations are accounted for by recognizing the Company's own or its share of assets, liabilities, revenue and expenses in the arrangement.

31.12. Impairment of non-financial assets

Property and equipment and other non-current assets (investments in other entities, intangibles, and claims from government agencies lodged under receivables and long-term receivables) that have definite useful life are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less cost of disposal and value in use. Value in use requires entities to make estimates of future cash flows to be derived from the particular asset, and discount them using a pretax market rate that reflects current assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in other operating income (expense) in the statement of income (see Note 21).

31.13. Accounts payable and accrued expenses

Accounts payable and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.14. Borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the maturity value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. All other borrowing costs are recognized and charged to operations in the year in which they are incurred.

31.15. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as part of other operating expense in the statement of income.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized from the statement of financial position.

31.16. Contingencies

Contingent assets and liabilities are not recognized in the financial statements. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent asset are disclosed when an inflow of economic benefits is probable. When the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.17. Share capital

Common shares are classified as equity. Share premium is recognized for the excess proceeds of subscriptions over the par value of the shares issued, net of transaction costs.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax.

Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's equity holders.

31.18. Dividends distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

31.19. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Company and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has no dilutive potential common shares.

31.20. Foreign currency transactions and translations

i. Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine peso, which is the functional and presentation currency of the Company.

ii. Transactions and balances

Foreign currency transactions are translated into Philippine peso using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income (see Note 21).

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.21. Revenue and expense recognition

D) Revenue from contracts with customers:

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

i) Sale of goods

Revenue from sales of oil and gas products is recognized at the price which Company is expected to be entitled to, after deducting sales taxes, excise duties and similar levies.

Sales of oil and gas products are recognized when the control of the products have been transferred, which is when the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits from the products, which generally coincides with the actual delivery of goods. Delivery does not occur unless the products have been shipped out of the Company's premises or received by the customer depending on shipping arrangements.

The Company identifies the promised products and services within contracts in scope of PFRS 15 and determines which of those goods and services are separate performance obligations. The Company will allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices. PFRS 15 has been applied for recognizing the net sales.

The Company is required exercising considerable judgement taking into account all the relevant facts and circumstances when applying the criteria to its contracts with customers.

a. Variable Consideration

Some contracts for the sale of goods provide customers with volume rebates that give rise to variable consideration. The Company estimates the variable consideration at contract inception and constrained until it is highly probable that significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Under PFRS 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Company applies the most likely method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold and recognizes a refund liability for the expected future rebates.

Before adoption of PFRS 15, the Company estimated the expected volume rebates using the probability weighted average amount of rebates approach and included an allowance for rebates in Trade and other payables.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.21. Revenue and expense recognition (continued)

b. Loyalty programme

The Company has loyalty points programme, which allows customers to accumulate points that can be redeemed for free products. The loyalty points give rise to separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognized as a contract liability until the points are redeemed. Revenue is recognized upon redemption of products by the customer. When estimating the stand-alone selling price of the loyalty points, the Company considers the likelihood that the customer will redeem the points. The Company updates its estimates at every balance sheet date and any adjustments to the contract liability balance are charged against revenue.

Before the adoption of PFRS 15, the loyalty programme offered by the Company resulted in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of deferred revenue in relation to points issued but not yet redeemed or expired. The Company concluded that under PFRS 15 the loyalty points give rise to a separate performance obligation because they provide a material right to the customer and a portion of the transaction price was allocated to the loyalty points awarded to customers. There was no significant difference noted in the allocation of the transaction price to the loyalty programme on application of the PFRS 15.

c. Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

d. Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract. Contract liability is recognized under trade and other payables and under provisions and other liabilities.

	2019	2018
Performance obligations satisfied	23,743	17,844
	31 December 2019	1 January 2019
Contract liabilities included in trade and other payables and in provisions and other liabilities	558,643	473,704

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.21. Revenue and expense recognition (continued)

There are no significant changes in contract liability arising from change in measure of progress, change in estimate of transaction price or contract modification.

ii) Other operating income

Other operating income, such as retailer and franchise commission, is recognized on an accrual basis in accordance with the substance of the relevant agreements.

iii) Finance income

Finance income, such as foreign exchange gains and interest income, is recognized as earned and presented at gross after operating profit. Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it determined that such income will accrue to the Company.

iv) Other non-operating income

Other non-operating income, also referred to as incidental or peripheral income (one time), are recognized for earnings that do not occur on a regular basis or is derived from activities not related to the Company's core operations.

v) Dividend income

Dividend income is recognized when the Company's right to receive the payment is established. The Company's dividend income is presented as part of other non-operating income in the statement of income.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow into the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.21. Revenue and expense recognition (continued)

Sale of oil products

Sales comprise the fair value of the consideration received or receivable from the sale of oil and gas products in the ordinary course of the Company's operations. Sales is shown net of value-added tax. Discounts and rebates are recognized and measured based on approved contracts and agreements with customers.

Sales of oil and gas products are recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer, which generally coincides with the actual delivery of goods. Delivery does not occur unless the products have been shipped out of the Company's premises or received by the customer depending on shipping arrangements.

Other operating income

Other operating income, such as retailer and franchise commission, is recognized on an accrual basis in accordance with the substance of the relevant agreements.

Finance income

Finance income, such as foreign exchange gains and interest income, is recognized as earned and presented at gross after operating profit. Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

Other non-operating income

Other non-operating income, also referred to as incidental or peripheral income (one time), are recognized for earnings that do not occur on a regular basis or is derived from activities not related to the Company's core operations.

Dividend income

Dividend income is recognized when the right to receive payment is established. The Company's dividend income is presented as part of other non-operating income in the statement of income.

II) Costs and expenses:

Costs and expenses are charged to operations as incurred.

31.22. Leases - Company is the lessee (Effective Before 01 January 2019)

Leases of retail stations, pipelines and office premises where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.23. Employee benefits

i) Pension obligation

The Company maintains a pension scheme, which is funded through payments to trustee-administered fund. The Company maintains a defined benefit pension plan and defined contribution plan.

Defined benefit plan is defined as an amount of pension benefit that an employee will receive upon retirement, dependent on certain factors such as age, years of credited service, and compensation. The Company makes contributions to the retirement benefit fund to maintain the plan in an actuarially sound condition. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset. The Company recognizes the following changes in the net defined benefit obligation under cost of sales, administration expenses and selling and distribution expenses in statement of income (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The Company has a defined contribution plan that covers all regular employees under which it pays fixed contributions based on the employees' monthly salaries. The Company, however, is covered under R.A 7641, otherwise known as "The Philippine Retirement Law", which provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.23. Employee benefits (continued)

Accordingly, the Company accounts for their retirement obligation under the higher of the defined benefit obligation related to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense (income) and other expenses (income) related to the defined benefit plan are recognized in our profit or loss.

The defined contribution liability, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in our other comprehensive income.

ii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 Provisions, Contingent Liabilities and Contingent Assets and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after statement of financial position date are discounted to present value.

iii) Bonus plans

The Company recognizes a liability and an expense for performance-related bonuses, based on a formula that takes into consideration the Company and employee's performance. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

31. Summary of significant accounting policies (continued)

31.23. Employee benefits (continued)

iv) Performance-share plans

RDS operates a Performance Share Plan (PSP) covering all of its subsidiaries' employees. PSP for conditional shares are awarded to eligible employees based on their sustained performance and value. The extent to which shares are finally delivered at the end of a three-year performance period, or not, depends upon the performance of the Shell group.

The fair value of shares, determined using a Monte Carlo pricing model, is credited as 'other reserve' in equity and is charged to profit or loss over the vesting period. The fair value of share-based compensation for equity-settled plans granted to employees under the RDS schemes is recognized as an intra-group payable to parent company when charged-out. The charge-out is based on the entitled personnel that were employed by the Company at the time of awarding.

31.24. Related parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities under common shareholdings, which includes entities that are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Company, in its regular conduct of business, enters into transactions with related parties, which consists of sales and purchase transactions, leases and management and administrative service agreements. Transactions with related parties are on an arm's length basis similar to transactions with third parties.

31.25. Operating Segments

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments (see Note 2).

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the general manager who makes strategic decisions.

31.26. Events after statement of financial position date

Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the Financial Statements. Post year end events that are not adjusting events are disclosed when material.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

32. Financial risk management

32.1 Financial Risk Factors

The Company's operations expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest risk, and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by its Regional Treasury - Shell Treasury Centre East (STCE) under policies approved by the Board of Directors. STCE identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

a) Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or the prices of crude oil and refined products will adversely affect the value of the Company's assets, liabilities or expected future cash flows.

i) Foreign exchange risk

The Company operates internationally and is exposed to foreign currency exchange risk arising from currency fluctuations, primarily with respect to the importations of crude and finished products denominated in US dollar. Foreign currency exchange risk may also arise from future commercial transactions and recognized assets and liabilities denominated in a currency other than the Company's functional currency.

Foreign exchange currency risks are not hedged and the Company does not enter into significant derivative contracts to manage foreign currency risks. Since foreign currency exposure is significantly concentrated on purchase of crude, the Company manages foreign currency risk by planning the timing of its importation settlements with related parties and considering the forecast of foreign exchange rates.

As at 31 December 2019, if the Philippine peso had weakened/strengthened by 5% (assessment threshold used by management) against the US dollar with all other variables held constant, equity and post-tax profit for the period would have been P493.9 million (2018 -P485.4 million) lower/higher, as a result of foreign exchange gains/losses on translation of US dollar-denominated receivables and payables as at 31 December 2019 and 2018.

Management considers that there are no significant foreign exchange risks with respect to other currencies disclosed in Note 27.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

32. Financial risk management (continued)

a) Market risk (continued)

ii) Cash flow and fair value interest rate risk

Cash flow and fair value interest rate risk is the risk that future cash flows and fair value, respectively, of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant exposure to fair value interest rate risk as the Company has no significant interest-earning assets and interest-bearing liabilities subject to fixed interest rates.

The Company's interest-rate risk arises from its borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest-rate risk. As at 31 December 2019 and 2018, the Company's short-term borrowings and loans payable carry floating rates based on a certain index plus applicable premium.

The Company does not enter into significant hedging activities or derivative contracts to cover risk associated with borrowings.

For the year ended 31 December 2019, if interest rates on Philippine peso-denominated borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been P65 million (2018 - P85.8 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. Management uses 100 basis points as threshold in assessing the potential impact of interest rate movements in its operations.

iii) Commodity and other price risks

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Company is affected by price volatility of certain commodities such as crude oil required in its operating activities. To minimize the Company's risk of potential losses due to volatility of international crude and petroleum product prices, the Company may implement commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from risk of downward prices and squeezing margins. This allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Company, thus protecting raw material cost and preserving margins. For consumer (buy) hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost. While for producer (sell) hedges, if prices go down, hedge positions may show marked-to-market gains; however, any gain in the marked-to-market position is offset by the resulting lower selling price.

The Company is not significantly exposed to price risk on equity securities and proprietary club shares as investments held by the Company classified in the statement of financial position as available-for-sale financial assets are not considered material in the financial statements.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

32. Financial risk management (continued)

b) Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to trade and non-trade receivables.

The Company maintains cash and certain other financial instruments with various major financial institutions. To minimize this risk, the Company performs periodic evaluations of the relative credit standing of these financial institutions and where appropriate, places limits on the amount of credit exposure with any one institution. Additional information is presented in Note 3.

The Company has policies in place to ensure that sales of products are made to customers with acceptable creditworthiness. Counterparty credit risk is managed within a framework of individual credit limits with utilization being regularly reviewed. Credit checks are performed by a department independent of sales department, and are undertaken before contractual commitment. Where appropriate, cash on delivery terms are used to manage the specific credit risk. Also there are collaterals and security deposits from customers taken which enables to manage the risk.

There is no concentration of credit risks as at statement of financial position dates as the Company deals with a large number of homogenous trade customers. Additional information is presented in Note 4.

Where there is a legally enforceable right to offset under trading agreements and net settlement is regularly applied, the net asset or liability is recognized in the statement of financial position, otherwise assets and liabilities are presented at gross. As at 31 December 2019 and 2018, the Company has the following :

	Note	Gross amounts before offset	Amount offset	Net Amounts as presented	Credit Enhancement	Net Amount
2019						
Financial						
Assets:						
Receivables	4	12,589,703	-	12,589,703	1,237,171	11,352,532
2018						
Financial						
Assets:						
Receivables	4	10,990,771	-	10,990,771	3,839,423	7,151,348

The gross carrying amount of the receivables and ECL in Stage 1 with 12 month ECL as at 31 December 2019 is P2,827.7 million and nil. The gross carrying amount of the receivables and ECL in Stage 2 with lifetime ECL as at 31 December 2019 is P23.2 million and P10 million. The gross carrying amount of the receivables and ECL in Stage 3 with lifetime ECL as at 31 December 2019 is P129.0 million and P81.7 million. The gross carrying amount of the receivables and ECL in simplified approach with lifetime ECL as at 31 December 2019 is P11,246.8 million and P252.6 million.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

32. Financial risk management (continued)

c) 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 position.

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.

The table below analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Note	0-90 days	91-180 days	181 days - 1 year	Over 1 year	Total
2019						
Short-term						
borrowings-Principal	13	9,752,000	-	-	-	9,752,000
Short-term borrowings-Interest		1,132	-	-	-	1,132
Loans payable-Principal	14	-	-	-	9,000,000	9,000,000
Loans payable-Interest		85,500	-	-	781,850	867,350
Dividends payable		17,054	-	-	-	17,054
Accounts payable and accrued expenses	12	28,565,455	(367,281)	1,224,983	259,017	29,682,174
Derivatives	12	1,979	-	-	-	1,979
		38,423,120	(367,281)	1,224,983	10,040,867	49,321,689
2018						
Short-term						
borrowings-Principal	13	3,261,000	-	-	-	3,261,000
Short-term borrowings-Interest		2,305	-	-	-	2,305
Loans payable-Principal	14	-	-	-	9,000,000	9,000,000
Loans payable-Interest		134,363	135,873	271,746	1,795,033	2,337,015
Dividends payable		15,622	-	-	-	15,622
Accounts payable and accrued expenses	12	24,441,021	347,142	60,959	276,108	25,125,230
Derivatives	12	54,903	-	-	-	54,903
		27,909,214	483,015	332,705	11,071,141	39,796,075

Availability of funding to settle the Company's payables are ensured since the Company has unused credit lines and undrawn borrowing facilities at floating rate amounting to P62.1 billion (2018 - P68.7 billion), which is expiring within one year.

32.2 Capital management

The Company manages its business to deliver strong cash flows to fund capital expenditures and growth based on cautious assumptions relating to crude oil prices. Strong cash position and operational cash flow provide the Company financial flexibility both to fund capital investment and return on equity. Total capital is calculated as 'equity' as shown in the statement of financial position less other reserves plus net debt.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

32. Financial risk management (continued)

i. Cash flow from operating activities

Cash flow from operating activities is considered a measure that reflects the Company's ability to generate funding from operations for its investing and financing activities and is representative of the realization of value for shareholders from the Company's operations. The statement of cash flows shows the components of cash flow. Management uses this analysis to decide whether to obtain additional borrowings or additional capital infusion to manage its capital requirements.

ii. 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 statement of financial position 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.

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

The gearing ratios at 31 December 2019 and 2018 are as follows:

	Note	2019	2018
Total loans and borrowings	13, 14	18,752,000	12,261,000
Less: Cash	3	4,778,877	4,455,124
Net debt		13,973,123	7,805,876
Total equity (excluding other reserves)		39,273,668	38,410,586
Total capital		53,246,791	46,216,462
Gearing ratio		26%	17%

The Company is not subject to externally imposed capital requirement.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

32. Financial risk management (continued)

32.3 Fair value estimation

The table below presents the carrying amounts of the Company's financial assets and financial liabilities, which approximates its fair values, as at 31 December 2019 and 2018:

	Note	2019	2018
Financial assets			
Loans and receivables			
Cash	3	4,778,877	4,455,124
Receivables	4	12,589,703	10,990,771
Derivatives	6	3,715	22,780
Market investment loans	7	36,783	54,071
Long-term receivables	7	198,510	191,601
Equity through OCI	11	584,107	516,707
Total financial assets		18,191,695	16,231,054
Other financial liabilities			
Accounts payable and accrued expenses	12	29,523,994	25,036,922
Dividends payable		17,054	15,622
Derivatives	12	1,979	54,903
Cash security deposits	15	280,058	308,516
Short-term borrowings	13	9,752,000	3,261,000
Loans payable	14	9,000,000	9,000,000
Total financial liabilities		48,575,085	37,676,963

Receivables in the table above exclude claims from the government and miscellaneous receivables while accounts payable and accrued expenses exclude amounts payable to the government and its related agencies.

The following methods and assumptions were used to estimate the value of each class of financial instrument:

i. Current financial assets and liabilities

Due to the short-term nature of the accounts, the fair value of cash, receivables, deposits, accounts payable (excluding derivative financial liabilities) and short-term borrowings approximate the amount of consideration at the time of initial recognition.

ii. Financial assets and liabilities carried at cost

Staff car loans, market investment loans, other long-term receivables and payables, are carried at cost which is the repayable amount.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

32. Financial risk management (continued)

iii. Financial assets and liabilities carried at fair value.

The Company's equity securities classified as equity instruments through OCI are marked-to-market if traded and quoted. The predominant source used in the determining the fair value of the available-for-sale financial assets is the quoted price and is considered categorized under Level 1 of the fair value hierarchy.

For unquoted equity securities, the fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of carrying at a reliable fair value. These are carried at cost less any allowance for impairment losses. These are not significant in relation to the Company's portfolio of financial instruments.

Fair values of derivative assets and liabilities are calculated by reference to the fixed price and the relevant index price as of the statement of financial position date. The fair values of the derivatives are categorized under Level 2 of the fair value hierarchy.

iv. Loans payable

The carrying values of long-term loans payable approximates their fair value because of regular interest repricing based on market conditions.

33. Critical accounting estimates, assumptions and judgments

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

33.1. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

i) Provision for impairment of receivables

The provision for impairment of receivables is based on the Company's assessment of the collectability of payments from its debtors. This assessment requires judgment regarding the ability of the debtors to pay the amounts owed to the Company and the outcome of any disputes. The amounts and timing of recorded provision for impairment of receivables for any period would differ if the Company made different assumptions or utilized different estimates. Hence, management considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding impairment of receivables. The Company's policy in estimating provision for impairment of receivables is presented in Note 31.4. The carrying amount of receivables and other information are disclosed in Note 4.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

33. Significant accounting judgments, estimates and assumptions (continued)

33.1. Critical accounting estimates and assumptions (continued)

ii) Provision for inventory losses

The Company provides allowance for inventories whenever the net realizable value of inventories become lower than cost due to damage, physical deterioration, obsolescence, market driven price changes in price levels or other causes (i.e. pre-termination of contracts).

Assessment of inventory losses on a regular basis is also performed based on historical information and past experience. The provision account is reviewed on a monthly basis to reflect the estimated net recoverable value in the financial statements. The carrying amount of inventories and other information are disclosed in Note 5.

iii) Provision for asset retirement obligation and environmental liabilities and remediation

Estimates of the ARO recognized are based on current legal and constructive requirements, technology and price levels. Since actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of the obligation is regularly reviewed and adjusted to take account of such changes. The implicit rate (based on management's market assessment of the time value of money and risks specific to the obligation) used in discounting the cash flows is reviewed at least annually.

The discount rate used to determine the present value of the obligation as at 31 December 2019 and 2018 is 3.9% and 6.7%, respectively, and the amount is recognized as accretion cost or income in the statement of income.

The Company has set total outstanding provision of P65.3 million (2018 - P69.9 million) to cover the required environmental remediation covering specific assets, based on external evaluation and study, and total outstanding provision of P1.8 billion (2018 - P1.7 billion) for ARO (see note 15).

Further, it is reasonably possible based on existing knowledge that outcome within the next financial year that are different from assumptions could require an adjustment to the carrying amount of the provision for ARO and environmental liabilities and remediation. However, management does not foresee any changes in terms of business operations and its circumstances that would cause a significant change in the initial estimates used. Additional information is presented in Note 15.

iv) Determining useful lives and depreciation

Management determines the estimated useful lives and related depreciation charges for the Company's property and equipment (Note 8). Management will revise the depreciation charge where useful lives are different from the previous estimate, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Management does not foresee any changes in terms of business operations that would warrant reassessment of estimated useful lives.

v) Pension benefit obligation and employee benefits

The determination of the Company's pension benefit obligation and employee benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, as described in Note 25, include among others, discount rates, and salary increase rates.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

33. Significant accounting judgments, estimates and assumptions (continued)

33.1. Critical accounting estimates and assumptions (continued)

v) Pension benefit obligation and employee benefits (continued)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions follow:

	Impact on equity and income before tax	
	2019	2018
Discount rate		
Increase by 0.50%	(226,498)	(246,404)
Decrease by 0.50%	185,317	214,813
Salary increase rate		
Increase by 0.50%	1,729,621	1,326,789
Age 20	761,857	584,419
Age 31-40	432,405	331,697
Age 41-50	308,861	236,927
Age 50	226,498	173,746
Decrease by 0.50%	(1,564,895)	(1,200,428)
Age 20	(720,675)	(552,829)
Age 31-40	(391,224)	(300,107)
Age 41-50	(267,679)	(205,336)
Age 50	(185,317)	(142,156)

The above sensitivity is based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension asset (liability). The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to prior years.

While the Company's management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in actuarial assumptions may materially affect the pension obligation and employee benefits.

vi) Provision for expected credit losses of trade receivables

The Company computes probability of default rates for third party trade receivable, based on historical loss experience adjusted for current and forward looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. For inter-group trade receivables and lease receivables, the Company uses internal credit rating to determine the probability of default. Internal credit ratings are based on methodologies adopted by independent credit rating agencies, therefore the internal ratings already consider forward looking information.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

33. Significant accounting judgments, estimates and assumptions (continued)

33.1. Critical accounting estimates and assumptions (continued)

vi) Provision for expected credit losses of trade receivables (continued)

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

(vii) Determining lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

33.2. Critical judgements in applying the Company's accounting policies

i) Impairment of long-lived assets

Long-lived assets (see Notes 8 and 11) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. On a regular basis, management determines if there are triggering events or impairment indicators based on current circumstances. An impairment loss is recognized whenever evidence exists that the carrying value is not recoverable.

Management believes that no impairment charge is necessary because there are no impairment indicators on all long-lived assets at CGU level at 31 December 2019 and 2018.

ii) Taxes

A certain degree of judgment is required in determining the provision for income taxes, as there are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Company recognizes liabilities for tax audit issues when it is probable. The liabilities are based on estimates whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Further, recognition of deferred income tax assets depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied. The Company reviews its deferred tax assets at each statement of financial position date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management believes that deferred tax assets are fully recoverable at the statement of financial position date (see Note 10).

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

33. Significant accounting judgments, estimates and assumptions (continued)

33.2. Critical judgements in applying the Company's accounting policies (continued)

ii) Taxes (continued)

The Company recognizes provision for impairment of input VAT and specific tax claims based on the Company's assessment of collection or recoverability through creditable tax certificates from the government. This assessment requires judgment regarding the ability of the government to settle or approve the application for claims/creditable tax certificates of the Company. Management believes that its input VAT and specific tax claims are fully recoverable as at statement of financial position date (see Note 6).

iii) Assessing contingencies

The Company is currently involved in various legal proceedings including a number of tax cases (see Note 29). Estimates of the probable costs for the resolution of these claims, if any, have been developed in consultation with internal and external counsels handling the Company's defense in these matters and are based upon the probability of potential results. The Company's management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates, in the effectiveness of its strategies relating to these proceedings or the actual outcome of the proceedings (see Notes 15 and 29).

34. Changes in liability arising from financing activities

	01 January 2019	Cash flows	Accrued and paid during the year	Other	31 December 2019
Short term loans	3,261,000	6,491,000	-	-	9,752,000
Long term loans					
Non-Current	9,000,000	-	-	-	9,000,000
Dividend payable	15,622	(4,838,901)	4,838,901	1,432	17,054
Accrued interest payable	33,548	(887,942)	854,394	27,416	27,416
Lease liabilities	13,045,642	(2,434,304)	-	(133,924)	10,477,414
Total liabilities from financing activities	25,355,812	(1,670,147)	5,693,295	(105,076)	29,273,884

Others include the effect of reclassification of non-current portion of interest-bearing loans to current due to the passage of time, the dividend unpaid for the prior years and interest accrued but not paid during the year.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

35. Subsequent Events

After the balance sheet date, the Company has seen macro-economic uncertainty with regards to demand for oil, gas and products as a result of the COVID-19 (coronavirus) outbreak. Furthermore, recent global developments in March have caused further abnormally large volatility in the commodity markets.

In a move to contain the COVID-19 outbreak, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. The Company considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the impact of the COVID-19 outbreak and crude price volatility on its financial results.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

36. Supplementary Information Required Under Revenue Regulations No. 15-2010

The following information required by Revenue Regulations No. 15-2010 is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

a.) Output value-added tax (VAT)

Output VAT declared and the revenues upon which the same was based as at 31 December 2019 consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT		
Sale of goods	208,966,284	25,075,954
Sale to government	1,408,340	169,001
Sale of services	105,337	12,640
Others	489,120	58,694
	210,969,081	25,316,289
Zero rated		
Sale of goods	26,244,453	-
Exempt		
Sale of goods	275,080	-
Total	237,488,614	25,316,289

Zero-rated sale of goods pertains to direct export sales transactions with PEZA-registered activities and international vessels pursuant to Section 106 (A) (2) of National Internal Revenue Code.

VAT exempt sales pertain to transactions with exempt entities which are exempt pursuant to Section 109 of National Internal Revenue Code.

b.) Input VAT

Movements in input VAT for the year ended 31 December 2019 follow:

Beginning balance	737,143
Add: Current year's domestic purchases/payments for:	
Importation of goods for resale/manufacture	15,981,246
Domestic goods for resale or manufacture	5,824,600
Services lodged under other accounts	1,718,492
Services rendered by non-residents	177,645
Capital goods subject to amortization	62,607
Total input VAT	24,501,733
5% Final withholding VAT against sale to government	41,416
Monthly VAT payments	911,599
Total input VAT	25,454,748

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

36. Supplementary Information Required Under Revenue Regulations No. 15-2010 (continued)

c.) Importations

The total landed cost of imports and the amount of custom duties and tariff fees accrued and paid for the year ended 31 December 2019 follow:

Landed cost of imports	124,980,813
Customs duties and tariff fees paid	8,196,240

d.) Documentary Stamp tax

Documentary stamp taxes in relation to the Company's borrowing transactions were expensed and settled by the local bank. The related balances amounting to P68.4 million were reimbursed by the Company as part of bank service fee.

e.) Excise taxes

Excise taxes relate to purchase of petroleum and mineral products by the Company. These taxes are normally paid in advance by the Company and charged to cost of sales upon sale of goods. Total amount paid and charged to operations for the year ended 31 December 2019 are as follow:

	Paid	Charge	Balance
Local:			
Petroleum products	18,743,000	18,686,916	56,084
Mineral products	3,608	4,442	(834)
Imported:			
Petroleum products	7,167,038	7,022,785	144,253
	25,913,646	25,714,143	199,503

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

36. Supplementary Information Required Under Revenue Regulations No. 15-2010 (continued)

f.) All other local and national taxes

All other local and national taxes accrued and paid for the year ended December 31, 2019 consist of:

Real property tax	244,724
Municipal taxes / Mayor's permit	9,856
Community tax	11
	<u>254,591</u>

The above local and national taxes are lodged under miscellaneous account in selling, general and administrative expense.

g.) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended 31 December 2019 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	451,608	67,394	519,002
Expanded withholding tax	834,759	116,897	951,656
Fringe benefit tax	25,064	10,167	35,231
Final withholding tax	665,690	468	666,158
	<u>1,977,121</u>	<u>194,926</u>	<u>2,172,047</u>

h.) Tax assessments and cases

Other than tax cases mentioned in Note 28, there has been no tax assessments for the year 2019.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

**SCHEDULE I - RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION PURSUANT TO SEC RULE 68, AS AMENDED AND SEC
MEMORANDUM CIRCULAR NO. 11**

As at 31 December 2019

(All amounts in thousands Philippine Peso)

Unappropriated Retained Earnings beginning		11,074,898
Adjustments: (see adjustments in previous year's Reconciliation)		<u>(2,386,283)</u>
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		8,688,615
Add: Net income actually earned/realized during the period	5,621,155	
Less: Non-actual/unrealized income net of tax	-	
Equity in net income of associate/joint venture	(74,812)	
Unrealized foreign exchange gain – net (except those	(83,418)	
Unrealized actuarial gain	-	
Fair value adjustment (M2M gains)	(33,859)	
Fair value adjustment of Investment property resulting to gain	-	
Adjustment due to deviation from PFRS/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted under PFRS	-	
Add: Non-actual losses	-	
Depreciation on revaluation increment (after tax)	-	
Loss on fair value adjustment of investment property (after tax)	-	
Adjustment due to deviation from PFRS/GAAP - loss	-	
Net income actually earned during the period	<u>-</u>	5,429,066
Add (Less):		
Dividend declaration during the year		(4,840,333)
Appropriations of retained earnings during the period		-
Reversal of appropriateness		-
Effects of prior period adjustments		-
Treasury shares		<u>(507,106)</u>
Total retained earnings, end available for dividend declaration*		<u>8,770,242</u>

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

SCHEDULE II - SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
PURSUANT TO SRC RULE 68, AS AMENDED

	Years Ended December 31	
	2019	2018
Current Ratio (a)	1.20	1.43
Acid test ratio (b)	1.17	1.30
Solvency ratio(c)	21.20%	23.22%
Debt to Equity (d)	0.36	0.20
Debt Ratio(e)	0.14	0.10
Return on Equity(f)	14.31%	13.22%
Asset to Equity Ratio(g)	2.62	2.09
Interest rate coverage ratio (h)	10.19	12.50
Return on Assets(i)	5.46%	6.33%

- a. Current ratio is computed by dividing current assets over current liabilities.
- b. Acid test ratio is computed by dividing current assets net of prepayments over current liabilities
- c. Solvency ratio is computed by dividing net operating income after tax over total liabilities
- d. Debt to equity ratio is derived by dividing net debt (short-term and long-term borrowings less cash) over stockholder's equity (exclusive of Other Reserves).
- e. Debt ratio is computed by dividing net debt (short-term and long-term borrowings less cash) over total assets.
- f. Return on equity is computed as Profit (Loss) for the year divided by stockholder's equity (exclusive of Other Reserves).
- g. Asset to equity ratio is derived by dividing total assets over stockholder's equity (exclusive of Other Reserves).
- h. Interest rate coverage ratio is derived by dividing earnings before interest expense and taxes over interest expense.
- i. Return on assets is computed as Profit (Loss) for the year divided by total assets.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

**SCHEDULE III - SUPPLEMENTARY INFORMATION IN SEGMENTED STATEMENT OF
INCOME FOR REGISTERED ACTIVITY UNDER INCOME TAX HOLIDAY
REGISTRATION NUMBER 2014-073**
For the year ended 31 December 2019
(All amounts in thousands Philippine Peso)

The following information is presented to comply with one of the requirements of BOI for the Income Tax Holiday where the Company is currently registered.

	BOI - Registered Activity	Non-BOI Registered Activities	Audited Financial Statement
NET SALES	118,065,375	100,337,579	218,402,954
Cost of Sales	(110,664,323)	(84,288,326)	(194,952,649)
GROSS PROFIT	7,401,052	16,049,253	23,450,305
Selling, General and Administrative Expenses	(6,731,867)	(7,716,756)	(14,448,623)
NET INCOME FROM OPERATIONS	669,185	8,332,497	9,001,682
Other income (expense), net	(531,408)	(449,077)	(980,485)
NET INCOME BEFORE INCOME TAX	137,777	7,883,420	8,021,197

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

SCHEDULE A - FINANCIAL ASSETS
As at 31 December 2019
(All amounts in thousands Philippine Peso)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Equity through OCI				
Alabang Country Club, Inc.	2	14,600	14,600	
Atlas Consolidated Mining and Development	3000000	7,500	7,500	
Canlubang Golf & Country Club, Inc.	2	3,400	3,400	
Club Filipino de Cebu, Inc.	24	700	700	
Manila Golf & Country Club, Inc.	6	450,000	450,000	
Manila Polo Club, Inc.	2	52,000	52,000	
Manila Southwoods Golf & Country Club	1	1,100	1,100	
Negros Occidental Golf & Country Club	1	20	20	
Pantranco South Express Inc.	5232000	3,737	3,737	
Puerto Azul Beach & Country Club, Inc.	1	150	150	
Sta. Elena Golf Club, Inc.	2	12,000	12,000	
The Royal Northwoods Golf Club & Country	1	1,000	1,000	
Valley Golf Club, Inc.	1	900	900	
Wack Wack Golf & Country Club, Inc.	1	37,000	37,000	
Total Equity through OCI financial assets		584,107	584,107	
Cash			4,778,877	
Receivables			12,589,703	
Derivatives			3,715	
Market investment loans			36,783	
Long-term receivables			148,379	
Total financial assets			18,141,564	

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

As at 31 December 2019

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non Current	Balance at end of period
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

The Company's receivables from directors, officers, employees, and principal stockholders are limited to receivables subject to usual terms for ordinary expense advances and items arising in the ordinary course of business.

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE
ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
As at 31 December 2019

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non Current	Balance at end of period
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

SCHEDULE D - LONG TERM DEBT
As at 31 December 2019
(All amounts in thousand Philippine Peso)

Title of issue and Type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term debt" in related statement of financial position	Amount shown under caption "Loans payable, net of current portion" in related statement of financial position
Bank loan	9,000,000	-	9,000,000

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED COMPANIES)
As at 31 December 2019

Name of related party	Balance at beginning of period	Balance at end of period
N/A	N/A	N/A

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

SCHEDULE F - GUARANTEES OF SECURITIES OF OTHER ISSUERS
As at 31 December 2019

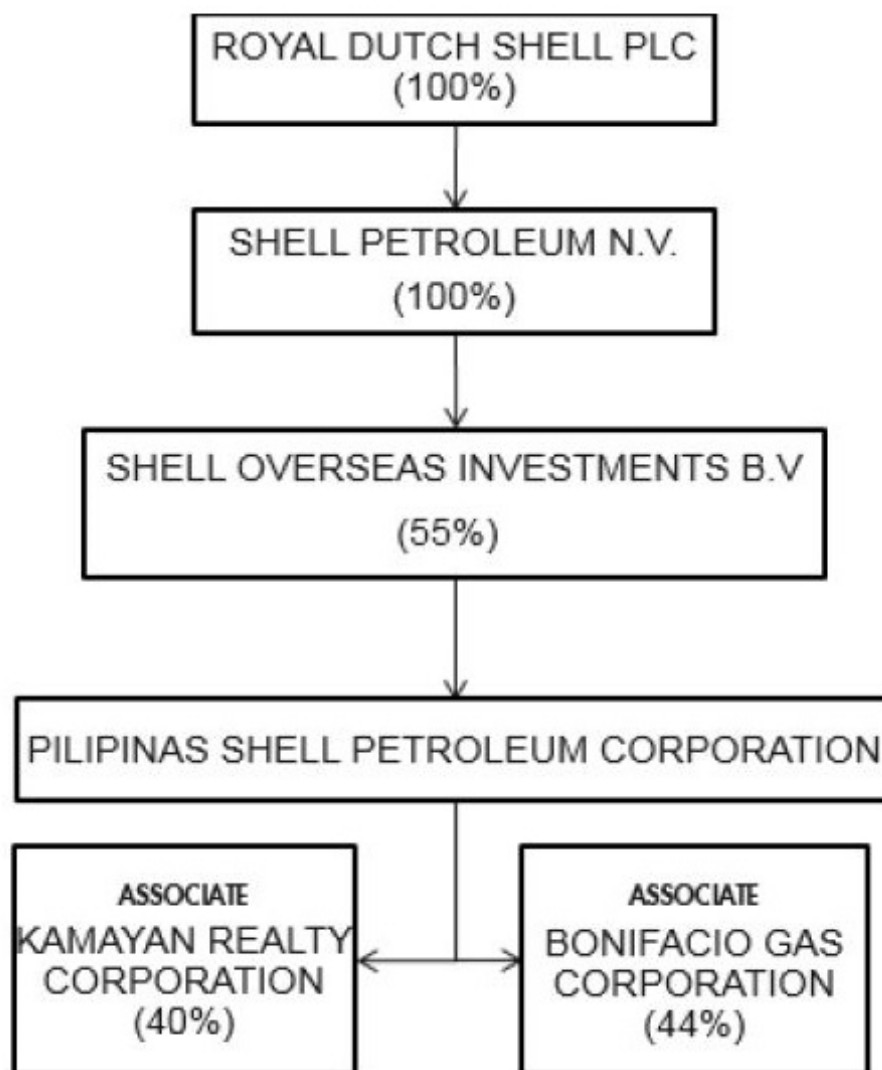
Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
N/A	N/A	N/A	N/A	N/A

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019

SCHEDULE G - CAPITAL STOCK
As at 31 December 2019

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as shown under related statement of financial position caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common stocks	2,500,000,000	1,613,444,202	-	890,860,233	292,397	722,291,572

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2019



REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

FILING REFERENCE NO.

TIN	: 000-164-757-000
Name	: PILIPINAS SHELL PETROLEUM CORPORATION
RDO	: 124
Form Type	: 1702
Reference No.	: 122000035409859
Amount Payable (Over Remittance)	: -854,000,464.00
Accounting Type	: C - Calendar
For Tax Period	: 12/31/2019
Date Filed	: 04/14/2020
Tax Type	: IT