SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

**INDEPENDENT AUDITOR'S REPORT**

The Stockholders and the Board of Directors
Shell Pilipinas 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 Shell Pilipinas Corporation (the Company), formerly Pilipinas Shell Petroleum Corporation, which comprise the statements of financial position as at December 31, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2022 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 require significant management judgement. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation of the relevant laws and regulations.

In addition, the Company has claims from the government relating to excise duties paid under protest for Alkylate shipments. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The relevant disclosures on these matters are included in Notes 4, 7 and 28 to the financial statements.

*Audit response*

We involved our internal specialist in the evaluation of management's assessments on (a) whether any provision for tax contingencies should be recognized and the estimation of such amount; and (b) the assessment of recoverability of claims. We discussed with the management the status of the tax assessments along with the related claims and obtained the opinion of the Company's internal and external legal counsels. We have also evaluated the tax position of the Company by considering relevant tax laws, rulings, and jurisprudence. In addition, we traced selected claims from government to its supporting documents.

***Valuation of inventories***

The Company's inventories substantially comprise of finished petroleum products. As of December 31, 2022, total inventories amounting to ₱17.94 billion represent 15% of total assets of ₱117.04 billion. We considered this as a key audit matter because the prices of petroleum products are highly volatile due to various factors such as global trends in demand and other economic factors and the determination of the net realizable value requires management to make an estimate of the inventories' selling price in the ordinary course of business. 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.

The disclosures in relation to inventories are included in Note 5 to the financial statements.

*Audit response*

We obtained an understanding of the Company's inventory valuation process and related controls. We obtained management's calculation of the inventories' net realizable values. We tested the net realizable value of selected inventories by obtaining the prevailing market prices and historical selling costs, and compared these against the cost of inventories.

**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, 2022, 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, 2022 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 35 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 Shell Pilipinas Corporation, formerly 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

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
Tax Identification No. 102-100-830
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 85501-SEC (Group A)
Valid to cover audit of 2020 to 2024 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-060-2020, December 3, 2020, valid until December 2, 2023
PTR No. 9566022, January 3, 2023, Makati City

March 23, 2023

SGV
Building a better
working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

**INDEPENDENT AUDITOR'S REPORT**
**ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Shell Pilipinas 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 Shell Pilipinas Corporation (the Company), formerly Pilipinas Shell Petroleum Corporation, as at December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, included in this Form 17-A, and have issued our report thereon dated March 23, 2023. 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 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

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
Tax Identification No. 102-100-830
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 85501-SEC (Group A)
Valid to cover audit of 2020 to 2024 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-060-2020, December 3, 2020, valid until December 2, 2023
PTR No. 9566022, January 3, 2023, Makati City

March 23, 2023

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

**INDEPENDENT AUDITOR'S REPORT**
**COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Stockholders and the Board of Directors
Shell Pilipinas 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 Shell Pilipinas Corporation (the Company), formerly Pilipinas Shell Petroleum Corporation, as at December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated March 23, 2023. 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 (PFRSs) 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 PFRSs. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
Tax Identification No. 102-100-830
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 85501-SEC (Group A)
Valid to cover audit of 2020 to 2024 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-060-2020, December 3, 2020, valid until December 2, 2023
PTR No. 9566022, January 3, 2023, Makati City

March 23, 2023

# C O V E R   S H E E T

for

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| 1 | 4 | 8 | 2 | 9 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|

**C O M P A N Y   N A M E**

SHELL PILIPINAS CORPORATION

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

41ST FLOOR, THE FINANCE CENTER
26TH STREET CORNER 9TH AVENUE,
BONIFACIO GLOBAL CITY, BRGY.
FORT BONIFACIO, TAGUIG CITY,
METRO MANILA, 1635

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | SEC | N/A |

**C O M P A N Y   I N F O R M A T I O N**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| **www.shell.com** | **(632) 3 4994001** | **N/A** |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| **319** | **05/09** | **12/31** |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Reynaldo P. Abilo | **Rey.Abilo@shell.com** | (632) 3 4994001 | 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.*

**SECURITIES AND EXCHANGE COMMISSION**
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City, 1307

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Shell Pilipinas Corporation (formerly 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 2022**, 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 24th day of March 2023

**Lorelie Quiambao-Osial**
*President and Chief Executive Officer*

**Reynaldo D. Abilo**
*Vice-President – Finance, Treasurer and Chief Risk Officer*

Signed this 24th day of March 2023

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

Tel. (632) 3 499 4001
Website http://www.pilipinas.shell.com.ph

**SUBSCRIBED AND SWORN** to before me this 3 0 MAR 2023 at Taguig City, affiants exhibiting to me the following Community Tax Certificate and/or Competent Evidence of Identification:

| | Competent Evidence of Identification | | |
|---|---|---|---|
| Name | Passport Number | Date of Issue | Place of Issue |
| **LORELIE Q. OSIAL** | [redacted] | [redacted] | [redacted] |
| **REYNALDO P. ABILO** | [redacted] | [redacted] | [redacted] |

IN WITNESS WHEREOF, I have hereunto affixed my signature and Notarial Seal.

NOTARY PUBLIC

Doc. No. 391;
Page No. 80;
Book No. XV;
Series of 2023.

**ATTY. MARIE CHRISTINE DURAN - SCHULZE**
Notary Public for Taguig City
NCC No. 15 (2023 – 2024) expires on 12/31/2024
1210 High Street South Corporate Plaza T2, 26th St., BGC, Taguig City
Roll No. 56901: LM IBP No. 08278; 15 April 2009: RSM
PTR No. A - 5787986; 01/03/2023; Taguig City
MCLE No. VII – 0005298 : Until 04/14/2025

# Shell Pilipinas Corporation
***(formerly Pilipinas Shell Petroleum Corporation)***

# Financial Statements
# For the years ended December 31, 2022 and 2021

## Shell Pilipinas Corporation

***(formerly Pilipinas Shell Petroleum Corporation)***

**CONTENTS**

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

## STATEMENTS OF FINANCIAL POSITION

As at December 31

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

| | Note | 2022 | 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 3 | 2,957,163 | 1,684,252 |
| Trade and other receivables, net | 4 | 23,051,832 | 15,940,115 |
| Inventories, net | 5 | 17,939,924 | 15,853,475 |
| Prepayments and other current assets | 6 | 5,884,332 | 2,997,801 |
| **Total Current Assets** | | **49,833,251** | **36,475,643** |
| **Noncurrent Assets** | | | |
| Long term receivables, rentals and investments, net | 7 | 11,331,500 | 7,880,521 |
| Property, plant and equipment, net | 8 | 27,262,700 | 23,419,388 |
| Right to use assets, net | 9 | 20,113,272 | 17,964,489 |
| Deferred tax assets, net | 10 | 3,037,513 | 4,130,652 |
| Other assets, net | 11 | 5,458,169 | 5,278,554 |
| **Total Noncurrent Assets** | | **67,203,154** | **58,673,604** |
| **TOTAL ASSETS** | | **117,036,405** | **95,149,247** |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | 32,926,048 | 24,467,473 |
| Short term loans | 13 | 17,827,000 | 8,220,000 |
| Dividends payable | | 17,764 | 16,836 |
| Current portion of loans payable | 14 | 9,000,000 | - |
| **Total Current Liabilities** | | **59,770,812** | **32,704,309** |
| **Noncurrent Liabilities** | | | |
| Long-term debt | 14 | 6,000,000 | 15,000,000 |
| Lease liabilities | 9 | 18,126,332 | 15,929,207 |
| Provisions and other liabilities | 15 | 4,209,885 | 5,344,227 |
| **Total Noncurrent Liabilities** | | **28,336,217** | **36,273,434** |
| **Equity** | | | |
| Share capital - P1 par value | 16 | 1,681,058 | 1,681,058 |
| Share premium | 17 | 21,857,677 | 21,857,677 |
| Treasury shares | 16 | (507,106) | (507,106) |
| Retained earnings | 17 | 3,788,190 | 1,325,887 |
| Remeasurement gains on defined benefit plans | 25 | 1,199,567 | 1,147,495 |
| Other reserves | 11, 25 | 909,990 | 666,493 |
| **Total Equity** | | **28,929,376** | **26,171,504** |
| **TOTAL LIABILITIES AND EQUITY** | | **117,036,405** | **95,149,247** |

*See accompanying Notes to Financial Statements*

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**STATEMENTS OF INCOME**

For the years ended December 31

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

| | Note | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| **NET SALES** | | | | |
| Sale of goods | | 296,382,416 | 182,522,484 | 162,022,652 |
| Sales discounts and rebates | | (4,899,787) | (5,365,622) | (5,070,809) |
| | | **291,482,629** | **177,156,862** | **156,951,843** |
| **COSTS AND EXPENSES (INCOME)** | | | | |
| Cost of sales | 19 | 266,119,767 | 154,412,692 | 153,291,201 |
| Selling expenses | 20 | 14,198,488 | 13,112,780 | 11,206,025 |
| General and administrative expenses | 20 | 2,481,106 | 2,234,958 | 2,516,753 |
| Impairment losses | 23 | - | 300,368 | 11,124,473 |
| Other operating losses (income), net | 21 | 3,065 | (1,914,787) | (177,773) |
| | | **282,802,426** | **168,146,011** | **177,960,679** |
| **INCOME (LOSS) FROM OPERATIONS** | | **8,680,203** | **9,010,851** | **(21,008,836)** |
| **OTHER INCOME (CHARGES)** | | | | |
| Finance income | 22 | 117,515 | 3,066 | 280,077 |
| Finance expense | 22 | (3,331,443) | (2,247,972) | (2,299,443) |
| | | (3,213,928) | (2,244,906) | (2,019,366) |
| **INCOME (LOSS) BEFORE INCOME TAX** | | 5,466,275 | 6,765,945 | (23,028,202) |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | 10 | 1,390,528 | 2,910,232 | (6,845,529) |
| **NET INCOME (LOSS)** | | 4,075,747 | 3,855,713 | (16,182,673) |
| **EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED** | 18 | 2.53 | 2.39 | (10.03) |

*See accompanying Notes to Financial Statements*

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31
(All amounts in thousands Philippine peso)

| | Note | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| **NET INCOME (LOSS)** | | 4,075,747 | 3,855,713 | (16,182,673) |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| *Items not to be reclassified to income or loss in subsequent periods:* | | | | |
| Remeasurement gain (loss) on retirement benefits, net of tax | 25 | 52,072 | (1,382,331) | (59,366) |
| Increase (decrease) in fair value of equity through OCI financial assets, net of tax | 11 | 156,604 | 45,196 | (2,860) |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS)** | | 208,676 | (1,337,135) | (62,226) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | 4,284,423 | 2,518,578 | (16,244,899) |

*See accompanying Notes to Financial Statements*

# SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED 31 DECEMBER 2022, 2021 AND 2020

(All amounts in thousands Philippine peso)

| | | | | | Other Reserves | | | |
|---|---|---|---|---|---|---|---|---|
| | Share Capital (Note 16) | Share Premium (Note 17) | Treasury Shares (Note 16) | Retained Earnings (Note 17) | Share-based Reserve (Note 25) | Fair value Reserve (Note 11) | Remeasurement Gain on Defined Benefit Plan (Note 25) | Total |
| **Balances at 1 January 2020** | **1,681,058** | **26,161,736** | **(507,106)** | **9,348,788** | **82,038** | **472,608** | **2,589,192** | **39,828,314** |
| Net loss for the year | - | - | - | (16,182,673) | - | - | - | (16,182,673) |
| Decrease in fair value of equity through OCI (net of tax amounting to P289) | - | - | - | - | - | (2,860) | - | (2,860) |
| Remeasurement gain on retirement benefits (net of tax amounting to P25,445) | - | - | - | - | - | - | (59,366) | (59,366) |
| Total comprehensive loss | - | - | - | (16,182,673) | - | (2,860) | (59,366) | (16,244,899) |
| ***Transactions with owners*** | | | | | | | | |
| Share-based compensation | - | - | - | - | 48,456 | - | - | 48,456 |
| Total transactions with owners for the year | - | - | - | - | 48,456 | - | - | 48,456 |
| **Balances at 31 December 2020** | **1,681,058** | **26,161,736** | **(507,106)** | **(6,833,885)** | **130,494** | **469,748** | **2,529,826** | **23,631,871** |

| | | | | | Other Reserves | | | |
|---|---|---|---|---|---|---|---|---|
| | Share Capital (Note 16) | Share Premium (Note 17) | Treasury Shares (Note 16) | Retained Earnings (Note 17) | Share-based Reserve (Note 25) | Fair value Reserve (Note 11) | Remeasurement Gain on Defined Benefit Plan (Note 25) | Total |
| **Balances at 1 January 2021** | **1,681,058** | **26,161,736** | **(507,106)** | **(6,833,885)** | **130,494** | **469,748** | **2,529,826** | **23,631,871** |
| Net income for the year | - | - | - | 3,855,713 | - | - | - | 3,855,713 |
| Increase in fair value of equity through OCI (net of tax amounting to P6,463) | - | - | - | - | - | 45,196 | - | 45,196 |
| Equity restructuring (Note 17) | - | (4,304,059) | - | 4,304,059 | - | - | - | - |
| Remeasurement loss on retirement benefits (net of tax amounting to P522,129) | - | - | - | - | - | - | (1,382,331) | (1,382,331) |
| Total comprehensive income (loss) | - | (4,304,059) | - | 8,159,772 | - | 45,196 | (1,382,331) | 2,518,578 |
| ***Transactions with owners*** | | | | | | | | |
| Share-based compensation | - | - | - | - | 21,055 | - | - | 21,055 |
| Total transactions with owners for the year | - | - | - | - | 21,055 | - | - | 21,055 |
| **Balances at 31 December 2021** | **1,681,058** | **21,857,677** | **(507,106)** | **1,325,887** | **151,549** | **514,944** | **1,147,495** | **26,171,504** |

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**STATEMENTS OF CHANGES IN EQUITY (continued)**

**FOR THE YEARS ENDED 31 DECEMBER 2022, 2021 AND 2020**

(All amounts in thousands Philippine peso)

| | | | | | Other Reserves | | | |
|---|---|---|---|---|---|---|---|---|
| | Share Capital (Note 16) | Share Premium (Note 17) | Treasury Shares (Note 16) | Retained Earnings (Note 17) | Share-based Reserve (Note 25) | Fair value Reserve (Note 11) | Remeasurement Gain on Defined Benefit Plan (Note 25) | Total |
| **Balances at 1 January 2022** | **1,681,058** | **21,857,677** | **(507,106)** | **1,325,887** | **151,549** | **514,944** | **1,147,495** | **26,171,504** |
| Net income for the year | - | - | - | 4,075,747 | - | - | - | 4,075,747 |
| Increase in fair value of equity through OCI (net of tax amounting to P27,636) | - | - | - | - | - | 156,604 | - | 156,604 |
| Remeasurement gain on retirement benefits (net of tax amounting to P17,357) | - | - | - | - | - | - | 52,072 | 52,072 |
| Total comprehensive income | - | - | - | 4,075,747 | - | 156,604 | 52,072 | 4,284,423 |
| ***Transactions with owners*** | | | | | | | | |
| Share-based compensation | - | - | - | - | 86,893 | - | - | 86,893 |
| Cash dividends | - | - | - | (1,613,444) | - | - | - | (1,613,444) |
| Total transactions with owners for the year | - | - | - | (1,613,444) | 86,893 | - | - | (1,526,551) |
| **Balances at 31 December 2022** | **1,681,058** | **21,857,677** | **(507,106)** | **3,788,190** | **238,442** | **671,548** | **1,199,567** | **28,929,376** |

*See accompanying Notes to Financial Statements*

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**STATEMENTS OF CASH FLOWS**

**For the years ended December 31**

(All amounts in thousands Philippine peso)

| | Note | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (loss) before income tax | | 5,466,275 | 6,765,945 | (23,028,203) |
| *Adjustments for:* | | | | |
| Depreciation and amortization | 8, 9, 11 | 4,418,580 | 4,043,275 | 4,241,241 |
| Interest and finance charges | 22 | 1,966,047 | 1,495,629 | 2,227,886 |
| Provision (remeasurement of) for ARO and remediation | 15 | (842,880) | 249,772 | (65,723) |
| Share-based compensation | 25 | 195,016 | 85,405 | 131,002 |
| Unrealized foreign exchange loss (gain), net | 22 | (116,989) | 308,468 | (46,203) |
| Share in profit of associates | 21 | (105,190) | (16,374) | (80,485) |
| Accretion expense | 22 | 101,596 | 55,463 | 63,342 |
| Unrealized mark to market (gain) loss, net | 21 | (88,039) | 12,846 | (18,209) |
| Pension expense (income) | 25 | 47,921 | 37,638 | (94,632) |
| Loss (gain) on disposal of property and equipment | 21 | 30,603 | (41,588) | 55,619 |
| Amortization of prepaid lease payments | | 11,760 | 442,545 | 204,308 |
| Interest income | 22 | (526) | (3,066) | (5,710) |
| Write-off of assets | 21 | 262 | 8,468 | 769 |
| Impairment of assets | 23 | - | 300,368 | 11,124,473 |
| Provision for legal case | 15, 21 | - | - | 1,267 |
| Operating income before working capital changes | | 11,084,436 | 13,744,794 | (5,289,258) |
| Decrease /(Increase) in inventories, trade and other receivables, prepayments and other assets | | (15,663,001) | (14,139,288) | 17,698,507 |
| Increase/(Decrease) in trade and other payables and provisions and other liabilities | | 6,215,762 | 1,524,746 | (6,331,037) |
| Cash generated from operations | | 1,637,197 | 1,130,252 | 6,078,212 |
| Pension contributions paid | 25 | (16,182) | (58,696) | (132,691) |
| Net cash flows from operating activities | | 1,621,015 | 1,071,556 | 5,945,521 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to property and equipment | | (4,749,353) | (3,412,268) | (4,038,582) |
| Dividend received | | 111,495 | 25,092 | 69,833 |
| Proceeds from sale of property and equipment | | 129,489 | 44,802 | 1,496 |
| Interest received | 22 | 526 | 3,066 | 5,710 |
| Net cash flows used in investing activities | | (4,507,843) | (3,339,308) | (3,961,543) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Net proceeds from (settlements of) short-term borrowings | 13, 33 | 9,607,000 | (4,780,000) | 3,248,000 |
| Drawdown of long-term loan | 14, 33 | - | 6,000,000 | - |
| Cash dividends paid | 33 | (1,612,516) | (238) | - |
| Interest and finance charges paid | 33 | (1,969,700) | (1,659,014) | (678,616) |
| Principal elements of lease payments | 9, 33 | (1,852,042) | (1,912,249) | (3,041,721) |
| Net cash flows used in financing activities | | 4,172,742 | (2,351,501) | (472,337) |
| **NET INCREASE (DECREASE) IN CASH** | | 1,285,914 | (4,619,253) | 1,511,641 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | | (13,003) | 13,000 | (13) |
| **CASH AT BEGINNING OF YEAR** | 3 | 1,684,252 | 6,290,505 | 4,778,877 |
| **CASH AT END OF YEAR** | 3 | 2,957,163 | 1,684,252 | 6,290,505 |

*See accompanying Notes to Financial Statements*

## 1. Corporate information

Shell Pilipinas 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.

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 Shell plc., 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, SOIBV 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 P1.4 billion (USD 0.03 billion). The IPO proceeds have been fully utilized as at 31 December 2017. The Company does not have any other share issuances subsequent to its initial public offering.

On 20 February 2019, the President of the Philippines signed into law the Republic Act No. 11232 or the Revised Corporation Code of the Philippines (Revised Code). The Revised Code expressly repeals Batas Pambansa Blg. 68 or the Corporation Code of the Philippines. Section 11 of the Revised Code states that a corporation shall have perpetual existence unless the article of incorporation provides otherwise. Corporations with certificates of incorporation issued prior to the effectivity of this Revised Code, and which continue to exist, shall have perpetual existence, unless the corporation, upon vote of its stockholders representing a majority of its outstanding capital stock, notifies the SEC that it elects to retain its specific corporate term pursuant to its articles of incorporation: Provided, that any change in the corporate term under this section is without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of this Revised Code. The Revised Code took effect on 23 February 2019.

In relation to the Company's cessation of its refinery operations and move to build a world class import terminal to optimize its asset portfolio and enhance its cost and supply chain competitiveness, the Company during its Stockholders' Meeting on 11 May 2021 amended its Primary Purpose in the Articles of Incorporation. The shift in supply chain strategy from manufacturing to full import, is a move that will further strengthen the Company's financial resilience amidst the significant changes and challenges in the global refining industry. It also prepares the Company for a future that will rely on more and cleaner energy solutions.

Certain operations of the Company was 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 29). The same has been voluntarily waived on 6 August 2020 pursuant to the Company's decision to convert its refinery to a world-class import terminal.

## 1. Corporate information (continued)

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. On August 10, 2022, the Board has approved the change in corporate name of the Company to "Shell Pilipinas Corporation" and the amendment and broadening of the Corporation's Secondary Purpose to include retail trade as it aims to grow its non-fuel retail segment.

Moreover, in its virtual Special Stockholders' Meeting on 26 September 2022 through Shell Operated Webcast, stockholders representing at least 79.1% of the total issued and outstanding capital approved the change in corporate name from "Pilipinas Shell Petroleum Corporation" to "Shell Pilipinas Corporation" and the new Secondary Purpose to allow retail trade. This introduces the Company's wider future forward approach towards energy transition that will reposition it beyond petroleum, shifting towards sustainable and cleaner energy solutions. The change was approved by the stockholders in a virtual Special Stockholder's Meeting held on 26 September 2022. The SEC approval was obtained on 15 March 2023.

The 2022 financial statements have been authorized for issue by the Company's Board of Directors on 23 March 2023 upon endorsement by the Board Audit and Risk Oversight Committee on 21 March 2023.

## 2. Operating segments

The Company operates under the downstream oil and gas segment. The Company's integrated downstream operations span all aspects of the downstream product supply chain, 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. Recognizing that its customers' needs go beyond fuel, the Company also has non-fuel offerings through Shell Select convenience stores and Deli2go. It also offers full vehicle servicing such as oil change and other car maintenance through Shell Oil Helix Oil Change+ and Helix Service Centers (HSC).

## 3. Cash

The account as at 31 December 2022 and 2021 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.

| | 2022 | 2021 |
|---|---|---|
| Universal bank | 1,979,727 | 924,247 |
| Commercial bank | 977,436 | 760,005 |
| | 2,957,163 | 1,684,252 |

## 4. Trade and other receivables, net

| | Note | 2022 | 2021 |
|---|---|---|---|
| Trade receivables | | | |
| Third parties | | 18,899,677 | 12,213,152 |
| Related parties | 24 | 234,717 | 117,327 |
| Provision for impairment of trade receivables from third parties | | (488,943) | (358,991) |
| | | 18,645,451 | 11,971,488 |
| Non-trade receivables from related parties | 24 | 36,005 | 60,804 |
| Other receivables | | | |
| Creditable withholding tax | | 852,577 | 427,431 |
| Duty drawback and other claims | | 2,508,474 | 2,526,517 |
| Non-trade receivables from third party | | 349,934 | 327,099 |
| Miscellaneous | | 699,277 | 666,662 |
| | | 4,410,262 | 3,947,709 |
| Provision for impairment of other receivables | | (39,886) | (39,886) |
| | | 4,370,376 | 3,907,823 |
| | | 23,051,832 | 15,940,115 |

Duty drawback and other claims pertain to claims from government agencies arising mainly from the payment of excise duties in which the Company has a right of exemption. Miscellaneous receivables pertain to rental from co-locators in mobility 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:

| | 2022 | 2021 |
|---|---|---|
| Philippine peso | 23,519,052 | 15,402,529 |
| US dollar | 59,962 | 931,609 |
| Other currencies | 1,647 | 4,854 |
| | 23,580,661 | 16,338,992 |

## 4. Trade and other receivables, net (continued)

The Company holds collaterals for trade receivables from third parties as at 31 December 2022 valued at P5.7 billion (2021 - P4.6 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 P12.9 billion as at 31 December 2022 (2021 – P7.4 billion) (see Note 31.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.

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 2021 | 336,472 | 39,886 | 376,358 |
| Provisions | 27,102 | - | 27,102 |
| Write-off | (4,583) | - | (4,583) |
| At 31 December 2021 | 358,991 | 39,886 | 398,877 |
| Provisions | 130,382 | - | 130,382 |
| Write-off | (430) | - | (430) |
| At 31 December 2022 | 488,943 | 39,886 | 528,829 |

For the year ended 31 December 2022, trade receivables written off directly to statement of income amounted to P24.9 million (2021 - P3.6 million and 2020 – P33.9 million) based on the Company's assessment of recoverability.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

| | Trade receivables | | | |
|---|---|---|---|---|
| 31 December 2022 | Current | 31-60 | Greater than 60 | Total |
| Carrying Amount | 17,498,803 | 440,354 | 960,520 | 18,899,677 |
| Expected Credit Loss | 22,237 | 5,261 | 461,445 | 488,943 |
| Expected Credit loss rate | 0.13% | 1.19% | 48.04% | 2.59% |

| | Trade receivables | | | |
|---|---|---|---|---|
| 31 December 2021 | Current | 31-60 | Greater than 60 | Total |
| Carrying Amount | 11,544,122 | 143,616 | 525,414 | 12,213,152 |
| Expected Credit Loss | 24,207 | 656 | 334,128 | 358,991 |
| Expected Credit loss rate | 0.21% | 0.46% | 63.59% | 2.94% |

## 5. Inventories, net

| | 2022 | 2021 |
|---|---|---|
| Petroleum products | 17,759,686 | 15,666,835 |
| Materials and supplies | 180,238 | 186,640 |
| | 17,939,924 | 15,853,475 |

Details of allowance for inventory write-down and obsolescence as at 31 December 2022 and 2021 are as follow:

| | Petroleum products | Materials and supplies | Total |
|---|---|---|---|
| At 01 January 2021 | 68,969 | 106,000 | 174,969 |
| Write-off | (78,829) | (103,000) | (181,829) |
| Provisions, net | 24,719 | - | 24,719 |
| At 31 December 2021 | 14,859 | 3,000 | 17,859 |
| Provisions, net | 48,244 | - | 48,244 |
| As at 31 December 2022 | 63,103 | 3,000 | 66,103 |

The allowance for inventory resulting from the write-down of petroleum products to net realizable value amounted to P58.9 million as at 31 December 2022 (2021 – P8.9 million and 2020 – P51.6 million) and the allowance for obsolescence of finished products amounted to P4.2 million as at 31 December 2022 (2021 – P6.0 million and 2020 – P17.3 million). In 2022, amount of petroleum products written-off amounted to nil as at 31 December 2022 (2021 – P78.8 million and 2020 – P582.3 million).

Of the total amount of inventories, the inventories with a cost of P2.0 billion as at 31 December 2022 (2021 - P254.8 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 P232.5 billion for the year ended 31 December 2022 (2021 - P123.7 billion and 2020 - P113.3 billion) (see Note 19).

## 6. Prepayments and other current assets

| | 2022 | 2021 |
|---|---|---|
| Input VAT net of output VAT (a) | 612,872 | 173,696 |
| Prepaid corporate income taxes (b) | 4,457,170 | 2,435,441 |
| Advance rentals | 659,555 | 309,468 |
| Derivative financial assets (c) | 101,897 | 53,001 |
| Prepaid duties and taxes | 4,489 | 2,239 |
| Others | 48,349 | 23,956 |
| | 5,884,332 | 2,997,801 |

(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 corporate income tax

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

(c) Derivative financial assets

The Company enters into commodity forward contracts to hedge the commodity price risks arising from its petroleum products requirements. As at 31 December 2022, the notional principal amount of the outstanding commodity forward contracts assets amounted to P2.4 billion (2021 – P2.8 billion). As at 31 December 2022, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P101.9 million (2021 – P53.0 million).

During the year, the Company realized a loss of P974.1 million (2021 - gain of P547.6 million and 2020 - loss of P461.9 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 2022, net fair value changes of the outstanding commodity forward contracts amounting to a gain of P88.0 million (2021 - loss of P12.8 million; 2020 - gain of P18.2 million) was recognized in other operating income, net in the statements of income (see Note 21).

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

| | 2022 | 2021 |
|---|---|---|
| Advance rentals | 141,520 | 141,679 |
| Customer grants (b) | 100,308 | 101,587 |
| Investments in associates (c) | 26,160 | 32,466 |
| | 267,988 | 275,732 |
| Long term receivables (a) | 11,222,057 | 7,813,393 |
| Provision for impairment of long-term receivables | (158,545) | (208,604) |
| | 11,063,512 | 7,604,789 |
| | 11,331,500 | 7,880,521 |

(a) Long-term receivables

Long-term receivables include claims from government agencies amounting to P10.9 billion and P7.5 billion as at 31 December 2022 and 2021, respectively, representing the amount to be recovered from the government on various taxes paid. Further included in this P10.9 billion claims from government is P4.6 billion of excise duties and VAT paid under protest for certain Alkylate shipments (see Note 28(b)).

As at 31 December 2022, allowance for impairment amounted to P158.5 million (2021 – P208.6 million).

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

| | 2022 | 2021 |
|---|---|---|
| At 01 January | 208,604 | 269,733 |
| Write-off | (1,000) | (4,280) |
| Reversal | (49,059) | (56,849) |
| At 31 December | 158,545 | 208,604 |

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 31.3).

(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 31.3).

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

(c) Investments in associates

| | 2022 | 2021 |
|---|---|---|
| Carrying amount of investment in associate | 26,161 | 32,466 |

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

| | Interest | Assets | Liabilities | Net Assets | Income | Share of profit |
|---|---|---|---|---|---|---|
| 2022 | | | | | | |
| Bonifacio Gas Corporation | 40% | 185,080 | 137,498 | 47,582 | 152,719 | 61,088 |
| Kamayan Realty Corporation | 40% | 23,922 | 6,100 | 17,822 | 6,412 | 2,565 |
| 2021 | | | | | | |
| Bonifacio Gas Corporation | 44% | 261,208 | 208,914 | 52,294 | 77,067 | 33,632 |
| Kamayan Realty Corporation | 40% | 34,536 | 10,420 | 24,116 | 6,677 | 2,671 |
| 2020 | | | | | | |
| Bonifacio Gas Corporation | 44% | 219,902 | 144,055 | 75,847 | 72,341 | 31,570 |
| Kamayan Realty Corporation | 40% | 26,786 | 6,574 | 20,212 | 5,952 | 2,381 |

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.

In 2021 Fort Bonifacio Development Corporation (FBDC) offered to acquire the 3.65% or 11,108 shares which PSPC agreed to sell. The shares have a par value of Php 100 for each share. The share purchase agreement was subsequently finalized with the receivable amount of P6.0 million. The said receivable was collected in 2022.

Kamayan Realty Corporation is an entity engaged in leasing and selling of real properties in the Philippines.

The Company received dividends in the amount of P111.5 million and P21.8 million in December 31, 2022 and 2021, respectively

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

## 8. Property, plant and equipment

Property, plant and equipment as at 31 December 2022 and 2021 and the movements in the accounts for the year consist of:

| | Notes | Leasehold improvements | Plant, machinery and equipment | Furniture and fixtures | Transportation | Assets under construction (AUC) | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At 01 January 2021 | | 23,984,495 | 36,821,718 | 2,796,642 | 99,165 | 2,895,596 | 66,597,616 |
| Acquisitions | | - | - | - | - | 2,241,748 | 2,241,748 |
| Disposals/write-off | | (356,659) | (6,310,985) | (11,424) | (9,724) | - | (6,688,792) |
| Impairment | 23 | - | - | - | - | (33,626) | (33,626) |
| Transfers | | 1,770,350 | 942,933 | 191 | - | (2,713,474) | - |
| At 31 December 2021 | | 25,398,186 | 31,453,666 | 2,785,409 | 89,441 | 2,390,244 | 62,116,946 |
| Acquisitions | | - | - | - | - | 5,787,272 | 5,787,272 |
| Disposals/write-off | | (243,729) | (31,624) | (11,150) | - | - | (286,503) |
| Impairment | 23 | - | - | - | - | - | - |
| Transfers | | 2,044,334 | 365,426 | 48,288 | 26,508 | (2,484,556) | - |
| At 31 December 2022 | | 27,198,791 | 31,787,468 | 2,822,547 | 115,949 | 5,692,960 | 67,617,715 |
| Accumulated depreciation, amortization, and impairment | | | | | | | |
| At 1 January 2021 | | (11,581,373) | (29,465,692) | (2,319,933) | (95,641) | - | (43,462,639) |
| Depreciation and amortization | 19, 20 | (455,494) | (1,035,067) | (162,311) | (883) | - | (1,653,755) |
| Disposals/write-off | | 278,659 | 6,385,771 | 11,424 | 9,724 | - | 6,685,578 |
| Impairment | 23 | (194,533) | (72,209) | - | - | - | (266,742) |
| At 31 December 2021 | | (11,952,741) | (24,187,197) | (2,470,820) | (86,800) | - | (38,697,558) |
| Depreciation and amortization | 19, 20 | (900,045) | (760,231) | (122,559) | (1,033) | - | (1,783,868) |
| Disposals/write-off | | 114,848 | 8,125 | 3,438 | - | - | 126,411 |
| Impairment | 23 | - | - | - | - | - | - |
| At 31 December 2022 | | (12,737,938) | (24,939,303) | (2,589,941) | (87,833) | - | (40,355,015) |
| Net book values | | | | | | | |
| At 31 December 2021 | | 13,445,445 | 7,266,469 | 314,589 | 2,641 | 2,390,244 | 23,419,388 |
| At 31 December 2022 | | 14,460,853 | 6,848,165 | 232,606 | 28,116 | 5,692,960 | 27,262,700 |

## 8. Property, plant and equipment (continued)

Assets under construction represent cost of ongoing capital projects in mobility, supply chain and marketing business. As at December 31, 2022 and 2021, there are no property, plant and equipment which are restricted or pledged as security for liabilities or contractual commitment to acquire in the future.

## 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 28 years, while others generally have a lease term between 1 and 7 years. There are several lease contracts that include extension and termination options, which are further discussed below.

There are no leases with lease terms of less than 12 months and low value assets for the year 2022.

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 2021 | 12,152,347 | 1,862,053 | 493,095 | 14,507,495 |
| Additions | 6,100,881 | 253,600 | 832,727 | 7,187,208 |
| Derecognition | (1,002,954) | - | (329) | (1,003,283) |
| Depreciation | (1,769,847) | (539,863) | (79,643) | (2,389,353) |
| Remeasurement | (318,934) | (18,644) | - | (337,578) |
| At 31 December 2021 | 15,161,493 | 1,557,146 | 1,245,850 | 17,964,489 |
| Additions | 6,446,478 | - | - | 6,446,478 |
| Derecognition | (1,484,387) | - | - | (1,484,387) |
| Depreciation | (2,058,047) | (478,972) | (97,693) | (2,634,712) |
| Remeasurement | (31,440) | 82,806 | (229,962) | (178,596) |
| At 31 December 2022 | 18,034,097 | 1,160,980 | 918,195 | 20,113,272 |

Asset Retirement Obligation is purely from Land & Buildings. Others represent leases on vessels, pipelines and other assets.

## 9. Leases (continued)

b) Lease liabilities

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

| | Notes | 2022 | 2021 |
|---|---|---|---|
| At 1 January 2022 | | 17,614,805 | 14,477,352 |
| Additions | | 5,685,318 | 6,333,202 |
| Accretion of Interest | | 1,112,231 | 1,007,575 |
| Payments | | (2,964,273) | (2,919,824) |
| Derecognition | | (1,304,438) | (1,352,408) |
| Remeasurement | | 51,230 | 68,908 |
| | | 20,194,873 | 17,614,805 |

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Current Portion | 12 | 2,068,541 | 1,685,598 |
| Non-Current portion | | 18,126,332 | 15,929,207 |
| | | 20,194,873 | 17,614,805 |

The statements of total comprehensive income show the following amounts relating to leases:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Depreciation expense of right to use assets | 20 | (2,634,712) | (2,389,353) |
| Interest expense on lease liabilities | 22 | (1,112,231) | (1,007,575) |
| Total expenses recognized in profit or loss | | (3,746,943) | (3,396,928) |

The Company's total cash outflows on leases amounts to P3.0 billion (2021 – P2.9 billion). The Company also has non-cash additions to right to use assets and lease liabilities. The Company has a lease contract for storage facility services that has not yet commenced as at 31 December 2022. The future lease payments for this non-cancellable lease contract will amount to P3.6 billion to be paid beginning 2024 until 2038.

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 does not have significant judgement in determining whether these extension and termination options are reasonably certain to be exercised since extension and termination options shall be mutually agreed by both parties.

## 10. Provision for income tax; deferred income 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 2022 and 2021 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Deferred income tax assets (liabilities) | | |
| Impairment of property, plant and equipment | 1,297,376 | 1,295,618 |
| PFRS 16 Lease Liability accrual | 1,142,287 | 843,451 |
| Retirement benefit asset | (1,115,657) | (1,106,235) |
| Asset retirement obligation | 1,012,556 | 992,602 |
| MCIT – Recognition | 738,784 | 425,390 |
| Prepaid duties and taxes | (558,542) | (633,363) |
| Provision for doubtful debts | 168,202 | 148,229 |
| Provision for inventory losses | 151,990 | 190,085 |
| Other provisions | 151,541 | 347,766 |
| Unrealized foreign exchange gain | (61,314) | (32,067) |
| Share-based compensation | 57,536 | 35,813 |
| NOLCO | 42,834 | 1,493,012 |
| Unamortized past service cost, net | 37,228 | 64,810 |
| Mark to market gain | (23,784) | (1,775) |
| Provision for remediation costs | (3,524) | 67,316 |
| Net deferred income tax | 3,037,513 | 4,130,652 |

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

| | 2022 | 2021 |
|---|---|---|
| At 01 January | 4,130,652 | 6,102,753 |
| Credited/(charged) to profit and loss | (1,361,539) | (2,938,392) |
| Credited to other comprehensive income | (44,993) | 701,094 |
| MCIT Credited/(charged) to profit and loss | 313,393 | 265,197 |
| At 31 December | 3,037,513 | 4,130,652 |

## 10. Provision for income tax; deferred income 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 2022 and 2021 are fully realizable.

As at 31 December 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

NOLCO balances as at 31 December 2022

As at 31 December 2020, the Company has incurred NOLCO which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2020 | 2021-2025 | 5,899,148 | - | - | 5,800,711 | 98,437 |
| 2021 | 2022-2026 | 72,899 | - | - | - | 72,899 |

MCIT balances as at 31 December 2022

| Year Incurred | Availment Period | Amount | MCIT Applied Previous Years | MCIT Expired | MCIT Applied Current Year | MCIT Unapplied |
|---|---|---|---|---|---|---|
| 2020 | 2021-2023 | 160,193 | - | - | - | 160,193 |
| 2021 | 2022-2024 | 265,197 | - | - | - | 265,197 |
| 2022 | 2023-2025 | 313,393 | - | - | - | 313,393 |

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

The details of provision for income tax for the year ended 31 December 2022, 2021, and 2020 are as follows:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Current tax | 342,383 | 237,037 | 231,605 |
| Deferred tax | 1,048,145 | 2,673,195 | (7,077,134) |
| | 1,390,528 | 2,910,232 | (6,845,529) |

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:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Income tax (benefit from income tax) at statutory rate | 1,366,568 | 1,691,486 | (6,908,461) |
| Income tax effect of: | | | |
| Non-deductible expense | 30,691 | 29,459 | 72,832 |
| Limitation on deductible interest expense | 118 | 126 | 522 |
| Interest income subject to final tax | (592) | (628) | (1,583) |
| Income subjected to 8% final tax | (8,950) | (11,693) | (2,703) |
| Non-taxable income | (26,297) | (4,351) | (24,150) |
| Effects of change in income tax rates due to CREATE | | | |
| Current tax | - | (53,394) | - |
| Deferred tax | - | 1,233,993 | - |
| Provision for (benefit from) income tax before final taxes | 1,361,538 | 2,884,998 | (6,863,543) |
| Final taxes on interest and other charges | 28,990 | 25,234 | 18,014 |
| Provision for (benefit from) income tax | 1,390,528 | 2,910,232 | (6,845,529) |

The “CREATE” Act was signed into law on 26 March 2021. This effectively amended applicable regular corporate income tax (RCIT) rates of PSPC from 30% to 25%, and minimum corporate income tax (MCIT) rates from 2% to 1% effective 01 July 2020.

## 11. Other assets, net

| | Note | 2022 | 2021 |
|---|---|---|---|
| Pension asset | 25 | 4,553,157 | 4,515,467 |
| Equity through OCI (a) | | 816,858 | 632,618 |
| Deferred input VAT (b) | | 86,960 | 129,275 |
| Intangible assets (c) | | 1,194 | 1,194 |
| | | 5,458,169 | 5,278,554 |

(a) Equity through OCI

Equity through Other Comprehensive Income (Equity through OCI) financial assets represent proprietary club shares and equity securities which are carried at fair value in 2022 (see Note 31.3). Details of the account as at 31 December 2022 and 2021 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Cost | | |
| As at 01 January | 26,800 | 26,800 |
| As at 31 December | 26,800 | 26,800 |
| Fair value adjustments recognized directly in OCI | | |
| Balance at the beginning | 605,818 | 554,158 |
| Changes during the year | 184,240 | 51,660 |
| | 790,058 | 605,818 |
| Balance at the end | 816,858 | 632,618 |

The Company does not intend to sell equity instruments within 12 months from 31 December 2022 and 2021.

(b) Deferred input VAT

Deferred input VAT is estimated to be recovered more than 12 months from the reporting date. Hence, it is presented as a non-current asset as at 31 December 2022 and 2021.

## 11. Other assets, net (continued)

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

| | Note | 2022 | 2021 |
|---|---|---|---|
| Cost | | | |
| At 01 January | | 1,007,623 | 1,007,623 |
| Additions | | - | - |
| At 31 December | | 1,007,623 | 1,007,623 |
| Accumulated amortization | | | |
| At 01 January | | (1,006,429) | (1,006,262) |
| Amortization for the year | 19, 20 | - | (167) |
| At 31 December | | (1,006,429) | (1,006,429) |
| Net book value | | 1,194 | 1,194 |

## 12. Trade and other payables

| | Note | 2022 | 2021 |
|---|---|---|---|
| Trade payables | | | |
| Third parties | | 10,148,439 | 7,900,755 |
| Related parties | 24 | 14,033,005 | 10,100,256 |
| | | 24,181,444 | 18,001,011 |
| Non-trade payables from related parties | 24 | 239,045 | 124,710 |
| Lease liabilities | 9 | 2,068,541 | 1,685,598 |
| Project-related costs and advances | | 1,885,819 | 847,808 |
| Provision for ARO and remediation (a) | | 1,535,046 | 1,014,534 |
| Rent and utilities | | 555,617 | 173,820 |
| Advertising and promotions | | 498,032 | 526,085 |
| Employee benefits | | 435,901 | 391,611 |
| Duties and taxes | | 228,559 | 239,340 |
| Supply and distribution | | 4,228 | 16,181 |
| Derivatives (b) | | 6,759 | 45,902 |
| Others (c) | | 1,287,057 | 1,400,873 |
| | | 32,926,048 | 24,467,473 |

(a) Movements in the provision for ARO and remediation are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| At 01 January | | 1,014,533 | 815,653 |
| Transferred from long-term | 15(a) | 310,441 | - |
| Decommissions | | (583,920) | (521,796) |
| Remeasurements | | 793,992 | 720,677 |
| At 31 December | | 1,535,046 | 1,014,534 |

## 12. Trade and other payables (continued)

(b) As at 31 December 2022, the notional principal amount of the outstanding commodity forward contract liabilities amounted to P0.8 billion (2021 – P1.8 billion). As at the same date, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P6.8 million (2021 – P45.9 million).

(c) Others include provision related to accrual of interest on short term borrowings, IT related cost and various other accruals.

## 13. Short-term loans

As at 31 December 2022, unsecured short-term loan amounted to P17,827.0 million with tenure ranging from 5 to 60 days. The loans are intended solely for working capital requirements and corporate expenses.

As at 31 December 2021, unsecured short-term loan amounted to P8,220.0 million with tenure ranging from 182 to 360 days. The loans are intended solely for working capital requirements and corporate expenses.

The average interest rate on local borrowings for the year 31 December 2022 was 4.51% (2021 - 2.25% and 2020 - 3.68%). Total interest expense charged to operations for the year ended 31 December 2022 arising from short-term loans amounted to P528.4 million (2021 – P335.7 million and 2020 - P636.6 million) (see Note 22).

## 14. Long-term debt

Details of the loan agreements with Bank of the Philippine Islands (BPI) as at 31 December 2022 and 2021 are as follows:

| 2022 | 2021 | Interest | Terms |
|---|---|---|---|
| 9,000,000 | 9,000,000 | 2.88% as at 31 December 2022 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 08 March 2023. Interest is re-priced every three (3) months (Note 34). |
| 6,000,000 | 6,000,000 | 3.32% as at 31 December 2022 effective until next re-pricing | Payable after sixty (60) months reckoned from the drawdown date on 20 December 2021. Principal is payable in lump sum at maturity date 21 December 2026. Interest is repriced every three (3) months. |
| 15,000,000 | 15,000,000 | | |

## 14. Long-term debt (continued)

Total interest expense charged to operations for the year ended 31 December 2022 arising from these loans amounted to P325.4 million (2021 - P152.4 million and 2020 - P251.9 million) (see Note 22).

There are no borrowings related to acquisition, construction, or production of a qualifying asset in 2022 and 2021. The borrowings are intended solely for working capital requirements.

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 unsubordinated creditors except those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.
- The Company shall not create 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.
- 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 31.1.c for the maturity analysis of these loans.

## 15. Provisions and other liabilities

| | 2022 | 2021 |
|---|---|---|
| Asset retirement obligation (ARO) (a) | 3,288,274 | 4,339,999 |
| Cash security deposits | 179,355 | 193,678 |
| Provision for legal cases (b) | 274,510 | 274,510 |
| Provision for remediation (c) | 63,073 | 65,345 |
| Other liabilities (d) | 404,673 | 470,695 |
| | 4,209,885 | 5,344,227 |

### 15. Provisions and other liabilities (continued)

(a) Asset retirement obligation

Movements in the provision for asset retirement obligation as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| At 01 January | | 4,339,999 | 3,674,244 |
| Additions | | - | 360,520 |
| Accretions | 22 | 101,596 | 55,463 |
| Remeasurements | | (842,880) | 249,772 |
| Transferred to short term | 12(a) | (310,441) | - |
| At 31 December | | 3,288,274 | 4,339,999 |

Asset retirement obligation includes provision for decommissioning and demolition of Tabangao oil refinery assets amounting to P722.3 million (2021 - P1,412.6 million). Current portion of provision for decommissioning and demolition amounting to P1,216.3 million (2021 – P849.9 million) is recognized under trade and other payables.

The Company makes full provision for the future cost of decommissioning and demolition of oil refinery assets. The decommissioning provision represents the present value of decommissioning and demolition costs relating to refinery, which are expected to be incurred during the period up to 2025. Assumptions are based on the current economic environment and form a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend on future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. The discount rate used in the calculation of the provision as at 31 December 2022 was 6.25% (2021: 3.77%).

Other asset retirement obligation represents the future estimated dismantling costs of various assets used in mobility, depot and commercial operations. Average remaining life of the related assets is 7 years as at 31 December 2022 (2021 - 7 years). These are stated at present value at 31 December 2022 using a range of discount rates from 6.25% to 7.22% (2021 - 2.64% to 3.29%).

## 15. Provisions and other liabilities (continued)

(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 in 2020. Movements in the provision for legal case as follows:

| | 2022 | 2021 |
|---|---|---|
| At 01 January | 274,510 | 274,510 |
| Provisions | - | - |
| At 31 December | 274,510 | 274,510 |

(c) Provision for remediation

Provision for remediation amounted to P63.1 million as at 31 December 2022 (2021 - P65.3 million). Provision for environmental liabilities is 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 2022 at 6.25% to 7.22% (2021 - 2.64% to 3.29%). As at 31 December 2022, there is minimal transfers to short-term amounting to P2.3 million and no further changes in additions and reversals. The amount recognized as accretion cost or income in the statement of income as at December 31, 2022 amounted to nil (2021 - nil).

(d) Other liabilities

Other liabilities also include provisions for payments to be made to customers, employees and business partners have also been considered and onerous provision which were fully settled during 2022.

## 16. Share capital; Treasury shares

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

| | 2022 | | 2021 | | 2020 | |
|---|---|---|---|---|---|---|
| | 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 2022, the Company has 319 shareholders excluding treasury shares (2021 - 323), 282 of whom, hold at least 100 shares of the Company's common shares (2021 - 286).

### 17. Retained earnings (accumulated loss)

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Unappropriated retained earnings (loss), unadjusted | 3,788,190 | 1,325,887 | (6,775,854) |
| PFRS 16 Deferred tax | - | - | (58,031) |
| Unappropriated retained earnings (loss), adjusted | 3,788,190 | 1,325,887 | (6,833,885) |

On 06 October 2021, the Company applied with Securities of Exchange Commission (SEC) an equity restructuring to offset the 2020 deficit amounting to P4,304.1 million against its share premium. On 10 November 2021, the Company received the certificate of approval of the equity restructuring dated 05 November 2021. The Company's share premium after the equity restructuring amounted to P21,857.7 million in 2021.

At the Regular Meeting of the Board held on 10 August 2022, the Board approved the distribution of cash dividends to stockholders on record as of 25 August 2022 amounting to P1.6 billion pertaining to the audited 2021 Net Income after Tax, out of the unrestricted retained earnings available for dividend as of 30 June 2022.

Cash dividend declared and paid in 2022:

| Declared | Date Paid | Per share | 2022 |
|---|---|---|---|
| 10 August 2022 | 19 September 2022 | 1.00 | 1,613,444 |

As at 31 December 2022, cost of treasury shares, accumulated earnings of its associates, unrealized mark to market gains and remeasurement gain on retirement benefits and recognized deferred tax assets are not considered for dividend declaration as per SEC Rule 68, as amended and SEC Memorandum Circular No. 11.

### 18. Earnings (loss) per Share

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

| | Notes | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| Earnings available to stockholders: | | | | |
| Profit (Loss) for the year | | 4,075,747 | 3,855,713 | (16,182,673) |
| 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 (loss) per share, basic and diluted | | 2.53 | 2.39 | (10.03) |

As at 31 December 2022, 2021 and 2020, the Company does not have any potentially dilutive shares of stocks.

## 19. Cost of Sales

| | Note | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| Petroleum Product Costs | 5 | 232,525,595 | 123,735,249 | 113,288,033 |
| Duties and specific tax | | 30,917,175 | 28,837,719 | 31,130,557 |
| Depreciation and amortization | 8, 11 | - | 31,251 | 440,411 |
| Logistics and transshipment | | 1,357,837 | 931,898 | 1,119,965 |
| Freight and wharfage | | 1,319,160 | 845,221 | 683,981 |
| Salaries and other employee benefits | | - | 31,354 | 671,990 |
| Manufacturing expenses | | - | - | 5,956,264 |
| | | 266,119,767 | 154,412,692 | 153,291,201 |

The more significant components of manufacturing expenses consist of repairs made to manufacturing units, professional services, onerous provisions 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 | | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | 2022 | 2021 | 2020 |
| Outside services | 2,878,235 | 2,779,851 | 2,601,071 | 865,003 | 709,879 | 608,128 |
| Depreciation on right to use assets (Note 9) | 2,562,250 | 2,299,726 | 2,207,791 | 72,462 | 89,627 | 105,176 |
| Logistics, storage and handling | 2,233,812 | 1,865,480 | 1,732,820 | - | - | - |
| Compensation and employee benefits | 1,812,552 | 1,616,680 | 1,210,312 | 634,871 | 456,701 | 707,998 |
| Depreciation and amortization (Notes 8 and 11) | 1,658,050 | 1,498,445 | 1,365,367 | 125,818 | 124,226 | 122,496 |
| Repairs and maintenance | 994,467 | 1,669,859 | 602,242 | - | 10,759 | - |
| Advertising and promotions | 779,334 | 756,031 | 545,223 | 70,144 | 148,200 | 144,619 |
| Communication and utilities | 389,069 | 144,154 | 115,666 | 370,561 | 267,792 | 361,947 |
| Travel and transportation | 129,092 | 34,349 | 20,557 | 33,264 | 3,967 | 15,256 |
| Write-off/Impairment (reversal) of receivables | 99,737 | (34,560) | 108,266 | - | (439) | 949 |
| Rentals | 94,483 | 27,445 | 134,291 | 29,126 | 23,363 | 25,859 |
| Insurance | 15,410 | 13,045 | 4,071 | 18,998 | 15,947 | 63,214 |
| Miscellaneous | 551,997 | 442,275 | 558,348 | 260,859 | 384,936 | 361,111 |
| | 14,198,488 | 13,112,780 | 11,206,025 | 2,481,106 | 2,234,958 | 2,516,753 |

### 21. Other operating (income)/expense

| | Note | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| Realized trading loss (gain), net | 6 | 974,069 | (547,575) | 461,916 |
| Retailer fee, rental income and franchise commission | | (851,675) | (672,319) | (493,935) |
| Royalties | | (222,425) | (143,806) | (119,136) |
| Remeasurement of asset retirement obligation | | 197,131 | 240,252 | 914 |
| Share in profits from associates | | (105,190) | (16,374) | (80,485) |
| Unrealized mark-to-market (gain) loss, net | 6 | (88,039) | 12,846 | (18,209) |
| Commissions | | 79,944 | 53,296 | 20,631 |
| Loss (gain) on disposal of property and equipment | | 30,603 | (41,588) | 55,619 |
| Write-off of assets | | 262 | 8,468 | 769 |
| Provision for legal cases | | - | - | 1,267 |
| Others, net | | (11,615) | (807,987) | (7,124) |
| | | 3,065 | (1,914,787) | (177,773) |

Others include aviation concession fees and non-oil income.

### 22. Finance income/(expense)

| | Note | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| Finance Income | | | | |
| Unrealized foreign exchange gain, net | | 116,989 | - | 46,203 |
| Realized foreign exchange gain, net | | - | - | 228,164 |
| Interest income | | 526 | 3,066 | 5,710 |
| | | 117,515 | 3,066 | 280,077 |
| | | | | |
| Finance expense | | | | |
| Interest expense on lease liability | 9 | (1,112,231) | (1,007,575) | (1,339,438) |
| Interest on debts and borrowings | 13,14 | (853,816) | (488,054) | (888,448) |
| Accretion expenses | 15 | (101,596) | (55,463) | (63,342) |
| Unrealized foreign exchange loss, net | | - | (308,468) | - |
| Realized foreign exchange loss, net | | (1,263,400) | (368,110) | - |
| Bank charges | | (400) | (20,302) | (8,215) |
| | | (3,331,443) | (2,247,972) | (2,299,443) |

Realized foreign exchange loss, net consist of settlements to its related parties such as SIETCO, SIPC, SBI and other related parties which was mainly transacted in USD.

## 23. Impairment Losses

| | Notes | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| Property plant and equipment - oil refinery assets | 8, 11 | - | 300,368 | 8,848,885 |
| Right to use assets - ARO | 9 | - | - | 2,275,588 |

In 2020, there was a steep decline in crude oil prices as a consequence of COVID-19 and other factors impacting global supply and demand. Impairment of refinery assets was triggered by the depressed regional refining margin environment and the overall outlook on supply and demand in the region. Pursuant to which the management decided to convert its oil refinery into a world-class import terminal to optimize its asset portfolio and enhance its cost and supply chain competitiveness. This move will further strengthen the Company's financial resilience amidst the significant changes and challenges in the global refining industry. In 2021, as a result of the conversion of the refinery into the Shell Import Facility Tabangao (SHIFT), the company recognized additional impairment to certain assets that are not transferrable to SHIFT.

In assessing whether an impairment is required, the carrying value of the oil refinery assets is compared with its recoverable amount. The recoverable amount is the assets fair value less costs of disposal (FVLCD).

The key assumption in determining the FVLCD is the market recoverable value of the assets. The management has identified the fair value of the assets based on current market estimates amounting to nil in 2022 and 2021.

The fair value is the price that would be received on sale of the asset in an orderly transaction between market participants at the measurement date. The fair value is categorized under Level 2 of the fair value hierarchy.

## 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 2022 are presented in the table below.

## 24. Related party disclosures (continued)

### (a) Entities under common shareholdings

| | Note | Transactions | Receivables (Payables) | Terms and conditions |
|---|---|---|---|---|
| Purchases of goods and services (i, vii, viii) | 12 | 160,126,060 | (14,265,423) | 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. |
| Leases (iii) | | 304,063 | - | 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. |
| Sales | 4 | 351,714 | 234,717 | 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) | | 963,921 | - | Payable balances are to be settled in cash within 30days from month end. |
| Admin billings (v) | | | | |
| Charges to the Company (ii) | 12 | 928,761 | (6,627) | 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 (ii) | 4 | 184,834 | 36,005 | |
| Contributions to the plan | 25 | 16,182 | - | Contributions to the plan and investing transactions of the plan are approved by the Retirement Plan Board of Trustees. |

### b) Parent company

| | Transactions | Payable | Terms |
|---|---|---|---|
| Dividends declared | 890,860 | - | Dividends are usually paid in cash within 12 months from reporting date. |

### (c) Key management personnel

| Category/ Transaction | Transactions | Balances | Terms |
|---|---|---|---|
| Current | | | |
| Salaries and other short-term employee benefits | 93,467 | - | The terms and arrangements of these non-current employee benefits are summarized in the related notes. |
| Non-Current | | | |
| Post-employment benefits | 1,215 | - | |
| Share-based compensation | 10,443 | - | |

## 24. Related party disclosures (continued)

(d) Entities with common director

The Company has a long-term loan from Bank of Philippines (BPI) amounting to P6.0 billion as at 31 December 2022. The loan was drawn in 2021 in which a director of the Bank holds office as a director of the Company and resigned from its position as director in BPI last September 2022.

The transactions and outstanding balances of the Company with related parties for the comparative figures as at and for the years ended 31 December 2021 and 2020 are presented in the table below. The terms and arrangements presented for 2022 also apply to the transactions and balances for 2021 and 2020.

(a) Entities under common shareholdings

| | Note | 2021 | | 2020 | |
|---|---|---|---|---|---|
| | | Transactions | Receivables (Payables) | Transactions | Receivables (payables) |
| Purchases of goods and services | 12 | 88,111,868 | (10,224,547) | 66,262,630 | (6,737,260) |
| Leases | 4, 12 | 329,416 | - | 328,547 | (3,181) |
| Sales | 4 | 321,274 | 117,327 | 9,897,396 | 911,107 |
| Royalty fee (iv) | | 1,054,956 | - | 1,210,088 | - |
| Admin billings (v) | | | | | |
| Charges to the Company | 12 | 2,201,733 | (419) | 1,582,304 | (203,773) |
| Charges by the Company | 4 | 385,447 | 60,804 | 482,911 | 79,910 |
| Contributions to the plan | | 58,696 | - | 132,691 | - |

(b) Parent company

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Transactions | Payable | Transactions | Payable |
| Dividends declared | - | - | - | - |

(c) Key management personnel

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Transactions | Balances | Transactions | Balances |
| Current | | | | |
| Salaries and other short-term employee benefits | 69,121 | - | 90,064 | - |
| Non-Current | | | | |
| Post-employment benefits | 2,343 | - | 6,104 | - |
| Share-based compensation | 6,629 | - | 28,396 | - |

i. The Company purchases petroleum products from Shell International Eastern Trading Co. (SIETCO), an entity under common shareholdings. The Company’s purchases during the year pertains to petroleum products as the Company transitioned to full importation, while in 2020, purchases pertain to crude and other oil products. Cost of gross purchases for ended 31 December 2022 amounted to P153.4 billion (2021 - P83.5 billion and 2020 - P63.5 billion). As at 31 December 2022, balances payable to SIETCO amounted to P13.4 billion (2021 - P8.8 billion and 2020 - P6.2 billion).

## 24. Related party disclosures (continued)

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 P0.4 billion during the year ended 31 December 2022 (2021 – P1.0 billion and 2020 P1.1 billion). As at 31 December 2022, balances payable to SIPC amounted to P23.5 million (2021 - P46.7 million, 2020 - P16.4 million).

iii. The Company leases land from Tabangao Realty, Inc. (TRI), for several depots and mobility sites located around the country. Lease term ranges from 3 to 50 years and is renewable, thereafter. Rent payments amounted to P304.1 million for the year ended 31 December 2022 (2021 - P329.4 million and 2020 - P328.5 million). As at 31 December 2022, outstanding payable amounted to nil (outstanding payable of 2021 - payable P7.2 million and outstanding payable of 2020 - P3.2 million).

iv. On 01 January 2020, the Company and Shell Brands International AG (SBI), an entity under common shareholdings, entered into Trademarks 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 trademark and other manifestation. In consideration, the Company shall pay a royalty fee, which shall be computed as certain percentage of business contribution of each class of business. Royalty rate varies from 0.82% to 8.29% depending on class of business, subject to a minimum royalty amount. 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.

vi. The Company has five common members between its Board of Directors and Board of Trustees of Pilipinas Shell Foundation Inc. The Company has contributed towards donations and program recovery expenses amounting to P20.4 million (2021 - P155.1 million). The outstanding payable balances as at 31 December 2022 is nil (2021 is P47.0 million).

vii. The Company purchases lubricants products from The Shell Company of Thailand Limited, an entity under common shareholdings. Cost of gross purchases for ended 31 December 2022 amounted to P2.2 billion (2021 - P1.5 billion and 2020 - P0.4billion). As at 31 December 2022, balances payable to The Shell Company of Thailand Limited amounted to P154.1 million (2021 - P96.0 million and 2020 - P27.5 million).

viii. The Company have transactions related to aviation fuel settlements from The Shell Aviation Limited, an entity under common shareholdings. Cost of gross purchases for ended 31 December 2022 amounted to P2.0 billion (2021 - P0.7 billion and 2020 - P0.2billion). As at 31 December 2022, balances payable to The Shell Aviation Limited amounted to P380.2 million (2021 - P143.2 million and 2020 - P0.8 million).

## 25. Employee benefits

Retirement plan

The Company has one retirement plan, namely, Shell Companies in the Philippines Multi-Employer Retirement Plan (Defined Benefit and Defined Contribution sections) 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 Bureau of Internal Revenue (BIR) on 2 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 1 September 2015.

As of 31 December 2022 and 2021, the number of employees entitled to the defined contribution plan were 159 and 139, respectively.

The Company is in compliance with the minimum mandated retirement benefit by the Republic Act (R.A.) 7641.

Under the defined contribution plan, the employer makes a contribution to the fund of 10% of the employees' monthly salary, subject to compliance with Republic Act (R.A.) 7641.

Based on the latest actuarial valuation report prepared by the independent actuary for the year ended 31 December 2022 and 2021, the principal assumptions were:

| | 2022 | 2021 |
|---|---|---|
| Discount rate | 7.1% | 5.1% |
| Future salary increases | Age 20-30: 13%<br>Age 31-40: 10%<br>Age 41-50: 7%<br>Age >50: 4% | Age 20-30: 16%<br>Age 31-40: 10%<br>Age 41-50: 8%<br>Age >50: 5% |

The Board of Trustees has set an investment strategy and approved a strategic asset allocation with the aim to generate sufficient returns so that the fund maintains a low reliance on contributions from the Company. The Board of Trustees monitor the performance of the scheme investments on a regular basis.

## 25. Employee benefits (continued)

There are 2 committees (Investment Committee, Risk & Audit Committee) set up to support the Board of Trustees and oversee the investment & risk/audit issues relating to the pension plan.

The details of the pension expense and pension asset (obligation) for the year ended 31 December 2022 and 2021 are as follow:

| | 2022 Defined Benefit | 2022 Defined Contribution | 2022 Total | 2021 Defined Benefit | 2021 Defined Contribution | 2021 Total |
|---|---|---|---|---|---|---|
| Pension expense | 31,584 | 16,337 | 47,921 | 25,983 | 11,655 | 37,638 |
| Pension asset (obligation) | 4,556,386 | (3,229) | 4,553,157 | 4,518,739 | (3,272) | 4,515,467 |

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

| | 2022 Defined Benefit | 2022 Defined Contribution | 2022 Total | 2021 Defined Benefit | 2021 Defined Contribution | 2021 Total |
|---|---|---|---|---|---|---|
| Present value of defined benefit obligation | (2,836,443) | (66,709) | (2,903,152) | (3,977,498) | (59,458) | (4,036,956) |
| Fair value of plan assets | 7,392,829 | 63,480 | 7,456,309 | 8,496,237 | 56,186 | 8,552,423 |
| Pension asset (obligation) | 4,556,386 | (3,229) | 4,553,157 | 4,518,739 | (3,272) | 4,515,467 |

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

| | 2022 Defined Benefit | 2022 Defined Contribution | 2022 Total | 2021 Defined Benefit | 2021 Defined Contribution | 2021 Total |
|---|---|---|---|---|---|---|
| 01 January | 4,518,739 | (3,272) | 4,515,467 | 6,590,133 | (5,838) | 6,584,295 |
| Pension expense | (31,584) | (16,337) | (47,921) | (25,983) | (11,655) | (37,638) |
| Actual contributions | - | 16,182 | 16,182 | 47,259 | 11,437 | 58,696 |
| Remeasurement gains (losses) | 69,231 | 198 | 69,429 | (2,092,670) | 2,784 | (2,089,886) |
| Balance at the period | 4,556,386 | (3,229) | 4,553,157 | 4,518,739 | (3,272) | 4,515,467 |

## 25. Employee benefits (continued)

Pension expense recognized in the statements of income for year ended 31 December 2022 and 2021 is as follows.

| | 2022 Defined Benefit | 2022 Defined Contribution | 2022 Total | 2021 Defined Benefit | 2021 Defined Contribution | 2021 Total |
|---|---|---|---|---|---|---|
| Current service cost | 255,616 | 16,182 | 271,798 | 271,788 | 11,439 | 283,227 |
| Net interest income | (224,032) | 155 | (223,877) | (245,805) | 216 | (245,589) |
| | 31,584 | 16,337 | 47,921 | 25,983 | 11,655 | 37,638 |

Changes in the present value of the defined benefit obligation are as follows.

| | 2022 Defined Benefit | 2022 Defined Contribution | 2022 Total | 2021 Defined Benefit | 2021 Defined Contribution | 2021 Total |
|---|---|---|---|---|---|---|
| 01 January | 3,977,498 | 59,458 | 4,036,956 | 4,292,508 | 46,370 | 4,338,878 |
| Current service cost | 255,616 | 16,182 | 271,798 | 271,788 | 11,439 | 283,227 |
| Interest cost | 192,963 | 3,409 | 196,372 | 157,141 | 2,002 | 159,143 |
| Benefits paid | (387,778) | - | (387,778) | (860,598) | (1,120) | (861,718) |
| Transfer of employees from/to entities under common control | - | - | - | 543,038 | (206) | 542,832 |
| Remeasurement (gains) losses from: | | | | | | |
| Changes in economic assumptions | (1,209,596) | (1,566) | (1,211,162) | (179,512) | (2,005) | (181,517) |
| Experience adjustments | 7,740 | (10,774) | (3,034) | (246,867) | 2,978 | (243,889) |
| Balance at the period | 2,836,443 | 66,709 | 2,903,152 | 3,977,498 | 59,458 | 4,036,956 |

Changes in the fair value of the plan assets are as follows.

| | 2022 Defined Benefit | 2022 Defined Contribution | 2022 Total | 2021 Defined Benefit | 2021 Defined Contribution | 2021 Total |
|---|---|---|---|---|---|---|
| 01 January | 8,496,237 | 56,186 | 8,552,423 | 10,882,641 | 40,535 | 10,923,176 |
| Interest income | 416,994 | 3,254 | 420,248 | 402,946 | 1,786 | 404,732 |
| Contributions | - | 16,182 | 16,182 | 47,259 | 11,437 | 58,696 |
| Benefits paid | (387,778) | - | (387,778) | (860,598) | (1,120) | (861,718) |
| Transfer of employees from/to entities under common control | - | - | - | 543,038 | (207) | 542,831 |
| Return on plan assets | (1,132,624) | (12,142) | (1,144,766) | (2,519,049) | 3,755 | (2,515,294) |
| Balance at the period | 7,392,829 | 63,480 | 7,456,309 | 8,496,237 | 56,186 | 8,552,423 |

## 25. Employee benefits (continued)

The carrying value of the plan assets as at the year ended 31 December 2022 and 2021 are equivalent to the fair values presented above and are comprised mainly of investments in equity securities, which account for 62% of total plan assets in 2022 (2021: 60%). Plan assets are comprised of:

| | 2022 Defined Benefit | 2022 Defined Contribution | 2022 Total | 2021 Defined Benefit | 2021 Defined Contribution | 2021 Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalent | 75,407 | 647 | 76,054 | 467,293 | 3,090 | 470,383 |
| Investments in debt securities: | | | | | | |
| Government bonds and securities | 2,697,643 | 23,164 | 2,720,807 | 2,927,803 | 19,362 | 2,947,165 |
| Corporate bonds | - | - | - | 22,090 | 146 | 22,236 |
| Unquoted equity instruments | 19,961 | 171 | 20,132 | 18,692 | 124 | 18,816 |
| Unit investment trust funds | 4,599,818 | 39,498 | 4,639,316 | 5,060,359 | 33,464 | 5,093,823 |
| Balance at the period | 7,392,829 | 63,480 | 7,456,309 | 8,496,237 | 56,186 | 8,552,423 |

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. However, 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.

## 25. Employee benefits (continued)

Expected contribution to the plan in 2023 is nil for defined benefit plan and P19.5 million for defined contribution plan.

Maturity profile of Defined Benefit Obligation on Defined Benefit Plan and Defined Contribution Plan for the years ended 31 December 2022 and 2021 is as follows:

| | 2022 Defined Benefit | 2022 Defined Contribution | 2022 Total | 2021 Defined Benefit | 2021 Defined Contribution | 2021 Total |
|---|---|---|---|---|---|---|
| Following year | 102,949 | 1,366 | 104,315 | 78,956 | 438 | 79,394 |
| Between 2 to 3 years | 342,166 | 5,315 | 347,481 | 372,446 | 2,472 | 374,918 |
| Between 3 to 5 years | 337,340 | 7,992 | 345,332 | 355,352 | 5,532 | 360,884 |
| Over 5 years | 1,562,087 | 41,820 | 1,603,907 | 1,599,603 | 26,844 | 1,626,447 |

The weighted average duration of the defined benefit obligation on defined benefit plan and defined contribution plan are 11.58 years and 16.09 years, respectively (2021: 11.08 years and 18.32 years)

Share-based compensation:

Shell plc operates a Performance Share Plan (PSP) covering all of its subsidiaries' employees who are not members of the Executive Committee. PSP for conditional shares is 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 Shell plc 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:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Shares | Weighted average fair value (in U.S. Dollar) | Shares | Weighted average fair value (in U.S. Dollar) |
| Shares granted as at 01 January | 211,882 | 24.00 | 192,345 | 23.17 |
| Grants during the year | 85,680 | 23.11 | 93,870 | 21.00 |
| Shares delivered during the year | (60,290) | 43.46 | (62,050) | 27.82 |
| Cancelled/forfeited during the year | (8,594) | - | (12,283) | - |
| Shares granted as at 31 December | 228,678 | 30.19 | 211,882 | 24.00 |

The total share-based compensation recognized in the statements of income during the year amounted to P195.0 million (2021 – P85.4 million).

## 26. Lease, commitments and other arrangements

The Company's future minimum rental and other commitments related to leases as at 31 December 2022 and 31 December 2021 is as below:

| | 2022 | 2021 |
|---|---|---|
| Within one year | 2,484,771 | 2,413,157 |
| More than one year but not more than five years | 8,977,765 | 7,755,289 |
| Over five years | 16,032,469 | 13,507,851 |

## 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 |
|---|---|---|---|---|---|
| 2022 | | | | | |
| US dollar | 48,332 | (12,806) | 61,138 | 55.73 | 3,407,068 |
| Canadian dollar | (12) | - | (12) | 41.17 | (494) |
| UK pound | 14 | 121 | (107) | 67.19 | (7,189) |
| Euro | 1,178 | 48 | 1,130 | 59.45 | 67,175 |
| Singapore dollar | - | 227 | (227) | 41.55 | (9,433) |
| Malaysian ringgit | (16) | 51 | (67) | 12.69 | (851) |
| Australian dollar | (8) | 178 | (186) | 37.89 | (7,047) |
| Japanese yen | 1,843 | 39,895 | (38,052) | 0.42 | (16,100) |
| New Zealand dollar | - | 4 | (4) | 35.33 | (141) |
| Swedish Krona | (16) | - | (16) | 5.34 | (85) |
| | | | | | 3,432,903 |

## 27. Foreign currency denominated assets and liabilities (continued)

| Currency | Assets | Liabilities | Net foreign currency assets (liabilities) | Exchange Rate | Peso equivalent |
|---|---|---|---|---|---|
| 2021 | | | | | |
| US dollar | 32,550 | 153,635 | (121,086) | 50.99 | (6,174,459) |
| UK pound | (43) | 78 | (121) | 68.92 | (8,353) |
| Euro | 1,127 | 121 | 1,006 | 57.71 | 58,044 |
| Singapore dollar | - | 160 | (160) | 37.78 | (6,026) |
| Malaysian ringgit | 622 | 5 | 617 | 12.24 | 7,549 |
| Australian dollar | - | 266 | (266) | 37.05 | (9,845) |
| Japanese yen | - | 34,550 | (34,550) | 0.44 | (15,306) |
| New Zealand dollar | - | 4 | (4) | 34.85 | (125) |
| | | | | | (6,148,521) |

| Currency | Assets | Liabilities | Net foreign currency assets (liabilities) | Exchange Rate | Peso equivalent |
|---|---|---|---|---|---|
| 2020 | | | | | |
| US dollar | 33,324 | 145,627 | (112,303) | 48.02 | (5,392,790) |
| UK pound | 43 | 199 | (156) | 65.63 | (10,238) |
| Euro | 1,353 | 1,581 | (228) | 59.07 | (13,468) |
| Singapore dollar | - | 95 | (95) | 36.34 | (3,452) |
| Malaysian ringgit | 33 | - | 33 | 11.96 | 395 |
| Australian dollar | - | 335 | (335) | 37.02 | (12,402) |
| Japanese yen | - | 224,742 | (224,742) | 0.47 | (105,629) |
| Chinese yuan | - | 18 | (18) | 7.34 | (132) |
| New Zealand dollar | - | 9 | (9) | 34.68 | (312) |
| | | | | | (5,538,028) |

## 28. Contingencies

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

**Shell Pilipinas 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.

## 28. 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 P7.4 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.

## 28. 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 totaling P5.7 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 P7.4 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. On 06 March 2020, the Office of the Solicitor General filed a Motion for Early Resolution. The Company subsequently filed a motion for leave to file an opposition on 23 March 2020. Awaiting action by the Supreme Court. No change in status as of 31 December 2022.

Management believes that provision should not be recognized as at 31 December 2022 and 31 December 2021 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.

## 28. Contingencies (continued)

***(b) Excise tax on Importations of Alkylate***

**Shell Pilipinas 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 07 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 P4.6 billion for certain Alkylate shipments.

## 28. Contingencies (continued)

**Status:**

Decision on the merits is pending with the Court of Tax Appeals ("CTA"). The parties have concluded the presentation of their witnesses. Same status as of 31 December 2022.

In the consolidated jurisdictional cases before the Supreme Court, the Office of the Solicitor General (OSG) filed a Motion to Lift TRO and for Immediate Resolution of the Consolidated Cases on 23 October 2020. PSPC filed its Comment/Opposition on 27 November 2020. In July 2021, the Supreme Court lifted the temporary restraining order (TRO) against the collection of excise tax for the Company's alkylate importations from March 2014 to April 2020 (principal amount involved is around P3.4 billion) and remanded the case to the Court of Tax Appeals (CTA) for the latter to determine the propriety of issuing a TRO / injunction in favor of the Company.

In line with said Supreme Court ruling, the Company has already filed an application for TRO / injunction with the CTA, which remains pending to date. The CTA has scheduled a hearing on the application for TRO / injunction on 26 January 2022 however it did not push through due to COVID situation at that time. During the hearing on 02 March 2022, the CTA said that PSPC's application for a TRO / Injunction is already moot and academic in view of the prior payment under protest. Currently awaiting further action from the CTA.

In the meantime, the District Collector of the Bureau of Customs, taking action outside of the court proceedings, issued a letter to the Company demanding for the payment of around P3.4 billion. The Company promptly responded and argued, among others, that there is no final decision yet from either the CTA or Supreme Court on the taxability of the Company's alkylate importations.

Nevertheless, the Bureau of Customs commenced actions to suspend the Company's accreditation as an importer. Left without an immediate legal remedy that would avert the disruption of its operations, the Company in December 2021 and January 2022 was constrained to pay under protest the Bureau of Customs the amount of around P3.4 billion. The Company has since initiated refund proceedings to recover the amounts paid under protest.

Claims from government includes P4.6 billion of excise duties and VAT paid under protest for certain Alkylate shipments. P1.8 billion of which, pertains to the payment made under protest in January 2022.

**28. Contingencies (continued)**

***(c) Republic of the Philippines rep. by Bureau of Customs vs. Shell Pilipinas 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:**
In a decision dated 16 February 2021, the RTC dismissed the case on the merits. The Bureau of Customs has filed a Notice of Appeal. As of 31 December 2022, the Company is awaiting further actions from the RTC and/or the Court of Appeals.

## 28. Contingencies (continued)

***(d) Excise Tax Refund Case***

There are also tax cases filed by the Company for its claims from the government amounting to P1.5 billion as of 31 December 2022 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 31 December 2022.

## 29. 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 03 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 its implementing rules and regulations.

## 30. Summary of significant accounting policies

### 30.1. 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 new standards effective in 2022. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

New Standards, Interpretations and Amendments

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Company.

## 30. Summary of significant accounting policies (continued)

30.1. Basis of preparation (continued)

• Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

• Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

• Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

• *Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

  The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

**30. Summary of significant accounting policies (continued)**

30.1. Basis of preparation (continued)

• Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

• Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

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 unless otherwise indicated.

*Effective beginning on or after January 1, 2023*

• *Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies*

• *Amendments to PAS 8, Definition of Accounting Estimates*

• *Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

The Company is currently assessing the impact of the amendments.

## 30. Summary of significant accounting policies (continued)

30.1. Basis of preparation (continued)

*Effective beginning on or after January 1, 2024*

- Amendments to PAS 1, Classification of Liabilities as Current or Non-current
- Amendments to PFRS 16, Lease Liability in a Sale and Leaseback

*Effective beginning on or after January 1, 2025*

- PFRS 17, Insurance Contracts

*Deferred effectivity*

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

30.2. 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.

30.3. 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.

## 30. Summary of significant accounting policies (continued)

30.3. Financial Instruments (continued)

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.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in statement of income 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 income 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 (see note 11).

The Company elected to classify irrevocably its equity investments under this category as the Company does not consider these investments for trading.

## 30. Summary of significant accounting policies (continued)

30.3. Financial Instruments (continued)

Financial assets - Subsequent Measurement (continued)

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 income. Dividends on listed equity investments are also recognized as other income in the statement of income when the right of payment has been established.

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 PFRS 9. 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).

**30. 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 considers 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.

## 30. 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:

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.

i. Financial liabilities at fair value through profit or loss

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.

**30. Summary of significant accounting policies (continued)**

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 PFRS 9 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 trade and other payables 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.

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.

## 30. Summary of significant accounting policies (continued)

Derivative financial instruments

The Company uses derivatives in the management of 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 the statement of 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 the statement of income in the period when changes arise.

### 30.4. 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.

Duty drawback and other claims pertain to claims from the government agencies arising mainly from the payment of excise duties in which the Company has a right of exemption. The Company calculates the claimable amount based on the delivered goods in liters to exempt entities multiplied by excise deposit rate, then recognizes the amount in other receivables with a current (Note 4) and non-current portion (Note 7). These claims might be subjected to various legal proceedings based on its compliance to the regulatory requirements in filing for claim refund.

Claims from the government accounted under long-term receivable (Note 7) mainly arises from excise duties and VAT paid under protest for certain Alkylate shipments. The payments under protest was made pursuant to Section 1106 of the Customs Modernization and Tariff Act (CMTA). The provision states that the Company has to pay the amount being demanded prior to its right to appeal. The payments made gives the entity a right to receive future economic benefits, either in the form of a cash refund or by using the payment to settle the tax liability.

## 30. Summary of significant accounting policies (continued)

### 30.5. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is the purchase cost determined using the first-in first-out (FIFO) method for petroleum products, materials and supplies. Crude and product costs under cost of sales 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 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.

Petroleum 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 the statement of income, in the period in which the related revenue is recognized.

### 30.6. 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 excise 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 2022 and 2021, the Company has no provision for impairment of input VAT (see Note 6).

The Company pays excise duties in advance and files for a refund with the local tax bureau as the Company claims exemption on imported petroleum products that were subsequently sold to international carriers or exempt entities or agencies. The refund of claim requires judgement based on the Company's assessment of collection or recoverability through creditable tax certificates from the government.

## 30. Summary of significant accounting policies (continued)

30.7. 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.

Net realizable value is the estimated selling price in the ordinary course of business 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.

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 on Asset Retirement Obligation considers any temporary differences on a net basis. In this approach, the net carrying value of the asset and liability is zero on initial recognition and the non-deductible asset and the tax-deductible liability are regarded as being economically the same as a tax-deductible asset that is acquired on deferred terms. Deferred tax is recognized on subsequent temporary differences that arise when the net asset or liability changes from zero.

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.

30.8. Property, plant and equipment

Property, plant 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.

## 30. Summary of significant accounting policies (continued)

30.8. Property, plant and equipment (continued)

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, plant and equipment | 3 to 30 |
| Transportation | 5 to 25 |

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.

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.

## 30. Summary of significant accounting policies (continued)

30.9. 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).

30.10. Leases

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.

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 to use asset and a lease liability at the lease commencement date. The right to 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.

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.

## 30. Summary of significant accounting policies (continued)

30.10. Leases (continued)

a) Lessee (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 to 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 to use assets and lease liabilities are presented separately in the statement of financial position. Expenses related to leases are presented under selling and administrative expense or finance income/expenses in 2022 and 2021. Payments related to leases are presented under Cash flow from financing activities.

**Subsequent measurement**

The right to 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 to use asset reflects that the Company will exercise a purchase option. In that case the right to 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 to use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

**Subsequent measurement (continued)**

The right to 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 to use asset reflects that the Company will exercise a purchase option. In that case the right to 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 to 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 to use asset or is recorded in profit or loss if the carrying amount of the right to use asset has been reduced to zero.

**Short-term leases and leases of low-value assets**

The Company has elected not to recognize right to use assets and lease liabilities for leases of low-value assets and where is 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.

30.11. Investments in associates

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.

## 30. Summary of significant accounting policies (continued)

### 30.12. 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).

The Company recognizes provision for impairment of input VAT and prepaid corporate income tax 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.

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).

### 30.13. 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.

## 30. Summary of significant accounting policies (continued)

### 30.14. 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.

### 30.15. 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.

An onerous contract provision is recognised when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable cost under a contract is the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract. Before an onerous provision is recognised the Company first recognises any impairment loss that has occurred on assets dedicated to that contract.

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.

## 30. Summary of significant accounting policies (continued)

30.16. 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.

30.17. 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.

30.18. 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.

30.19. 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.

## 30. Summary of significant accounting policies (continued)

30.20. 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 22).

30.21. Revenue and expense recognition

I. 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 petroleum products is recognized at the price which the 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.

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.

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.

## 30. Summary of significant accounting policies (continued)

30.21. Revenue and expense recognition (continued)

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.

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.

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.

## 30. Summary of significant accounting policies (continued)

30.21. Revenue and expense recognition (continued)

| | 2022 | 2021 |
|---|---|---|
| Performance obligations satisfied | 443,439 | 152,384 |

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Contract liabilities included in trade and other payables and in provisions and other liabilities | 387,602 | 457,440 |

Performance obligations satisfied in 2022 and 2021 amounting to P443.4 million and P152.4 million, respectively, came from the prior year contract liabilities amounting to P457.4 million in 2021 and P665.4 million in 2020, respectively. 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 measurable 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.

**30. Summary of significant accounting policies (continued)**

30.22. 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

## 30. Summary of significant accounting policies (continued)

### 30.22. Employee benefits (continued)

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, and that have terms to maturity approximating to the terms of the related pension obligation.

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.

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 other comprehensive income.

## 30. Summary of significant accounting policies (continued)

30.22. Employee benefits (continued)

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.

iv) Performance-share plans

Shell plc 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 Shell plc 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.

30.23. 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.

## 30. Summary of significant accounting policies (continued)

30.23. Related parties (continued)

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.

30.24. 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.

30.25. 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.

## 31. Financial risk management

31.1 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.

Financial 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 petroleum products will adversely affect the value of the Company's assets, liabilities or expected future cash flows.

## 31. Financial risk management (continued)

a) Market risk (continued)

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 significant derivative contracts to manage foreign currency risks. Since foreign currency exposure is significantly concentrated on purchase of petroleum products, 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 2022, 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 P127.7 million (2021 – P231.5 million) lower/higher, as a result of foreign exchange gains/losses on translation of US dollar-denominated receivables and payables as at 31 December 2022 and 2021.

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

ii) Cash flow and fair value interest rate risk

Cash flow and fair value interest 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 2022 and 2021, 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 2022, 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 P246 million (2021 – P174 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.

## 31. Financial risk management (continued)

a) Market risk (continued)

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 fuel oil, gasoline, diesel and other petroleum products in its operating activities. To minimize the Company's risk of potential losses due to volatility of international petroleum products prices, the Company may implement commodity hedging for petroleum products. The hedges are intended to protect petroleum products 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 equity through other comprehensive income financial assets are not considered material in the financial statements.

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.

## 31. Financial risk management (continued)

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 2022 and 2021, the Company has the following:

| | Note | Gross amounts before offset | Amount offset | Net Amounts as presented | Credit Enhancement | Net Amount |
|---|---|---|---|---|---|---|
| 2022 | | | | | | |
| Financial Assets: | | | | | | |
| Receivables | 4 | 18,681,456 | - | 18,681,456 | 5,749,567 | 12,931,889 |
| 2021 | | | | | | |
| Financial Assets: | | | | | | |
| Receivables | 4 | 12,032,291 | - | 12,032,291 | 4,606,106 | 7,426,185 |

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 |
|---|---|---|---|---|---|---|
| 2022 | | | | | | |
| Short-term borrowings-Principal | 13 | 17,827,000 | - | - | - | 17,827,000 |
| Short-term borrowings-Interest | 22 | 512,756 | - | - | - | 512,756 |
| Current portion of loans payable - Principal | 14 | 9,000,000 | - | - | - | 9,000,000 |
| Current portion Loans payable - Interest | 22 | 15,658 | - | - | - | 15,658 |
| Loans payable-Principal | 14 | - | - | - | 6,000,000 | 6,000,000 |
| Loans payable-Interest | 22 | 325,402 | - | - | - | 325,402 |
| Dividends payable | 33 | 17,764 | - | - | - | 17,764 |
| Accounts payable and accrued expenses | 12 | 28,898,082 | 752,041 | - | 3,269,166 | 32,919,289 |
| Derivatives | 12 | 6,759 | - | - | - | 6,759 |
| | | 56,603,421 | 752,041 | - | 9,269,166 | 66,624,628 |

## 31. Financial risk management (continued)

c) Liquidity risk (continued)

| | Note | 0-90 days | 91-180 days | 181 days - 1 year | Over 1 year | Total |
|---|---|---|---|---|---|---|
| 2021 | | | | | | |
| Short-term borrowings-Principal | 13 | - | 1,500,000 | 6,720,000 | - | 8,220,000 |
| Short-term borrowings-Interest | 22 | - | 148,024 | 36,000 | - | 184,024 |
| Loans payable-Principal | 14 | - | - | - | 15,000,000 | 15,000,000 |
| Loans payable-Interest | 22 | - | - | - | 1,330,133 | 1,330,133 |
| Dividends payable | | 16,836 | - | - | - | 16,836 |
| Accounts payable and accrued expenses | 12 | 18,906,881 | - | - | 5,514,690 | 24,421,571 |
| Derivatives | 12 | 45,902 | - | - | - | 45,902 |
| | | 18,969,619 | 1,648,024 | 6,756,000 | 21,844,823 | 49,218,466 |

The maturity analysis for lease liability is disclosed in Note 26. 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 P46.7 billion (2021 – P73.5 billion), which are subject to annual review.

31.2 Capital management

The Company manages its business to deliver strong cash flows to fund capital expenditures and growth based on cautious assumptions relating to petroleum products 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.

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.

## 31. Financial risk management (continued)

31.2 Capital management (continued)

ii. Gearing ratio(continued)

The Company have a 5-year strategy and considers whether the present gearing level is commercially acceptable based on the ability of the Company to operate on a standalone basis. Gearing target is set after appropriate advice has been taken from Tax, Treasury and Legal advisors.

The gearing ratios at 31 December 2022 and 2021 are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Total loans and borrowings | 13, 14 | 32,827,000 | 23,220,000 |
| Less: Cash | 3 | 2,957,163 | 1,684,253 |
| Net debt | | 29,869,837 | 21,535,747 |
| Total equity (excluding other reserves) | | 28,019,386 | 25,505,011 |
| Total capital | | 57,889,223 | 47,040,759 |
| Gearing ratio | | 52% | 46% |

The Company is not subject to externally imposed capital requirement.

31.3 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 2022 and 2021:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Financial assets | | | |
| Loans and receivables | | | |
| Cash | 3 | 2,957,163 | 1,684,252 |
| Receivables | 4 | 18,681,456 | 12,032,292 |
| Derivatives | 6 | 101,897 | 53,001 |
| Customer grants | 7 | 100,308 | 101,587 |
| Long-term receivables | | 308,084 | 223,394 |
| Equity through OCI | 11 | 816,858 | 632,618 |
| Total financial assets | | 22,965,766 | 14,727,144 |
| Other financial liabilities | | | |
| Accounts payable and accrued expenses | 12 | 32,919,289 | 24,182,231 |
| Dividends payable | 33 | 17,764 | 16,836 |
| Derivatives | 12 | 6,759 | 45,902 |
| Cash security deposits | 15 | 179,355 | 193,678 |
| Short-term borrowings | 13 | 17,827,000 | 8,220,000 |
| Current portion of loans payable | 14 | 9,000,000 | - |
| Loans payable | 14 | 6,000,000 | 15,000,000 |
| Lease liabilities | 9 | 20,194,873 | 17,614,805 |
| Total financial liabilities | | 86,145,040 | 65,273,452 |

## 31. Financial risk management (continued)

31.3 Fair value estimation (continued)

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.

iii. Financial assets and liabilities carried at fair value.

The Company's equity securities classified as available-for-sale financial assets 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 or variable 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.

## 31. Financial risk management (continued)

31.3 Fair value estimation (continued)

iv. Loans payable

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

## 32. 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.

32.1. 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 30.4. The carrying amount of receivables and other information are disclosed in Note 4.

The Company's assessment on the recoverability of the claims from the government (Note 7) arising from the payments under protest is based on the strength of the legal standing related to the case, the basis of laws which support the subject of litigation, the evidence presented in court and the strength of such evidence. The Management believes that the Company's position in eventually recovering the amount paid under protest is supported by the facts and the applicable law and jurisprudence that should justify a favorable decision as well as the recovery of amounts paid.

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).

## 32. Significant accounting judgments, estimates and assumptions (continued)

32.1. Critical accounting estimates and assumptions (continued)

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 2022 is 6.25% to 7.22% and 2.64% to 3.29% as at 31 December 2021. The amount is recognized as accretion cost or income in the statement of income.

The Company has set total outstanding provision of P63.1 million (2021 - P65.3 million) to cover the required environmental remediation covering specific assets, based on external evaluation and study, and total outstanding provision of P3.3 billion (2021 – P4.3 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.

## 32. Significant accounting judgments, estimates and assumptions (continued)

32.1. Critical accounting estimates and assumptions (continued)

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.

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

| | Impact on defined benefit obligation | |
|---|---|---|
| | 2022 | 2021 |
| Discount rate | | |
| Increase by 0.50% | (144,942) | (241,447) |
| Decrease by 0.50% | 156,935 | 264,143 |
| Salary rate | | |
| Increase by 0.50% | 158,354 | 258,141 |
| Decrease by 0.50% | (147,495) | (238,259) |

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.

## 32. Significant accounting judgments, estimates and assumptions (continued)

32.1. Critical accounting estimates and assumptions (continued)

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.

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.

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

i) Impairment of assets
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.

The recognized impairment losses are disclosed in Note 23.

## 32. Significant accounting judgments, estimates and assumptions (continued)

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

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).

The Company pays excise duties in advance and files for a refund with the local tax bureau as the Company claims exemption on own produced and imported petroleum products that were subsequently sold to international carriers or exempt entities or agencies. The refund of claim requires judgement based on the Company's assessment of collection or recoverability through creditable tax certificates from the government (see Note 4 and 7).

The Company recognizes provision for impairment of input VAT and prepaid corporate income tax 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 28). 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 internal legal counsel mainly considers the strength of the legal standing related on the case, the basis of laws which support the subject of litigation, the evidences presented in the court, strength of such evidence, and weakness of the opposing team's evidence. The Company engages management specialist to perform deeper assessment and assistance in formulating a more appropriate strategy to proceed with the case. 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 28).

## 32. Significant accounting judgments, estimates and assumptions (continued)

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

iv) Incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is 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 Company estimates the IBR using observable inputs like the risk-free rate and adjust it for factors such as the credit rating of the Company and the terms and conditions of the lease.

## 33. Changes in liability arising from financing activities

| | 01 January 2022 | Cash flows | Accrued and paid during the year | Other | 31 December 2022 |
|---|---|---|---|---|---|
| Short term loans (Note 13) | 8,220,000 | 9,607,000 | - | - | 17,827,000 |
| Long term loans (Note 14) | | | | | |
| Current | - | - | - | 9,000,000 | 9,000,000 |
| Long-term debt | 15,000,000 | - | - | (9,000,000) | 6,000,000 |
| Dividend payable | 16,836 | (1,612,516) | - | 1,613,444 | 17,764 |
| Accrued interest payable | 81,886 | (857,469) | 853,816 | - | 78,233 |
| Lease liabilities (Note 9) | 17,614,805 | (2,964,273) | 1,112,231 | 4,432,110 | 20,194,873 |
| Total liabilities from financing activities | 40,933,527 | 4,172,742 | 1,966,047 | 6,045,554 | 53,117,870 |

| | 01 January 2021 | Cash flows | Accrued and paid during the year | Other | 31 December 2021 |
|---|---|---|---|---|---|
| Short term loans (Note 13) | 13,000,000 | (4,780,000) | - | - | 8,220,000 |
| Long term loans (Note 14) | - | - | - | - | - |
| Non-Current | 9,000,000 | 6,000,000 | - | - | 15,000,000 |
| Dividend payable | 17,074 | (238) | - | - | 16,836 |
| Accrued interest payable | 237,247 | (651,439) | 488,054 | 8,024 | 81,886 |
| Lease liabilities (Note 9) | 14,477,352 | (2,919,824) | 1,007,575 | 5,049,702 | 17,614,805 |
| Total liabilities from financing activities | 36,371,673 | (2,351,501) | 1,495,629 | 5,057,726 | 40,933,527 |

Others include the effect of reclassification of non-current portion of interest-bearing loans to current due to the passage of time, additions to lease liabilities in which portion of it is not yet paid, dividends declared during the year, and interest accrued but not paid during the year.

## 34. Subsequent Events

The P9.0 billion worth of maturing loan which is reflected as Current Portion of Long-Term Debt in the Balance Sheet as of 31 December 2022 has been replaced with a new Medium-Term Loan drawn in February 2023. The 5-year loan has been awarded to BPI and Metrobank for P4.5 billion each.

On August 10, 2022, the Board has approved the change in corporate name of the Company to "Shell Pilipinas Corporation" and the amendment and broadening of the Corporation's Secondary Purpose to include retail trade as it aims to grow its non-fuel retail segment. The SEC approval was obtained on 15 March 2023.

## 35. 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 2022 consist of:

| | Gross amount of revenues | Output VAT |
|---|---|---|
| Subject to 12% VAT | | |
| Sale of goods | 271,229,845 | 32,547,581 |
| Sale to government | 557,224 | 66,867 |
| Sale of services | 860,331 | 103,240 |
| Others | 838,084 | 100,570 |
| | 273,485,484 | 32,818,258 |
| Zero rated | | |
| Sale of goods | 23,471,022 | - |
| Exempt | | |
| Sale of goods | 416,792 | - |
| Total | 297,373,298 | 32,818,258 |

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.

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

**a)** Output value-added tax (VAT) (continued)

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 2022 follow:

| | |
|---|---|
| Add: Current year's domestic purchases/payments for: | |
| Importation of goods for resale/manufacture | 22,286,967 |
| Domestic goods for resale or manufacture | 9,046,222 |
| Services lodged under other accounts | 1,702,654 |
| Services rendered by non-residents | 146,148 |
| Capital goods subject to amortization | 47,002 |
| Capital goods not subject to amortization | 6,955 |
| Total input VAT | **33,235,948** |

**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 2022 follow:

| | |
|---|---|
| Landed cost of imports | 160,126,697 |
| Customs duties and tariff fees paid | 25,598,027 |

**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 P98.9 million were reimbursed by the Company as part of bank service fee.

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

**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 2022 are as follow:

| | Paid | Accrual | Balance |
|---|---|---|---|
| Local Petroleum products | 41,404 | - | 41,404 |
| Imported Petroleum products | 25,158,128 | - | 25,158,128 |
| | 25,199,532 | - | 25,199,532 |

**f)** All other local and national taxes

All other local and national taxes accrued and paid for the year ended 31 December 2022 consist of:

| | |
|---|---|
| Real property tax | 238,112 |
| Municipal taxes / Mayor's permit | 10,235 |
| Community tax | 11 |
| | 248,358 |

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 2022 consist of:

| | Paid | Accrued | Total |
|---|---|---|---|
| Withholding tax on compensation | 374,123 | 15,820 | 389,943 |
| Expanded withholding tax | 1,052,973 | 193,317 | 1,246,290 |
| Fringe benefit tax | 29,913 | 9,887 | 39,800 |
| Final withholding tax | 264,436 | 39,568 | 304,004 |
| | 1,721,445 | 258,592 | 1,980,037 |

**h)** Tax assessments and cases

Other than tax cases mentioned in Note 28, there has been no tax assessments for the year 2022.

# SCHEDULE I
# SHELL PILIPINAS CORPORATION
***(formerly Pilipinas Shell Petroleum Corporation)***
## RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
## As at 31 December 2022

**(All amounts in thousands Philippine Peso)**

| | | |
|---|---|---|
| Unappropriated Retained Earnings beginning | | 1,325,887 |
| Adjustments: (see adjustments in previous year's Reconciliation) | | |
| Treasure Shares | | (507,106) |
| Deferred tax assets net, beginning | | (5,983,513) |
| Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning | | (5,164,732) |
| Add: Net income actually earned/realized during the period | 4,075,747 | |
| Less: Non-actual/unrealized income net of tax | - | |
| Equity in net income of associate/joint venture | - | |
| Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents) | (129,992) | |
| Unrealized actuarial gain | - | |
| Fair value adjustment (M2M gains) | (88,039) | |
| Deferred tax assets net, movements | 1,079,644 | |
| 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 | | 4,937,360 |
| Add (Less): | | |
| Dividend declaration during the year | | (1,613,444)* |
| Appropriations of retained earnings during the period | | - |
| Reversal of appropriateness | | - |
| Effects of prior period adjustments | | - |
| Treasury shares | | - |
| Total retained earnings, end available for dividend declaration | | (1,840,816) |

**On August 10, 2022, the Company declared dividends of P1.00 per share for its 2021 Net Income After Tax from its unrestricted retained earnings as of June 30, 2022 (17-Q results) of PHP4.6bn*

# SCHEDULE II

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**
**PURSUANT TO THE REVISED SRC RULE 68, AS AMENDED**
**As at 31 December 2022**

<table>
<tr><th></th><th colspan="3">Formula</th><th>2022</th><th>2021</th></tr>
<tr><td rowspan="4">Current Ratio</td><td colspan="3">Total Current Assets divided by Total Current Liabilities</td><td rowspan="4">0.83</td><td rowspan="4">1.12</td></tr>
<tr><td>Current assets</td><td></td><td>49,833</td></tr>
<tr><td>Divide by:</td><td>Current Liabilities</td><td>59,771</td></tr>
<tr><td>Current Ratio</td><td></td><td>0.83</td></tr>
<tr><td rowspan="7">Acid test ratio</td><td colspan="3">Quick Assets (Total Current Assets less Inventories and Other Current Assets) divided by Current Liabilities</td><td rowspan="7">0.44</td><td rowspan="7">0.54</td></tr>
<tr><td>Current assets</td><td></td><td>49,833</td></tr>
<tr><td>Less:</td><td>Inventories</td><td>17,940</td></tr>
<tr><td></td><td>Other Current Assets</td><td>5,884</td></tr>
<tr><td>Quick Assets</td><td></td><td>26,009</td></tr>
<tr><td>Divide by:</td><td>Current Liabilities</td><td>59,771</td></tr>
<tr><td>Acid Test Ratio</td><td></td><td>0.44</td></tr>
<tr><td rowspan="6">Solvency ratio</td><td colspan="3">Net Income after Tax (Net Income and Non-Cash Items) Divided by Total Liabilities</td><td rowspan="6">11.00%</td><td rowspan="6">15.71%</td></tr>
<tr><td>Net Income</td><td></td><td>4,076</td></tr>
<tr><td>Add:</td><td>Non-cash Items</td><td>5,618</td></tr>
<tr><td>Net Income after Tax</td><td></td><td>9,694</td></tr>
<tr><td>Divide by:</td><td>Total Liabilities</td><td>88,107</td></tr>
<tr><td>Solvency Ratio</td><td></td><td>11%</td></tr>
<tr><td rowspan="8">Debt to Equity</td><td colspan="3">Net Debt (Short-term and Long-Term Borrowings less Cash) divided by Stockholder’s Equity (Exclusive of Other Reserves</td><td rowspan="8">1.07</td><td rowspan="8">0.84</td></tr>
<tr><td>Short-term loans</td><td></td><td>17,827</td></tr>
<tr><td>Add:</td><td>Long-term loans</td><td>9,000</td></tr>
<tr><td></td><td>Current portion of Loans Payable</td><td>6,000</td></tr>
<tr><td>Less:</td><td>Cash</td><td>2,957</td></tr>
<tr><td>Net Debt</td><td></td><td>29,870</td></tr>
<tr><td>Divide by:</td><td>Equity, net of Other Reserves</td><td>28,019</td></tr>
<tr><td>Debt to Equity</td><td></td><td>1.07</td></tr>
</table>

## SCHEDULE II

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**
**PURSUANT TO THE REVISED SRC RULE 68, AS AMENDED (Continued)**
**As at 31 December 2022**

| | Formula | 2022 | 2021 |
|---|---|---|---|
| Debt Ratio | Net Debt (Short-term and Long-Term Borrowings less Cash) divided by Total Assets<br><br>Short-term loans 17,827<br>Add: Long-term loans 9,000<br>Current portion of Loans Payable 6,000<br>Less: Cash 2,957<br>Net Debt 29,870<br>Divide by: Total Assets 117,036<br>Debt Ratio 0.26 | 0.26 | 0.23 |
| Return on Equity | Net Income Divided by Stockholder's Equity (Exclusive of Other Reserves<br><br>Net Income 4,076<br>Divide by: Equity, net of Other Reserves 28,019<br>Return on Equity 14.55% | 14.55% | 15.12% |
| Asset to Equity Ratio | Total Assets divided by Stockholder's Equity (Exclusive of Other Reserves<br><br>Total Assets 117,036<br>Divide by: Equity, net of Other Reserves 28,019<br>Asset to Equity Ratio 4.18 | 4.18 | 3.73 |
| Interest rate coverage ratio | Earnings before interest expense and taxes divided by Interest Expense<br><br>Earnings before interest expense and taxes 6,320<br>Divide by: Total Interest in Borrowings 854<br>Interest Rate Coverage Ratio 7.40 | 7.40 | 14.86 |
| Return on Assets | Net Income divided by Total Assets<br><br>Net Income 4,076<br>Divide by: Total Assets 117,036<br>Return on Assets 3.48% | 3.48% | 4.05% |

# SCHEDULE A

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**FINANCIAL ASSETS**

**As at 31 December 2022**

**(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 | 22,000 | 22,000 | - |
| Atlas Consolidated Mining and Development | 3,000,000 | 11,550 | 11,550 | - |
| Canlubang Golf & Country Club, Inc. | 2 | 6,000 | 6,000 | - |
| Club Filipino de Cebu, Inc. | 24 | 700 | 700 | - |
| Manila Golf & Country Club, Inc. | 6 | 630,000 | 630,000 | - |
| Manila Polo Club, Inc. | 2 | 60,000 | 60,000 | - |
| Manila Southwoods Golf & Country Club | 1 | 3,000 | 3,000 | - |
| Negros Occidental Golf & Country Club | 1 | 20 | 20 | - |
| Pantranco South Express Inc. | 5,232,000 | 3,738 | 3,738 | - |
| Puerto Azul Beach & Country Club, Inc. | 1 | 350 | 350 | - |
| Sta. Elena Golf Club | 2 | 18,000 | 18,000 | - |
| The Royal Northwoods Golf Club & Country | 1 | 1,000 | 1,000 | - |
| Valley Golf Club, Inc. | 1 | 2,500 | 2,500 | - |
| Wack Wack Golf & Country Club | 1 | 58,000 | 58,000 | - |
| Total Equity through OCI financial assets | | 816,858 | 816,858 | |
| | | | | |
| Cash | | | 2,957,163 | |
| Receivables | | | 18,681,456 | |
| Derivatives | | | 101,897 | |
| Market investment loans | | | 100,308 | |
| Long-term receivables | | | 308,084 | |
| Total financial assets | | | 22,965,766 | |

# SCHEDULE B

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**As at 31 December 2022**

**(All amounts in thousands Philippine Peso)**

| Name and Designation of Debtor | Balance at beginning of period | Additions | Amounts Collected | Amounts Written-off | Current | Non Current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| Rizal Commercial Banking Corporation | 880 | 29,226 | 26,760 | N/A | 3,346 | N/A | 3,346 |
| The Insular Life Assurance Co Ltd | N/A | 1,401 | 1,049 | N/A | 351 | N/A | 351 |

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.

# SCHEDULE C

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**As at 31 December 2022**

| 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 |

# SCHEDULE D

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**LONG TERM DEBT**

**As at 31 December 2022**

**(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 | 15,000,000 | 9,000,000 | 6,000,000 |

# <u>SCHEDULE E</u>

## SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**INDEBTEDNESS TO RELATED PARTIES**
**(LONG-TERM LOANS FROM RELATED COMPANIES)**
**As at 31 December 2022**

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

# SCHEDULE F

# SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**GUARANTEES OF SECURITIES OF OTHER ISSUERS**

**As at 31 December 2022**

| 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 |

## SCHEDULE G

# SHELL PILIPINAS CORPORATION

***(formerly Pilipinas Shell Petroleum Corporation)***

**CAPITAL STOCK**

**As at 31 December 2022**

| 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 | 402,127 | 722,181,842 |

## SCHEDULE H

**SHELL PILIPINAS CORPORATION**

***(formerly Pilipinas Shell Petroleum Corporation)***

**RELATIONSHIP MAP**

**As at 31 December 2022**