



111142016001927

**SECURITIES AND EXCHANGE COMMISSION**

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

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Company Name PILIPINAS SHELL PETROLEUM CORP (NEW)
Industry Classification Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains
Company Type Stock Corporation

Document Information

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S.E.C. Registration Number

P I L I P I N A S S H E L L P E T R O L E U M
C O R P O R A T I O N

(Company's Full Name)

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

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

AGNEZ YAP-ABINA
Contact Person

+63 2 4994001
Company Telephone Number

0 9 3 0
Month

1 7 - Q
FORM TYPE

0 4 1 9
Month Day
3rd Tuesday of April
Annual Meeting

Fiscal Year

Permit to Offer
Securities for Sale
Secondary License Type, If
Applicable

C F D
Dept. Requiring this
Doc.

Amended Articles Number/Section

382
Total No. of Stockholders

Total Amount of Borrowings
15,726,000,000
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

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

Title of Class

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

<input type="text" value="Common Stock"/>	<input type="text" value="1,585,944,202"/>
<input type="text" value="Total Liabilities"/>	<input type="text" value="37,828,385"/>

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

12. Indicate by check mark whether the registrant

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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PART I – FINANCIAL INFORMATION

ITEM 1


PILIPINAS SHELL PETROLEUM CORPORATION

Unaudited Statement of Financial Position

As at 30 September 2016 and 31 December 2015

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

	Note	2016	2015
Current assets			
Cash	2	3,791,990	3,576,802
Receivables, net	3	7,797,081	10,387,023
Inventories, net	4	14,313,289	11,348,533
Prepayments and other current assets	5	9,944,298	11,328,225
Total current assets		35,846,658	36,640,583
Non-current assets			
Long-term receivables, rentals and investments, net	6	4,195,837	885,263
Property and equipment, net		22,621,609	22,309,078
Deferred income tax assets, net	7	1,505,703	3,712,251
Other assets, net	8	2,889,544	2,671,827
Total non-current assets		31,212,693	29,578,419
Total assets		67,059,351	66,219,002
Current liabilities			
Accounts payable and accrued expenses	9	17,122,401	16,159,486
Dividends payable		9,668	9,668
Short-term borrowings	10	4,726,000	2,717,000
Total current liabilities		21,858,069	18,886,154
Non-current liabilities			
Loans payable	11	11,000,000	16,000,000
Provisions and other liabilities	12	4,970,316	5,237,718
Total non-current liabilities		15,970,316	21,237,718
Total liabilities		37,828,385	40,123,872
Equity			
Share capital- P1 par value	13	1,653,558	1,653,558
Share premium	13	24,395,991	24,395,991
Treasury shares	13	(507,106)	(507,106)
Retained earnings	14	3,269,126	181,508
Other reserves		419,397	371,179
Total equity		29,230,966	26,095,130
Total liabilities and equity		67,059,351	66,219,002

Certified by:  JOSE JEROME R. PASCUAL III
Vice President – Finance and Treasurer


PILIPINAS SHELL PETROLEUM CORPORATION
Unaudited Statement of Income
For the period ended 30 September 2016 and 2015
(All amounts in thousands Philippine Peso, except earnings per share)

3Q 2016	3Q 2015		YTD 3Q 2016	YTD 3Q 2015
35,133,690	35,704,962	Net Sales	101,142,338	122,360,781
(29,795,028)	(36,223,440)	Cost of Sales	(82,486,676)	(106,769,805)
5,338,662	3,481,522	Gross Profit	18,655,662	15,590,976
(3,159,660)	(3,578,163)	Selling, General and Administrative Expenses	(9,220,580)	(9,540,285)
(96,745)	(61,306)	Other operating income (expense), net	103,496	164,264
2,082,257	(157,947)	Income from Operations	9,538,578	6,214,955
(295,493)	(529,375)	Finance expense, net	(605,078)	(1,344,223)
240	30	Other non-operating income (expense), net	737	30
1,787,004	(687,292)	Income Before Provision for Income Tax	8,934,237	4,870,762
(499,586)	54,779	Provision for income tax	(2,574,596)	(1,540,697)
1,287,418	(632,513)	Net Income/(Loss)	6,359,641	3,330,065
0.81	(0.76)	Earnings per share* (basic and diluted)	4.01	4.00

**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.


Weighted average number of Common Shares for Q3 2015 is 832,190,580 and for Q3 2016 1,585,944,202.



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	Vice President – Finance and Treasurer


PILIPINAS SHELL PETROLEUM CORPORATION
 Unaudited Statement of Comprehensive Income
 For the period ended 30 September 2016 and 2015
 (All amounts in thousands Philippine Peso)

3Q 2016	3Q 2015		YTD 3Q 2016	YTD 3Q 2015
1,287,418	(632,513)	Net Income (Loss)	6,359,641	3,330,065
		Other comprehensive income (loss)		
9,326	-	Re-measurement gain on retirement benefits, net of tax	27,977	-
8,770	(5,820)	Increase (Decrease) in fair value of available-for-sale financial assets	19,079	46,043
1,305,514	(638,333)	Total Comprehensive Income for the period	6,406,697	3,376,108
Total comprehensive income attributable to:				
1,305,514	(638,333)	Equity holders of the company	6,406,697	3,376,108
		Non-controlling interest		
1,305,514	(638,333)		6,406,697	3,376,108


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 Vice President – Finance and Treasurer


PILIPINAS SHELL PETROLEUM CORPORATION
Unaudited Statement of Cash Flows
For the period ended 30 September 2016 and 2015
(All amounts in thousands Philippine Peso)

	2016	2015
Cash flows from operating activities		
Income before income tax	8,934,237	4,870,762
Adjustments:		
Depreciation and amortization	1,278,142	1,274,381
Interest and finance charges	369,750	771,467
Pension expense	97,207	127,526
Accretion expense	91,639	77,093
Share-based compensation	81,950	81,950
Share in (profit) loss of associates	(11,960)	11,337
Unrealized mark-to-market gain, net	(189,761)	(51,360)
Intangibles and fixed assets written off	51,181	-
Loss on disposal of property and equipment	58,143	21,759
Reversals of provisions for ARO and remediation and demolition costs	(17,912)	(220,486)
Amortization of prepaid lease payments	1,211,451	973,850
Provision for legal case, net	28,107	65,583
Interest income	(857)	(19,028)
Unrealized foreign exchange loss (gain), net	85,422	(39,681)
Operating income before working capital changes	12,066,739	7,945,153
(Increase) Decrease in current assets other than cash	(3,261,551)	5,546,853
Increase (Decrease) in liabilities other than provisions, dividends payable, short-term borrowings and loans payable	846,269	(3,422,384)
Cash generated from operations	9,651,457	10,069,622
Pension contributions paid	(123,299)	(91,797)
Net cash from operating activities	9,528,158	9,977,825
Cash flows from investing activities		
Interest received	857	19,028
Dividend received	13,530	1,461
Increase in long-term receivables and rentals, net	(471,481)	(173,859)
Proceeds from sale of property and equipment	6,318	5,606
Additions to property, plant and equipment	(2,325,076)	(3,882,605)
Net cash used in investing activities	(2,775,852)	(4,030,369)




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	Vice President – Finance and Treasurer

	2016	2015
Cash flows from financing activities		
Net proceeds from (settlements of) short-term borrowings	2,009,000	(28,495,000)
Proceeds from long-term loan	-	16,000,000
Repayment of long term loan	(5,000,000)	(12,000,000)
Increase in Share capital and share premium	-	17,852,835
Interest and finance charges paid	(395,691)	(711,248)
Cash Dividend paid	(3,300,000)	-
Net cash (used in) financing activities	(6,686,691)	(7,353,413)
Net increase/(decrease) in cash for the period	65,615	(1,405,957)
Cash at the beginning of the period	3,576,802	4,721,647
Effect of exchange rate changes on cash	149,573	29,251
Cash at the end of the period	3,791,990	3,344,941


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PILIPINAS SHELL PETROLEUM CORPORATION
Unaudited Statement of Changes in Equity
For the period ended 30 September 2016 and 2015
(All amounts in thousands Philippine Peso)

	Share capital	Share premium	Treasury stock	Retained earnings	Other reserves		Total equity
					Share-based reserve	Fair value reserve	
Balances at 01 January 2015	758,885	7,437,829	(507,106)	(4,184,802)	75,155	250,681	3,830,642
Comprehensive income							
Income for the period	-	-	-	3,330,065	-	-	3,330,065
Other comprehensive income							
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	46,043	46,043
Remeasurement loss on retirement benefits	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	3,330,065	-	46,043	3,376,108
Transactions with owners							
Additional issuance of shares	894,673	16,958,162	-	-	-	-	17,852,835
Share-based compensation	-	-	-	-	(10,465)	-	(10,465)
Total transactions with owners	894,673	16,958,162	-	-	(10,465)	-	17,842,370
Balances at 30 September 2015	1,653,558	24,395,991	(507,106)	(854,737)	64,690	296,724	25,049,120
Balances at 01 January 2016	1,653,558	24,395,991	(507,106)	181,508	92,007	279,172	26,095,130
Comprehensive income							
Income for the period	-	-	-	6,359,641	-	-	6,359,641
Other comprehensive income							
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	19,079	19,079
Remeasurement gain on retirement benefits (net of tax amounting to P11,990)	-	-	-	27,977	-	-	27,977
Total comprehensive income	-	-	-	6,387,618	-	19,079	6,406,697
Transactions with owners							
Cash Dividends	-	-	-	(3,300,000)	-	-	(3,300,000)
Share-based compensation	-	-	-	-	29,139	-	29,139
Total transactions with owners	-	-	-	(3,300,000)	29,139	-	(3,270,861)
Balances at 30 September 2016	1,653,558	24,395,991	(507,106)	3,269,126	121,146	298,251	29,230,966


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Vice President – Finance and Treasurer

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO FINANCIAL STATEMENTS

As at 30 September 2016 and 31 December 2015 and for the
nine months period ended 30 September 2016 and 2015
(In Pesos '000 unless otherwise stated, except per share amounts)

Note 1 - General information

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

The Company's immediate parent company having 68% ownership interest in 2016 (2015 - 68%) is Shell Overseas Investments BV (SOIBV), a corporation registered under the laws of Netherlands. Remaining shareholdings of 32% in 2016 (2015 - 32%) are owned by Filipino and other foreign shareholders. The ultimate parent of the Company is Royal Dutch Shell plc. (RDS), incorporated in the United Kingdom.

The Company is considered a public company under Securities Regulation Code (SRC) Rule 68, as amended on 20 October 2011, which among others, is any corporation with assets of at least P50 million and has two hundred (200) or more shareholders, each of which holds at least one hundred (100) shares of a class of its equity securities. As at 30 September 2016, the Company has 382 shareholders (31 December 2015 - 362), 354 of whom hold at least 100 shares of the Company's common shares (31 December 2015 - 336).

The Company's registered office, which is also its principal place of business, is located at Shell House, 156 Valero Street, Salcedo Village, Makati City. The Company owns an oil refinery in Tabangao, Batangas and various oil depots and installations all over the Philippines. The Company has 695 regular employees as at 30 September 2016 (31 December 2015 - 754).

The shareholders in the annual general meeting held on 18 July 2016 approved the proposal for the Company to conduct an initial public offering.

Note 2 - Cash

The account at 30 September 2016 and 31 December 2015 consists of cash in banks which are earning interest at the prevailing bank deposit 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.

Cash at 30 September 2016 and 31 December 2015 is maintained with the following type of financial institutions:

	2016	2015
Universal banks	1,820,802	2,670,620
Commercial banks	1,971,188	906,182
	3,791,990	3,576,802

Note 3 - Receivables, net

The account as at 30 September 2016 and 31 December 2015 consists of:

	2016	2015
Trade receivables		
Third parties	7,177,572	6,509,676
Related parties	70,435	115,706
Provision for impairment of trade receivables from third parties	(120,071)	(119,096)
	7,127,936	6,506,286
Non-trade receivables from related parties	31,212	88,899
Other receivables		
Claims from government agencies		
Duty drawback and other claims	31,053	2,185,557
Specific tax	-	1,235,733
Miscellaneous	658,913	753,799
	689,966	4,175,089
Provision for impairment of other receivables	(52,033)	(383,251)
	637,933	3,791,838
	7,797,081	10,387,023

Miscellaneous receivables pertain to creditable withholding taxes, rental from co-locators in retail service stations and cost recoveries from affiliates.

The Company holds collaterals for trade receivables from third parties as at 30 September 2016 valued at P3.8 billion (31 December 2015 - P4.8 billion) consisting of cash securities, letters of credit or bank guarantees and Real Estate Mortgages (REM). These securities can be applied once the related customer defaults on settlement of the Company's receivables based on agreed credit terms.

(a) Past due receivables but not impaired

The aging of past due but not impaired trade receivables from third parties as at 30 September 2016 and 31 December 2015 are as follows:

	2016	2015
Less than 30 days	21,122	61,362
31 - 60 days	91,718	27,769
61 - 90 days	31,009	62,740
91 - 180 days	40,100	28,822
	183,949	180,693

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

(b) Impaired receivables

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. 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 1 January 2015	214,665	342,925	557,590
Provisions (Reversals)	(95,569)	40,326	(55,243)
At 31 December 2015	119,096	383,251	502,347
Provisions	975	9,693	10,668
Provisions reclassified to long term	-	(340,911)	(340,911)
At 30 September 2016	120,071	52,033	172,104

For the nine months period ended 30 September 2016, total trade receivables written-off directly to statement of income amounted to P9.4 million (30 September 2015 – P23.5 million) based on the Company's assessment of recoverability.

(c) *Neither past due nor impaired*

The credit quality of trade receivables from third parties at 30 September 2016 and 31 December 2015 that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates:

Trade receivables (counterparties with internal credit rating)	2016	2015
A	1,510,232	1,436,641
B	1,584,368	1,749,967
C	2,370,155	1,859,965
D	1,408,797	1,163,314
Total trade receivables	6,873,552	6,209,887

- A - Customers with strong financial performance and with low probability of default.
- B - Customers with good financial strength but with some elements of risk in one or more financial or non-financial inputs.
- C - Customers with low credit risk and balance is secured with post-dated checks and other collaterals.
- D - Customers with a medium risk of default, however, concerned group of customers have been historically able to faithfully settle their balances. The receivables are deemed performing hence impairment provision is not necessary.

Trade and non-trade receivables from related parties are all current in age. The other classes and remaining balances within trade and other receivables do not contain impaired assets.

There are no receivables that are neither past due nor impaired that have been renegotiated for the nine months period ended 30 September 2016 and for the year ended 31 December 2015.

Note 4 - Inventories, net

The account as at 30 September 2016 and 31 December 2015 consists of:

	2016	2015
Crude oil and finished products	13,999,586	12,064,450
Materials and supplies	332,270	336,179
At cost	14,331,856	12,400,629
Allowance for inventory write-down and obsolescence	(18,567)	(1,052,096)
At net realizable value	14,313,289	11,348,533

Cost of inventories included as part of cost of sales amounted to P73.5 billion for the nine months period ended 30 September 2016 (30 September 2015 – P97.4 billion)

Details of and changes in allowance for inventory write-down and obsolescence as at and for the nine month period ended 30 September 2016 and for the year ended 31 December 2015 are as follows:

	Crude oil and finished products	Materials and supplies	Total
At 1 January 2015	2,848,256	-	2,848,256
Provisions (Reversals), net	(1,807,127)	10,967	(1,796,160)
At 31 December 2015	1,041,129	10,967	1,052,096
Write-off	-	(10,859)	(10,859)
Provisions (Reversals), net	(1,035,511)	12,841	(1,022,670)
At 30 September 2016	5,618	12,949	18,567

Write-off in 2016 mainly pertains to inventories tagged as dead and slow to non-moving items of packaged finished products and lubricants.

Cost of crude oil and finished goods written-down to net realizable value included in the provisions for inventory amounted to P5.6 million for the nine months period ended 30 September 2016 (31 December 2015 – P1.0 billion).

Note 5 - Prepayments and other current assets

The account as at 30 September 2016 and 31 December 2015 consists of:

	2016	2015
Input VAT, net of output VAT (a)	5,323,564	6,627,876
Prepaid corporate income tax (b)	3,470,541	3,286,412
Advance rentals	557,360	682,282
Prepaid specific tax	265,669	469,740
Prepaid duties and taxes	-	7,931
Prepaid insurance	-	71,582
Others	327,164	182,402
	9,944,298	11,328,225

(a) Input VAT, net of output VAT

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

(b) Prepaid corporate income tax

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

Note 6 - Long-term receivables, rentals and investments, net

The account as at 30 September 2016 and 31 December 2015 consists of:

	2016	2015
Advances to an entity under common shareholdings (a)	137,060	137,000
Provision for impairment of advances to an entity under common shareholdings	(137,060)	(137,000)
	-	-
Advance rentals	1,063,223	732,336
Market investment loans (b)	77,631	79,330
Investments in associates (c)	38,666	38,330
	1,179,520	849,996
Long term receivables (a)	3,375,753	53,842
Provision for impairment of long-term receivables	(359,436)	(18,575)
	3,016,317	35,267
	4,195,837	885,263

(a) *Long-term receivables and advances to a related party*

As at 30 September 2016, long-term receivables and advances to a related party of P496.5 million (31 December 2015 - P155.6 million) were impaired and fully provided.

Long term receivables include claims from government agencies amounting to P3.3 billion as at 30 September 2016 representing the amount to be recovered from the government on various taxes paid. The management has assessed that the recoverability of the same is beyond 12 months from the reporting date and hence the same has been reclassified from current to non-current for the nine months period ended 30 September 2016.

Movements in provision for impairment of long-term receivable and advances to a related party are as follows:

	Advances to a related party	Other long-term receivables	Total
At 1 January 2015	163,447	19,575	183,022
Reversal	(26,447)	(1,000)	(27,447)
At 31 December 2015	137,000	18,575	155,575
Provision	60	-	60
Reclassification	-	340,911	340,911
Reversal	-	(50)	(50)
At 30 September 2016	137,060	359,436	496,496

The individually impaired receivables mainly relate to an affiliate and are aged over a year.

As at 30 September 2016 and 31 December 2015, there are no other long-term receivables that are past due but not impaired. The other classes and balances within long-term receivables, rental and investments are fully performing.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The carrying amounts of market investment loans and long-term receivables approximate their fair value.

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

(b) *Market investments loans*

Market investment loans 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.

(c) *Investments in associates*

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
2016					
Bonifacio Gas Corporation	44%	125,782	54,853	70,929	24,353
Kamayay Realty Corporation	40%	20,522	4,913	15,609	3,667
2015					
Bonifacio Gas Corporation	44%	119,200	52,641	66,559	19,498
Kamayay Realty Corporation	40%	25,000	1,789	23,211	12,004

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

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

Note 7 - Provision for income tax; deferred income tax

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 offset amounts at 30 September 2016 and 31 December 2015 are as follows:

	2016	2015
Deferred income tax assets (liabilities)		
Unamortized past service cost, net	418,261	482,879
Asset retirement obligation	372,424	333,315
Provision for inventory losses	44,968	315,629
Provision for remediation costs	261,026	259,062
Operating lease - effect of straight lining	175,337	179,120
Provision for doubtful debts	200,580	197,376
Unrealized foreign exchange loss	53,738	28,111
Unrealized mark-to-market loss (gain)	(22,331)	34,596
Share-based compensation	36,344	27,602
Retirement benefit asset	(819,063)	(699,653)
Prepaid duties and taxes	(689,874)	(709,645)
Other provisions	829,638	561,993
	861,048	1,010,385
NOLCO	97,885	2,155,187
MCIT	546,770	546,679
Deferred income tax assets, net	1,505,703	3,712,251

The gross movements in net deferred income tax assets are as follows:

	2016	2015
At 1 January	3,712,251	5,293,928
Charged (Credited) to profit and loss	(2,194,558)	(1,233,200)
Charged (Credited) to other comprehensive income	(11,990)	(348,477)
At 30 September 2016 and 31 December 2015	1,505,703	3,712,251

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 at 30 September 2016 and 31 December 2015 are fully realizable.

Year of incurrence	Year of expiration	NOLCO			MCIT			
		2016	2015	2014	2016	2015	2014	2013
2013	2016	-	-	-	193,621	193,621	193,621	193,621
2014	2017	7,183,955	10,229,747	10,229,747	24,334	24,334	24,334	-
2015	2018	-	-	-	328,724	328,724	-	-
2016	2019	-	-	-	-	-	-	-
		7,183,955	10,229,747	10,229,747	546,679	546,679	217,955	193,621
Applied		(6,857,670)	(3,045,792)	-	92	-	-	-
		326,285	7,183,955	10,229,747	546,771	546,679	217,955	193,621
Tax rate		30%	30%	30%	-	-	-	-
		97,886	2,155,187	3,068,924	546,771	546,679	217,955	193,621

The details of provision for income tax for the nine months period ended 30 September 2016 and 2015 are as follows:

	2016	2015
Current	380,038	392,332
Deferred	2,194,558	1,148,365
	<u>2,574,596</u>	<u>1,540,697</u>

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:

	2016	2015
Income tax at statutory income tax rate at 30%	2,680,271	1,461,229
Income tax effect of:		
Limitation on deductible interest expense	81	377
Interest income subjected to final tax	(248)	(1,139)
Income subjected to 8% final tax	(6,998)	(23,140)
Non-taxable income	(113,400)	69,234
Provision for income tax before final taxes	2,559,706	1,506,561
Final taxes on interest and other charges	14,890	34,136
Provision for income tax at effective tax rate	<u>2,574,596</u>	<u>1,540,697</u>

Note 8 - Other assets, net

The account as at 30 September 2016 and 31 December 2015 consists of:

	2016	2015
Pension asset	2,398,237	2,332,177
Available-for-sale financial assets (a)	323,578	304,178
Deferred input VAT (b)	156,223	-
Program software (c)	9,504	10,081
Others	2,002	25,391
	<u>2,889,544</u>	<u>2,671,827</u>

(a) Available-for-sale financial assets

Available-for-sale financial assets mainly represent equity securities and proprietary club shares which are carried at fair value. Details of the account as at 30 September 2016 and 31 December 2015 are as follows:

	2016	2015
Cost	27,690	28,289
Fair value adjustments recognized directly in other comprehensive income		
1 January	279,172	250,681
Change during the period	19,079	28,491
	<u>298,251</u>	<u>279,172</u>
30 September 2016 and 31 December 2015	325,941	307,461
Current portion	(2,363)	(3,283)
Non-current portion	<u>323,578</u>	<u>304,178</u>

The Company intends to sell equity instrument with fair value of P2.3 million within 12 months from the nine months period ended September 2016 (31 December 2015- P3.2 million). Correspondingly such amount was reclassified to current assets.

(b) Deferred Input VAT

Deferred input VAT will be recovered 12 months after reporting date. Hence, the same is reclassified to non-current asset as at 30 September 2016.

(c) *Program software*

Program software as at 30 September 2016 and 31 December 2015 and the movements in the accounts for the years consist of:

	2016	2015
At cost		
1 January	888,787	888,787
Reclassifications from AUC	2,504	-
	891,291	888,787
Accumulated amortization		
1 January	(878,706)	(874,454)
Amortization for the year	(3,081)	(4,252)
	(881,787)	(878,706)
Net book value	9,504	10,081

Note 9 - Accounts payable and accrued expenses

The account as at 30 September 2016 and 31 December 2015 consists of:

	2016	2015
Trade payables		
Third parties	4,487,382	5,503,347
Related parties	8,083,959	5,696,795
	12,571,341	11,200,142
Non-trade payables from related parties	65,990	584,147
Other payables		
Rent and utilities	437,658	1,155,474
Project-related costs and advances	731,264	1,430,566
Employee benefits	408,311	475,890
Advertising and promotions	431,531	339,044
Duties and taxes	567,591	86,982
Supply and distribution	175,399	115,214
IT-related costs	42,326	61,796
Interest	459	362
Provision for remediation and demolition costs	312,754	-
Others	1,377,777	709,869
	17,122,401	16,159,486

Note 10 - Short-term borrowings

The account as at 30 September 2016 consists of an unsecured short-term loan from various banks as per below intended for working capital requirements and corporate expenses.

Bank	Loan Value	Maturity date
Metropolitan Bank and Trust Company	1,000,000	3 October 2016
Metropolitan Bank and Trust Company	1,000,000	3 October 2016
Development Bank of Philippines	1,353,000	3 October 2016
Development Bank of Philippines	1,373,000	4 October 2016

As at 31 December 2015 unsecured short term loan from Metropolitan Bank and Trust Company (MBTC) with tenure of 6 days which had a maturity date of 4 January 2016.

The average interest rate on local borrowings for the nine months ended 30 September 2016 was 2.40% (30 September 2015 – 2.45%). Total interest expense charged to operations for the nine months ended 2016 arising from short-term loans amounted to P66.9 million (30 September 2015 – P419.8 million)

Note 11 - Loans payable

Details of the loan agreements with Bank of the Philippine Islands (BPI) as at 30 September 2016 and 31 December 2015 follow:

2016	2015	Interest	Terms
6,000,000	6,000,000	3.15% as at 30 September 2016 effective until next re-pricing	Payable after thirty-six (36) months reckoned from the drawdown date on 2 March 2015. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months. Original amount of the loan was P11.0 billion but a principal prepayment of P5.0 billion was made on 1 July 2015.
5,000,000	5,000,000	3.28% as at 30 September 2016 effective until next re-pricing.	Payable after sixty (60) months reckoned from the drawdown date on 2 March 2015. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months.
-	5,000,000	2.94% as at 31 December 2015 effective until next re-pricing Last pricing was 2.76%	Payable after thirty-six (36) months reckoned from the drawdown date on 17 January 2014. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months. The loan was prepaid on 18 April 2016.

As at 30 September 2016 and 31 December 2015, there are no portions of the borrowings that are presented as part of current liabilities.

Total interest expense charged to operations for the nine months period ended 30 September 2016 arising from these loans amounted to P300.3 million (30 September 2015 – P473.7 million).

There are no borrowings related to acquisition, construction or production of a qualifying asset in 2016 and 2015. 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 in subordinated creditors except those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.
- The Company shall not create or permit to subsist any encumbrance over all or any of its present or future revenues or assets other than 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.

Note 12 - Provisions and other liabilities

The account as at 30 September 2016 and 31 December 2015 consists of:

	2016	2015
Provision for legal cases (a)	1,626,605	1,598,498
Asset retirement obligation (ARO) (b)	1,378,162	1,383,126
Accrued operating lease	736,327	723,047
Provision for remediation and demolition costs (c)	560,701	863,538
Cash security deposits	322,203	340,834
Other liabilities	346,318	328,675
	4,970,316	5,237,718

(a) Provision for legal case

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

	2016	2015
1 January	1,598,498	1,561,022
Provisions, net	28,107	37,476
30 September 2016 and 31 December 2015	1,626,605	1,598,498

(b) Asset retirement obligation

Movements in the provision for asset retirement obligation follow:

	2016	2015
1 January	1,383,126	1,611,137
Additions/(Reduction)	(18,752)	140,160
Accretion	62,774	102,721
Transferred to short term	(31,074)	
Reversals	(17,912)	(240,063)
Charges	-	(230,829)
30 September 2016 and 31 December 2015	1,378,162	1,383,126

Asset retirement obligation represents the future estimated dismantling costs of various assets used in retail, depot and commercial operations. Average remaining life of the related assets is 7 years as at 30 September 2016 (31 December 2015 - 7 years). These are stated at present value at 30 September 2016 using a discount rate of 3.7% (31 December 2015 - 3.7%).

(c) Provision for remediation and demolition costs

Movements in the provision for remediation and demolition costs follow:

	2016	2015
1 January	863,538	818,867
Accretion	28,866	93,626
Transferred to short term	(331,703)	-
Charges	-	(48,955)
30 September 2016 and 31 December 2015	560,701	863,538

Provision for environmental liabilities (remediation and demolition) 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 30 September 2016 at 5.7% (31 December 2015 – 5.7%).

Note 13 - Share capital; Treasury shares; Share premium

Capital stock and treasury shares as at 30 September 2016 and 31 December 2015 consist of:

	2016		2015	
	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
Issued shares	1,653,558,291	1,653,558	1,653,558,291	1,653,558
Treasury shares	(67,614,089)	(507,106)	(67,614,089)	(507,106)
Issued and outstanding shares	1,585,944,202	1,146,452	1,585,944,202	1,146,452

The capital stock of the Company increased from P1.0 billion divided into 1 billion shares with a par value of P1.00 each to P2.5 billion divided into 2.5 billion shares with a par value of P1.00 each. The increase was approved by majority of the Board of Directors on 24 March 2015 and the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock at a meeting held on 12 May 2015, certified to by the Chairman and the Secretary of the stockholders meeting and a majority of the Board of Directors. In September 2015, the Company received P17.9 billion as deposit for subscription of new shares to be issued. The Securities and Exchange Commission (SEC) approved the increase in authorized capital stock on 18 August 2015. In 2015, after approval of increase in authorized capital stock, the Company issued 894,672,777 shares with par value of P1 per share for a total consideration of P17.9 billion. Transaction costs relating to the issue of shares that were accounted for as a deduction from equity, through share premium, amounted to P40.6 million composed of registration and regulatory fees, and stamp duties.

Note 14 - Retained earnings; Dividends

	2016	2015
Unappropriated retained earnings	6,401,961	42,320
Re-measurement losses on net defined benefit obligation, net of tax, closed to retained earnings	167,165	139,188
Cash Dividends	(3,300,000)	
Unappropriated retained earnings	3,269,126	181,508

Cash dividends declared and paid in 2016 and 2015

Date		Per share	2016	2015
Declared	Paid			
15th August 2016	19th September 2016	2.08	3,300,000	-
			3,300,000	-

Dividends were declared and paid for the nine months period ended 30 September 2016 and no dividend declared for the year ended 31 December 2015. At the regular meeting of the Board held on August 15, 2016, the Board approved the distribution of a cash dividend to stockholders of record as of August 15, 2016 of the unrestricted retained earnings available for cash dividends amounting to P3.3 billion as of June 30, 2016.

As at 30 September 2016, cost of treasury shares and the accumulated earnings of its associates are not available for dividend declaration. Included in the balance of the retained earnings is the amount of P1.1 billion representing the retained earnings of Shell Philippines Petroleum Corporation as at 30 June 1999 upon its merger with the Company. The said amount is available only for stock dividends.

Note 15 - Earnings per share

Computation of earnings per share (EPS) for the nine month periods ended 30 September follow:

	2016	2015
Earnings available to stockholders:		
Profit for the period	6,359,641	3,330,065
Weighted average number of shares	1,653,558,291	899,804,669
Treasury shares	(67,614,089)	(67,614,089)
	1,585,944,902	832,190,580
Basic and diluted EPS	4.01	4.00

As at 30 September 2016 and 2015, the Company does not have any potentially dilutive stocks.

Note 16 – Contingencies

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

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

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

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

Filed December 03, 2009

Matter Summary:

The Company imported substances such as CCG and LCCG which it combined and blended with other petroleum substances to produce finished gasoline products that are compliant with the requirements of the Clean Air Act and the Philippine National Standard.

In 2004, the then Deputy Commissioner of the Bureau of Internal Revenue (BIR) Legal and Inspection Group, acting on the opinion of the Department of Energy (DOE) that CCG and LCCG were raw materials or blending components in the production or processing of gasoline in its finished form, ascertained that imported CCG and LCCG were not subject to excise tax under the National Internal Revenue Code (NIRC) because they were intermediate goods which were not intended for domestic sale or consumption but were instead additional components in the production of finished gasoline products which were then subject to excise tax.

Relying in good faith on these administrative actions, the Company imported from 2004 to 2009 shipments of CCG and LCCG into the Philippines with each shipment covered by the corresponding BIR Authority to Release Imported Goods (ATRIG) stating that the importation is not subject to excise tax. Upon payment of value-added tax (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.

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.

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 P7.3 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 4 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 favor 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.

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 September 28, 2015 decision, the CTA en banc reversed the CTA Third Division, ruled partially in favor 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 September 21, 2016, the Company received an Amended Decision of the CTA en banc upholding its September 28, 2015 ruling and holding that the Company is liable to pay the Government for alleged unpaid taxes for the importation of CCG and LCCG for the period from 2006 to 2009 totalling P5.7 billion.

Status:

On 06 October 2016, the Company filed the appropriate appeal with the Supreme Court.

Management believes that provision should not be recognized as at 30 September 2016 and 31 December 2015 since it is the Company's assessment that liability arising is not probable because the Company's factual and legal positions are strong. The Company continues to take appropriate legal action and remediation with respect to such case.

(b) Excise tax on Importations of Alkylate

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

CTA Case No. 8535, Court of Tax Appeals, 1st 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 (SC).

On 2 June 2014, the Company filed a Petition for Certiorari with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the SC questioning the denial of its application for the issuance of a suspension order against the assessment and collection of excise taxes on its March 2014 alkylate shipment. On 7 July 2014, the 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, PSPC filed a Motion for Judgment on the Pleadings. This Motion was denied by the tax court on the 13 February 2015. On 16 March 2015, PSPC filed a Motion for Reconsideration from this denial of the Motion for Judgment on the Pleadings.

Status:

Hearings have been set beginning in January 2017.

Management believes that provision should not be recognized as at 30 September 2016 and 31 December 2015 since it is the Company's assessment that liability arising is not probable because the Company's factual and legal positions are strong.

(c) *Abandonment Case*

In 1996, the COC filed a case against the Company alleging that the Company had failed to timely pay duties and taxes on its crude imports. The lower court found in favor of the COC and the Company has since appealed the decision on the grounds that the delay in payment was due to disputes regarding the computation of the amounts. The case is on-going as of 30 September 2016.

(d) *Tax Credit Certificates Cases*

Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation
SC GR No. 204119-20, Supreme Court 2nd Division

Filed 5 December 2012

Matter Summary:

This is an appeal from the Decision of the Court of Appeals which affirmed the Court of Tax Appeals in setting aside the CIR's demand for payment of the sum of P1.7 billion as the Company's excise tax liabilities for the years 1992, 1994-1997, which were paid by the company through TCCs and TDMs.

Status:

Awaiting action by the Supreme Court.

Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation
SC-G.R. No. 197945, Supreme Court
Filed October 04, 2011

Matter Summary:

From 1988 to 1997, the Company paid some of its excise tax liabilities with Tax Credit Certificates duly assigned and transferred to it by other BOI-registered entities. In 1998, the BIR sent a collection letter to the Company demanding payment of allegedly unpaid excise taxes. CIR sought to collect from the Company the amount of P235 million. This became the subject of several protests which led to various cases before the CTA.

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

Status:

Awaiting further action by the court.

Republic of the Philippines rep. by Bureau of Customs vs. Pilipinas Shell Petroleum Corporation & Filipino Way Industries
SC-G.R. No. UDK 14908, SC G.R. No. 209324 Supreme Court

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

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

Status: In its Decision dated 09 December 2015, the Supreme Court remanded the case to the lower court 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 amounting. The Company filed a Motion for Reconsideration from this decision on 04 February 2016.

(e) *Excise Tax Refund case*

There are also tax cases filed by the Company for its claims from the government amounting to P745 million that are pending as at 30 September 2016 and 31 December 2015. Management believes that the ultimate outcome of such contingencies will not have a material impact on the Company's financial statements.

(f) *Other significant cases*

Management believes that the ultimate outcome of the contingencies discussed below will not have a material impact on the financial statements as at 30 September 2016 and 31 December 2015.

(i) Pandacan zoning ordinance

On 28 November 2001, the City Government of Manila enacted Ordinance No. 8207 rezoning the Pandacan depot from an Industrial II to a Commercial I classification. This Ordinance required the Company and two (2) other oil companies operating in Pandacan to cease and desist from operating their business within six (6) months.

On 25 November 2014, the SC decided to declare Ordinance No. 8187, which repeals Ordinance No. 8207, unconstitutional and invalid with respect to the continuing stay of the Pandacan depots.

In response to the latest decision of the SC, the Company has taken all the necessary actions to comply with the said ordinance in 2015.

(ii) Cases Filed by the West Tower Condominium Corporation

**(a) *West Tower Condominium Corp. et al. vs. Judge Elpidio R. Calis et al.*
SC G.R. No. 215901, Supreme Court**

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.

(b) *West Tower Condominium Corp. vs. Garde, et al (Criminal Negligence)*
PS No. XV-05-INV-11J-02709 , Department of Justice
Filed October 2, 2011

Matter Summary:

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

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

Status:

The case is pending resolution.

(iii) Desalination ordinance

City of Batangas, et al., vs. Pilipinas Shell Petroleum Corp., et al.
SC G.R. No. 195003, Supreme Court

In 2003, pursuant to Batangas City Ordinance No. 3 S. 2001 (the Desalination Ordinance), the Company and First Gas Power Corporation commissioned a groundwater study of Batangas City to determine the effects of industrial operations on the Batangas aquifer. The Desalination Ordinance requires all established heavy industries established along the Batangas City portion of the Batangas Bay and in areas declared as Heavy Industrial Zones to construct desalination plants. The ordinance also prohibits the use or exploitation of underground fresh water for cooling system and industrial purposes. The Ordinance provided for a 5-year grace period within which all existing industries must comply with the Ordinance. The results of the study show that the present residential, commercial and industrial users of groundwater in Batangas do not adversely affect the Batangas aquifer. Further studies of the Tabangao Watershed confirmed the initial finding that there was no legal basis for the requirement to install desalination plants. The Company sought and obtained an injunction enjoining the City of Batangas from implementing the Ordinance. The Regional Trial Court of Batangas as well as the Court of Appeals decided in favor of the Company. The case is currently pending in the Supreme Court.

(iv) Others

Cecilio Abenion, et al vs. Dow Chemical Co, et al.
SC G.R. No. 202295, Supreme Court, 1st Division
SC-G.R. Case 199182-89, Supreme Court, 2nd Division
Filed December 23, 2011

Matter Summary:

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

In August 2009, a Davao City trial court issued a Notice of Garnishment of the Company's funds in a bank. The Company sought and obtained protective relief from the Court of

Appeals on the basis that it was not a party to the case nor to the compromise agreement subject of the case. The Court of Appeals further ordered the judge who issued the execution and garnishment against the Company's assets to recuse himself from further presiding in the proceedings in the trial court. The SC has declared the dismissal of one of the two petitions filed for failure of petitioners to sufficiently show that the Court of Appeals committed any reversible error in the decision and resolution. The SC has not yet resolved the remaining petition but the management believes that the ultimate outcome of this contingency will not have a material impact on the Company's financial statements, given that it is similar to the previous petition which will most probably have the same outcome.

Status:

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

Note 17 - Summary of significant accounting policies

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

17.1 Basis of preparation

Basis of Preparation:

The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets which have been 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.

The financial statements are prepared for purposes of the Company's initial public offering.

Statement of Compliance:

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). The Company also prepares and issues financial statements presented in accordance with PFRS.

Changes in Accounting Policies and Disclosures:

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations [based on International Financial Reporting Interpretations Committee (IFRIC) interpretations] which were adopted as of January 1, 2016. Adoption of these amendments to PFRS, PAS and Philippine Interpretations did not have any significant effect to the Company.

- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures - Investment entities: Applying the consolidation Exception (Amendments)*
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests (Amendments)*
- PAS 1, *Presentation of Financial Statements - Disclosure Initiative (Amendments)*
- PAS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
- Annual Improvements to PFRSs (2012 - 2014 cycle)
 - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
 - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
 - PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
 - PAS 19, *Employee Benefits - regional market issue regarding discount rate*
 - PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*

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.

- PFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of PFRS 9 was issued in July 2014. It replaces the guidance in PAS 39 that relates to the classification and measurement of financial instruments. PFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in PAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. PFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests.

It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under PAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company's initial assessment of PFRS 9's potential impact on its financial statements provides that it would change the classification of its financial assets but it will not affect the measurement of its current types of financial assets. The Company will continue its assessment and finalize the same upon effective date of the new standard.

- IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces PAS 18 'Revenue' and PAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company's initial assessment of PFRS 15's potential impact on its financial statements provides that its current revenue recognition will not be significantly affected. The Company will continue its assessment and finalize the same upon effective date of the new standard.
- IFRS 16, Leases (effective January 1, 2019). The standard now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. It has also included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under IFRS 16, 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. PFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, but only in conjunction with PFRS 15, 'Revenue from Contracts with Customers'. In order to facilitate transition, entities can choose a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use asset and the lease liability, rather than full retrospective application; furthermore, the 'simplified approach' does not require a restatement of comparatives. In addition, as a practical expedient entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are "grandfathered"). The Company will continue its assessment and finalize the same upon effective date of the new standard.

17.2 Offsetting 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. As at 30 September 2016 and 31 December 2015, there are no financial assets and financial liabilities that were offset except the below:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
30 September 2016					
<u>Financial liabilities:</u>					
Derivative liabilities	9,394	(87,680)	(78,286)	-	(78,286)
31 December 2015					
<u>Financial liabilities:</u>					
Derivative liabilities	15,111	(122,201)	(107,090)	-	(107,090)

Note 18 - Financial risk management

18.1 Financial risk factors

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

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

18.1.1 Market risk

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

i. Foreign exchange risk

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

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

ii. Cash flow and fair value interest rate risk

Cash flow and fair value interest risk is the risk that future cash flows 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 issued at variable rates expose the Company to cash flow interest-rate risk. At 30 September 2016 and 31 December 2015, 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 30 September 2016, if interest rates on Philippine peso-denominated borrowings had been 100 basis points (assessment threshold used by management) higher/lower with all other variables held constant, post-tax profit for the period would have been P110 million (31 December 2015 – P131 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. Moreover, there is no material exposure of fair value risk arising from outstanding forward contracts.

iii. Commodity and Other Price risks

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

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

18.1.2 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.

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 balance sheet dates as the Company deals with a large number of homogenous trade customers.

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 September 30, 2016 and December 31, 2015, the Company has the following:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
30 September 2016					
<u>Financial assets:</u>					
Receivables	7,159,148	-	7,159,148	3,781,851	3,377,297
<u>Financial liabilities:</u>					
Derivative liabilities	9,394	(87,680)	(78,286)	-	(78,286)
31 December 2015					
<u>Financial assets:</u>					
Receivables	6,595,185	-	6,595,185	4,766,482	1,828,703
<u>Financial liabilities:</u>					
Derivative liabilities	15,111	(122,201)	(107,090)	-	(107,090)

18.1.3 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.

Availability of funding to settle the Company's payables are ensured since the Company has unused credit lines of P74.4 billion as at 30 September 2016 (31 December 2015 – P85.3 billion) and undrawn borrowing facilities at floating rate amounting to P74.4 billion (31 December 2015 – P73.5 billion), which is expiring within one year.

Given the adequacy of the Company's short term credit facilities, it has assessed that it no longer requires its short-term credit facility with STCE (31 December 2015 - P11.8 billion). The Company's master agreement with STCE was terminated on 04 April 2016.

18.2 Capital management

The Company manages its business to deliver strong cash flows to fund capital expenditures and growth based on cautious assumptions relating to crude oil prices. Strong cash position and operational cash flow provide the Company financial flexibility both to fund capital investment and return on equity. Total capital is calculated as 'equity' as shown in the balance sheet 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 balance sheet to be able to finance investment and growth, after the funding of dividends.

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

The Company does not have a fixed gearing target and management considers whether the present gearing level is commercially acceptable based on the ability of the Company to operate on a stand-alone basis and is set after appropriate advice has been taken from Tax, Treasury and Legal advisors. To improve gearing ratio, additional equity has been infused in August 2015

The gearing ratios at 30 September 2016 and 31 December 2015 are as follows:

	2016	2015
Total loans and borrowings	15,726,000	18,717,000
Less: cash	3,791,990	3,576,802
Net debt	11,934,010	15,140,198
Total equity (excluding other reserves)	28,811,569	25,723,951
Total capital	40,745,579	40,864,149
Gearing ratio	29%	37%

The Company is not subject to externally imposed capital requirement.

18.3 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 30 September 2016 and 31 December 2015:

	2016	2015
Financial assets		
Loans and receivables		
Cash	3,791,990	3,576,802
Receivables	7,159,148	6,595,185
Market investment loans	77,631	79,330
Long-term receivables	62,560	35,267
Available-for-sale financial assets	325,941	307,461
Total financial assets	11,417,270	10,594,045
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued expenses	16,554,810	16,072,504
Dividends payable	9,668	9,668
Short-term borrowings	4,726,000	2,717,000
Loans payable	11,000,000	16,000,000
Total financial liabilities	32,290,478	34,799,172

Receivables in the table above exclude miscellaneous receivables and Long term receivables exclude claims from the government 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 for which it is practicable to estimate such value:

i. Current financial assets and liabilities

Due to the short-term nature of the accounts, the fair value of cash and cash equivalents, 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 price and the relevant index price as of the statement of financial position date. The fair values of the derivatives are categorized under Level 2 of the fair value hierarchy.

iv. Loans payable

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

Note 19 – Changes in estimates of amounts

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

Note 20 – Issuances, repurchases, and repayments of debt and equity securities

There were no issuances, repurchases of debt and equity securities during the quarter. There was a repayment of P5.0 billion of long term borrowing during the period ended 30 September 2016.

Note 21 – Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

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

Note 22 – Changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations

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

Note 23 – Changes in contingent liabilities or contingent assets

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

Note 24 – Existence of material contingencies

There were no material contingencies, events or transactions that existed that materially impact the current interim period except those disclosed in the contingencies note.

Note 25 – Other Matters

- a. There were no seasonal aspects during the interim period that have a material effect on the financial results of operations.
- b. The Company has reviewed the known trends, demands, developments, commitments, events or uncertainties during the reporting period and is of the opinion that there are no items which will have a material impact on the issuer's liquidity.
- c. There were no material or significant events during the reporting period that will trigger direct or contingent financial obligations that are material to PSPC except for the cases enumerated under Note 16 - Contingencies.
- d. There were no material off-balance sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- e. For the year 2016, a budget of P3.4 billion has been approved for capital expenditures. Bulk of the capital expenditures will be allocated mainly for asset integrity maintenance, turnaround and growth projects.
- f. Global developments, particularly the volatility in oil prices, will continue to impact crude oil supply, both internationally and in the domestic market.
- g. There were no significant elements of income or loss that did not arise from the Company's continuing operations.

ITEM 2

Management's Discussion and Analysis of Financial Performance and Financial Condition

Key Performance Indicators

	FY 2015 (Audited)	YTD 3Q 2016 (Unaudited)
Current Ratio	1.9	1.6
Debt-to-Equity	0.6	0.4
Debt Ratio	22.9%	17.8%
Return on Assets	5.4%	9.5%
Return on Equity	13.6%	21.8%
Return on average capital employed	13.8%	20.7%

- Current ratio is computed by dividing current assets over current liabilities.
- Debt-to-equity ratio resulted by dividing net debt (short-term borrowing and loans payable less cash) by equity (exclusive of Other Reserves).
- Debt ratio is computed as net debt divided by total assets.
- Return on assets is computed as profit (loss) for the period divided by total assets.
- Return on equity is computed as profit (loss) for the period divided by total equity.
- Return on average capital employed is defined as EBIT as a percentage of the average capital employed for the period. Capital employed consists of total equity, short-term borrowings and loans payable. Average capital is calculated as the mean of the opening and closing balances of capital employed for that period.

(Please note that the numbers for 2016 are only for YTD Q3 while those for 2015 are for the full year).

Financial Performance

	YTD 3Q 2015	YTD 3Q 2016	%Increase (decrease)
Net Income	3,330.1	6,359.7	91.0%
EBITDA	6,974.7	10,672.9	53.0%
EBITDA Adjusted for COSA	9,457.7	8,945.7	(5.4)%
Dividends (P/share)	0	2.08	
Sales Volumes (M liters)	4,443	4,377	(1.5%)

Net Income improved significantly by P3,029.6 or 91.0% from P3,330.1 million for the nine months ended September 30, 2015 to P6,359.7 million for the nine months ended September 30, 2016. This was driven mainly by higher marketing margins, lower cost of sales and lower operating costs. Inventory holding gain contributed P1,193.8 for YTD Q3 2016.

EBITDA improved significantly by 53% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 mainly due to inventory holding losses of P2,483.0 million in YTD Q3 2015 vs inventory holding gains of 1727.3 million in YTD Q3 2016.

EBITDA Adjusted for COSA decreased by 5.4% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 mainly due to decrease in industry refining margins offset by increase in premium fuel penetration, successful marketing campaigns and retail volume growth.

Sales Volumes decreased by 1% from 4,443 million litres for the nine months ended September 30, 2015 to 4,377 million litres for the nine months ended September 30, 2016 mainly due to un-contracted volumes for PSALM for the Commercial business. Retail volumes grew by 4.2% driven by differentiated fuel offerings, successful marketing campaigns and contribution of new-to-industry sites.

Net sales decreased by P21,218.4 million, or 17.3%, from P122,360.8 million for the nine months ended September 30, 2015 to P101,142.3 million for the nine months ended September 30, 2016, primarily as a result of significantly lower product prices driven by the decrease in global oil prices.

Cost of sales decreased by P24,283.1 million, or 22.7%, from P106,769.8 million for the nine months ended September 30, 2015 to P82,486.7 million for the nine months ended September 30, 2016, primarily as a result of the decrease in global crude prices, and lower logistics and transshipment costs due to the closure of Pandacan.

Gross profit increased by P3,064.7 million, or 19.7% from P15,591.0 million for the nine months ended September 30, 2015 to P18,655.7 million for the nine months ended September 30, 2016. The improvement in gross profit was driven mainly by increased premium fuel penetration, volume growth in retail, transport cost optimization and lower operating expenses.

Other operating income, net decreased by P60.8 million, or 37.0%, from P164.3 million for the nine months ended September 30, 2015 to P103.5 million for the nine months ended September 30, 2016, mainly due to reversal of excess asset retirement obligation provision for Pandacan in 2015 which resulted to lower other operating expenses in 2015.

Finance expense, net decreased significantly by P739.2 million, or 55.0%, from P1344.2 million for the nine months ended September 30, 2015 to P605.0 million for the nine months ended September 30, 2016, as a result of lower interest and finance charges due to repayment of a long-term loans in Q1 2016.

Other non-operating income, net increased by P0.7 million, from P0.03 for the nine months ended September 30, 2015 to P0.73 million for the nine months ended September 30, 2016, primarily due to the gain on sale of private membership club shares available for sale.

Provision for income tax increased by P1,033.9 million, or 67.1% from P1,540.7 million for the nine months ended September 30, 2015 to P2,574.6 million for the nine months ended September 30, 2016, substantially due to increase in pre-tax income.

Net Profit for the period, As a result of the reasons above, the Company recorded an increase of P3,029.6 or 91.0% from P3,330.1 million for the nine months ended September 30, 2015 to P6,359.7 million for the nine months ended September 30, 2016. Inventory holding gain contributed P1,193.8.

Financial Position

Current assets The Company's current assets decreased from P36,640.6 million as of December 31, 2015 to P35,846.7 million as of September 30, 2016 primarily due to the following,

Cash increased by P215.1 million, or 6.0% from P3,576.8 million as of December 31, 2015 to P3,791.9 million as of September 30, 2016 primarily as a result of strong financial and operational performance.

Receivables decreased by P2,589.9 million, or 24.9% from P10,387.0 million as of December 31, 2015 to P7,797.1 million as of September 30, 2016 primarily as a result of reclassification of claims from government agencies on various taxes paid from receivables to long term receivables.

Inventories increased by P2,964.8 million, or 26.1% from P11,348.5 million as of December 31, 2015 to P14,313.3 million as of September 30, 2016 primarily as a result of increase in oil prices and stock building for the North Mindanao Import Facility (NMIF).

Prepayments and other current assets decreased by P1,383.9 million, or 12.2% from P11,328.2 million as of December 31, 2015 to P9,944.3 million as of September 30, 2016. This is primarily due to the utilization of a portion of the excess input VAT accumulated from prior years.

Non-Current assets The Company's non-current assets increased from P29,578.4 million as of December 31, 2015 to P31,212.7 as of September 30, 2016 million primarily due to the following,

Long-term Receivables, rentals and investments, net increased by P3,310.5 million, or 374.0% from P885.3 million as of December 31, 2015 to P4,195.8 million as of September 30, 2016 primarily as a result of reclassification of claims from government agencies on various taxes paid from receivables to long term receivables.

Deferred income tax assets, net decreased by P2,206.6 million, or 59.4% from P3,712.3 million as of December 31, 2015 to P1,505.7 million as of September 30, 2016 primarily as a result of utilization of some deferred tax assets as a result of profits delivered during the first nine months of 2016.

Other assets, net increased by P217.7 million, or 8.1% from P2,671.8 million as of December 31, 2015 to P2,889.5 million as of September 30, 2016 primarily due to reclassification of deferred input VAT from prepayments to other assets.

Current Liabilities The Company's current liabilities increased from P18,886.2 million as of December 31, 2015 to P21,858.1 million as of September 30, 2016 primarily due to the following,

Accounts payable and accrued expenses increased by P962.9 million, or 6.0% from P16,159.5 million as of December 31, 2015 to P17,122.4 million as of September 30, 2016 primarily due to increase in trade payables due to increase in the crude oil prices.

Short-term borrowings increased by P2,009.0 million, or 73.9% from P2,717.0 million as of December 31, 2015 to P4,726.0 million as of September 30, 2016 primarily due to the conversion of some long-term loans to short-term. The borrowings are for working capital requirements.

Non-Current Liabilities The Company's non-current liabilities decreased from P21,237.7 million as of December 31, 2015 to P15,970.3 million as of September 30, 2016 primarily due to the following,

Loans Payable, net of current portion decreased by P5,000.0 million, or 31.3% from P16,000.0 million as of December 31, 2015 to P11,000.0 million as of September 30, 2016 mainly due to the repayment of long-term loans.

Provision and other liabilities decreased by P267.4, or 5.1% from P5,237.7 million as of December 31, 2015 to P4,970.3 million as of September 30, 2016 primarily due to reclassification of part of environmental remediation to short term.

Equity The Company's total equity increased from P26,095.1 million as of December 31, 2015 to P29,231.0 million as of September 30, 2016 primarily due to the following,

Retained earnings increased by P3,087.6 million, from P181.5 million as of December 31, 2015 to P3,269.1 million as of September 30, 2016 due to increase in profits during the year, net of dividends paid amounting to P3,300 million.

Other reserves increased by P48.2 million, or 13.0% from P371.2 million as of December 31, 2015 to P419.4 million as of September 30, 2016 due to increase in fair value reserves pertaining to available for sale securities, pertaining to private membership club shares owned by the Company.

SIGNATURES


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

Issuer:

Signature and Title: 
ATTY. ERWIN R. OROCIO
Corporate Secretary

Date: November 14, 2016

Principal Financial/Accounting Officer/Controller:

Signature and Title: 
JOSE JEROME R. PASCUAL III
Vice President – Finance and Treasurer

Date: November 14, 2016