

COVER SHEET

1 4 8 2 9

S.E.C. Registration Number

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

(Company's Full Name)

4 1 S T F L R . T H E F I N A N C E C E N T E R ,

2 6 T H S T . C O R 9 T H A V E . , B O N I F A C I O
G L O B A L C I T Y , B R G Y . F O R T

B O N I F A C I O , T A G U I G C I T Y , M E T R O
M A N I L A 1 6 3 5

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

Jose Jerome R. Pascual III
Contact Person

+632499-4001
Company Telephone Number

0 3 3 1
Month Day

1 7 - Q
FORM TYPE

0 5 0 7
Month Day

Fiscal Year

3rd Tuesday of May
Annual General
Meeting as per By-
Laws

CERTIFICATE OF PERMIT
TO OFFER SECURITIES
FOR SALE DATED
14 OCTOBER 2016

Secondary License Type, If
Applicable

C G F D
Dept. Requiring this
Doc.

Amended Articles Number/Section

321
Total No. of Stockholders
(As of 31 March 2019)

Total Amount of Borrowings
17,725,000,000 Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

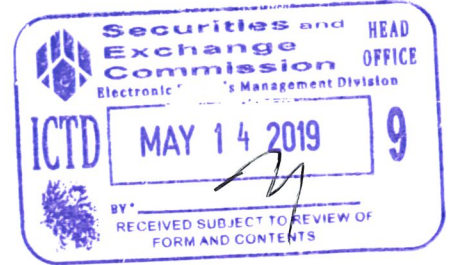
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STAMPS

Confidential



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

<i>Title of Class</i>	<i>Number of shares common stock outstanding and amount of debt outstanding</i>
<input type="text" value="Common Stock"/>	<input type="text" value="1,613,444,202"/>
<input type="text" value="Total Liabilities"/>	<input type="text" value="59,547,898,801"/>

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

If yes, state the name of such stock exchange and the classes of securities listed therein:
Philippines Stock Exchange - Common Shares

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

Statements of Financial Position

As at 31 March 2019

With Comparative Figures for 31 December 2018

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

	Note	March 2019 Unaudited	December 2018 Audited
ASSETS			
Current Assets			
Cash	2	6,074,065	4,455,124
Trade and other receivables, net	3	12,916,071	12,992,819
Inventories, net	4	23,395,615	19,642,836
Prepayments and other current assets	5	2,525,005	3,687,782
Total Current Assets		44,910,756	40,778,561
Noncurrent Assets			
Long-term receivables, rentals and investments, net	6	4,149,970	4,659,005
Property and equipment, net		28,245,018	28,128,715
Right of use lease assets	8	12,075,542	-
Other assets, net	9	6,639,329	6,600,096
Total Noncurrent Assets		51,109,859	39,387,816
TOTAL ASSETS		96,020,615	80,166,377
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	10	23,401,630	25,180,133
Short term loans	11	8,725,000	3,261,000
Dividends Payable		4,372,040	15,622
Total Current Liabilities		36,498,670	28,456,755
Noncurrent Liabilities			
Long-term debt, net of current portion	12	9,000,000	9,000,000
Lease liabilities		10,224,935	-
Deferred tax liabilities, net	7	749,208	693,574
Provisions and other liabilities		3,075,086	3,044,237
Total Noncurrent Liabilities		23,049,229	12,737,811
Total liabilities		59,547,899	41,194,566
Equity			
Share capital - P1 par value	13	1,681,058	1,681,058
Share premium	13	26,161,736	26,161,736
Treasury shares	13	(507,106)	(507,106)
Retained earnings	14	8,566,637	11,074,898
Other reserves		570,391	561,225
Total Equity		36,472,716	38,971,811
TOTAL LIABILITIES AND EQUITY		96,020,615	80,166,377

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

PILIPINAS SHELL PETROLEUM CORPORATION

Unaudited Statement of Income

For the period ended 31 March 2019 and 2018

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

1Q 2019	1Q 2018		YTD 1Q 2019	YTD 1Q 2018
50,876,751	49,535,111	Net sales	50,876,751	49,535,111
(44,178,172)	(42,463,793)	Cost of sales	(44,178,172)	(42,463,793)
6,698,579	7,071,318	Gross profit	6,698,579	7,071,318
(3,496,149)	(3,384,962)	Selling, general and administrative expenses	(3,496,149)	(3,384,962)
398,487	59,414	Other operating income, net	398,487	59,414
3,600,917	3,745,770	Income from operations	3,600,917	3,745,770
(468,970)	(430,706)	Finance expense, net	(468,970)	(430,706)
3,131,947	3,315,064	Income before income tax	3,131,947	3,315,064
(799,875)	(992,782)	Provision for income tax	(799,875)	(992,782)
2,332,072	2,322,282	Net income	2,332,072	2,322,282
1.45	1.44	Earnings per share - Basic and Diluted	1.45	1.44

**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, excluding Treasury Shares, for 1Q 2019 and for 1Q 2018 is 1,613,444,202 respectively.

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

PILIPINAS SHELL PETROLEUM CORPORATION

Unaudited Statement of Comprehensive Income

For the period ended 31 March 2019 and 2018

(All amounts in thousands Philippine Peso)

1Q 2019	1Q 2018		YTD 1Q 2019	YTD 1Q 2018
2,332,072	2,322,282	Net Income	2,332,072	2,322,282
		Other comprehensive income		
		<i>Items not to be reclassified to income or loss in subsequent periods:</i>		
		Increase/(Decrease) in fair value of equity through OCI financial assets, net of tax		
9,166	(1,080)		9,166	(1,080)
2,341,238	2,321,202	Total comprehensive income	2,341,238	2,321,202

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

PILIPINAS SHELL PETROLEUM CORPORATION

Unaudited Statement of Changes in Equity
For the period ended 31 March 2019 and 2018
(All amounts in thousands Philippine Peso)

Notes	Share Capital 13	Share Premium 13	Treasury Stock 13	Retained Earnings 14	Other Reserves Share- based Reserve	Fair value Reserve	Total
Balance at 01 January 2018							
(as previously published)	1,681,058	26,161,736	(507,106)	14,339,453	138,200	322,047	42,135,388
Impact of IFRS 9*				(42,619)			(42,619)
Balance at 01 January 2018 (as revised)	1,681,058	26,161,736	(507,106)	14,296,834	138,200	322,047	42,092,769
Income for the period	-	-	-	2,322,282	-	-	2,322,282
Increase in fair value of equity through OCI	-	-	-	-	-	(1,080)	(1,080)
Total comprehensive income for the period	-	-	-	2,322,282	-	(1,080)	2,321,202
Transactions with owners							
Cash dividends	-	-	-	(8,293,103)	-	-	(8,293,103)
Total transactions with owners for the period	-	-	-	(8,293,103)	-	-	(8,293,103)
Balances at March 31, 2018	1,681,058	26,161,736	(507,106)	8,326,013	138,200	320,967	36,120,868
Balances as at January 1, 2019	1,681,058	26,161,736	(507,106)	11,074,898	145,880	415,345	38,971,811
Income for the period	-	-	-	2,332,072	-	-	2,332,072
Other comprehensive income:							
Increase in fair value of AFS financial assets	-	-	-	-	-	9,166	9,166
Total comprehensive income for the period	-	-	-	2,332,072	-	9,166	2,341,238
Transactions with owners							
Cash dividends	-	-	-	(4,840,333)	-	-	(4,840,333)
Total transactions with owners for the period	-	-	-	(4,840,333)	-	-	(4,840,333)
Balances at March 31, 2019	1,681,058	26,161,736	(507,106)	8,566,637	145,880	424,511	36,472,716

* Refer to "Basis of Preparation"

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

PILIPINAS SHELL PETROLEUM CORPORATION

Unaudited Statement of Cash Flows
For the period ended 31 March 2019 and 2018
(All amounts in thousands Philippine Peso)

	March 2019	March 2018
Cash flows from operating activities		
Income before income tax	3,131,947	3,315,064
Adjustments:		
Depreciation and amortization	1,029,167	513,672
Amortization of prepaid lease payments	436,747	400,910
Interest and finance charges	437,070	145,464
Unrealized mark-to-market (gain) loss, net	(663)	55,053
Unrealized foreign exchange loss (gain), net	82,745	(40,116)
Pension expense	21,916	52,875
Accretion expense	29,370	21,642
Loss (Gain) on disposal of property and equipment	4,397	(352)
Reversals of provisions for ARO and remediation and demolition costs	-	-
Interest Income	(22)	(2,069)
Share in profit of associates	(19,131)	(11,108)
Operating income before working capital changes	5,153,543	4,451,035
Increase in inventories, trade and other receivables, prepayments and other assets	(4,038,899)	(1,814,264)
Increase in trade and other payables and provisions and other liabilities	(2,558,084)	846,663
Cash generated from operations	(1,443,440)	3,483,434
Pension contributions paid	(16,940)	(2,408)
Net cash from operating activities	(1,460,380)	3,481,026
Cash flows from investing activities		
Additions to property and equipment	(767,578)	(628,490)
Right of use asset	(594,950)	-
Increase in long term receivables and rentals, net	(643,599)	(192,242)
Proceeds from sale of property and equipment	508	1,964
Dividend received	52,377	-
Interest received	22	2,069
Net cash used in investing activities	(1,953,220)	(816,699)
Cash flows from financing activities		
Repayment of long term loan	-	(2,000,000)
Cash Dividends paid	-	-
Net proceeds (settlements of) from short-term borrowings	5,464,000	2,809,000
Interest and finance charges paid	(431,515)	(151,797)
Net cash used in financing activities	5,032,485	657,203
Net increase in cash	1,618,885	3,321,530
Cash at the beginning of the period	4,455,124	6,163,261
Effect of exchange rate changes on cash	56	199,786
Cash at the end of the period	6,074,065	9,684,577

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

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO FINANCIAL STATEMENTS

As at 31 March 2019 and 31 December 2018 and for the three-month period ended 31 March 2019 and 2018
(All amounts in table are shown in thousand Philippine Peso except per share data and unless otherwise stated)

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.

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

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

The Company's registered office, which is also its principal place of business, is located at 41st Floor, The Finance Centre, 26th Street corner 9th Avenue Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila, 1635.

The Company owns an oil refinery in Tabangao, Batangas and various oil depots and installations all over the Philippines. The Company has 700 regular employees as at 31 March 2019 (31 December 2018 - 703).

Note 2 - Cash

The account as at 31 March 2019 and 31 December 2018 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 as at 31 March 2019 and 31 December 2018 is maintained with the following type of financial institutions:

	31 March 2019	31 December 2018
Universal banks	2,943,630	3,252,242
Commercial banks	3,130,435	1,202,882
	6,074,065	4,455,124

Note 3 – Trade and other receivables, net

The account as at 31 March 2019 and 31 December 2018 consists of:

	31 March 2019	31 December 2018
Trade receivables		
Third parties	10,874,620	10,318,584
Related parties	369,510	685,969
Provision for impairment of trade receivables from third parties	(231,178)	(185,107)
	11,012,952	10,819,446
Non-trade receivables from related parties	90,183	171,325
Other receivables		
Creditable Withholding tax	310,391	521,240
Duty drawback and other claims	315,277	383,124
Non trade receivable from third party	204,114	214,125
Miscellaneous	1,027,206	919,149
Provision for impairment of other receivables	(44,052)	(35,590)
	1,812,936	2,002,048
	12,916,071	12,992,819

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

The Company holds collaterals for trade receivables from third parties as at 31 March 2019 valued at P3.8 billion (31 December 2018 – P3.8 billion) consisting of cash securities, letters of credit or bank guarantees and Real Estate Mortgages (REM). These securities can be applied once the related customer defaults on settlement of the Company's receivables based on agreed credit terms. The maximum exposure of the Company is P7.3 billion as at 31 March 2019 (31 December 2018 – P7.2 billion) (see Note 20.1.2). These balances relate to a number of customers with no recent history of default.

(a) Past due receivables but not impaired

The aging of past due trade receivables, net of provision from third parties as at 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019	31 December 2018
Less than 30 days	89,450	156,535
31 - 60 days	329,805	260,531
61 - 90 days	42,605	111,893
Greater than 90 days	142,196	169,249
	604,056	698,208

These balances relate to a number of independent customers for majority of 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 2018	135,653	45,839	181,492
Provisions (Reversals)	50,292	(10,249)	40,043
Write Off	(838)	-	(838)
At 31 December 2018	185,107	35,590	220,697
Provisions (Reversals)	46,073	8,462	54,535
Write Off	(2)	-	(2)
At 31 March 2019	231,178	44,052	275,230

For the three-month period ended 31 March 2019, trade receivables written-off directly to statement of income amounted to P1.4 million (31 March 2018 direct recovery of P0.1 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 31 March 2019 and 31 December 2018 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)	31 March 2019	31 December 2018
A	1,215,597	1,760,357
B	2,359,691	1,641,799
C	4,715,187	4,622,298
D	1,748,911	1,410,815
Total trade receivables	10,039,386	9,435,269

- A Customers with strong financial performance and with low probability of default.
- B Customers with good financial strength but with some elements of risk in one or more financial or non-financial inputs.
- C Customers with low credit risk and balance is secured with post-dated checks and other 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 three-month period ended 31 March 2019 and for the year ended 31 December 2018.

Note 4 - Inventories, net

The account as at 31 March 2019 and 31 December 2018 consists of:

	31 March 2019	31 December 2018
Crude oil and finished products, net	23,093,777	19,345,555
Materials and supplies, net	301,838	297,281
	23,395,615	19,642,836

Details of and changes in allowance for inventory write-down and obsolescence as at and for the three-month period ended 31 March 2019 and for the year ended 31 December 2018 are as follows

	Crude oil and finished products	Materials and supplies	Total
At 1 January 2018	26,452	-	26,452
Reversals, net	126,204	-	126,204
At 31 December 2018	152,656	-	152,656
Provision, net	(80,033)	-	(80,033)
At 31 March 2019	72,623	-	72,623

The provision for inventory resulting from the write-down of crude and finished products to net realizable value amounted to P47.3 million and P25.4 million relates to obsolescence of finished products as at 31 March 2019 (31 December 2018 – P124.5 million and P28.2 million).

Of the total amount of inventories, the inventories with a value of P1,923.4 million as at 31 March 2019 (31 December 2018 – P925.2 million) are carried at net realizable value, this being lower than cost which approximates the inventories fair value less cost to sell.

Cost of inventories included as part of cost of sales amounted to P36.0 billion for the three-month period ended 31 March 2019 (31 March 2018 – P36.5 billion).

Note 5 - Prepayments and other current assets

The account as at 31 March 2019 and 31 December 2018 consists of:

	31 March 2019	31 December 2018
Prepaid specific tax (a)	1,017,248	966,174
Prepaid corporate income tax (b)	526,926	669,025
Input value added tax (VAT), net of Output VAT (c)	475,797	1,083,898
Advance rentals	181,628	693,895
Derivatives (d)	7,811	22,780
Prepaid duties and taxes	4,055	4,646
Advances to suppliers	-	115,114
Others	311,540	132,250
	2,525,005	3,687,782

(a) Prepaid specific tax

These are excise tax deposits made to the BIR and utilized upon removal of taxable products from the refinery.

(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.

(c) *Input VAT, net of output VAT*

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

(d) *Derivatives*

The Company enters into commodity forward contracts to hedge the commodity price risks arising from its crude oil and other oil products requirements. As at 31 March 2019, the notional principal amount of the outstanding commodity forward contracts amounted to P7.6 billion (31 December 2018 – P2.2 billion). As at 31 March 2019, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P7.8 million (31 December 2018 – P22.8 million).

For the three-month period ended 31 March 2019, the Company's fair value of settled derivatives amounted to gain of P220.7 million (31 March 2018 – loss of P15.7 million).

For the three-month period ended 31 March 2019, net fair value changes of the outstanding commodity forward contracts amounting to a gain of P0.7 million (31 March 2018 – loss of P55.1 million) were recognized in 'Other operating income, net'.

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

The account as at 31 March 2019 and 31 December 2018 consists of:

	31 March 2019	31 December 2018
Advance rentals	13,919	1,062,648
Customer Grants (b)	53,419	54,071
Investments in associates (c)	37,661	74,843
	104,999	1,191,562
Long-term receivables (a)	4,453,963	3,876,435
Provision for impairment of long-term receivables	(408,992)	(408,992)
	4,044,971	3,467,443
	4,149,970	4,659,005

(a) *Long-term receivables*

Long-term receivables include claims from government agencies amounting to P4.3 billion as at 31 March 2019 (31 December 2018 - P3.7 billion) representing the amount to be recovered from the government on various taxes paid. Included in this P4.3 billion is P1.1 billion of excise duties and VAT paid under protest for Alkylate shipment. The management has assessed that its recoverability is beyond 12 months from the reporting date and hence has been classified as non-current for the three-month period ended 31 March 2019 and year ended 31 December 2018.

As at 31 March 2019, long-term receivables of P409.0 million (31 December 2018 – P409.0 million) were impaired and fully provided.

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

	Other long-term receivables
At 1 January 2018	497,767
Provision	-
Reclassification	-
Reversal	(88,775)
At 31 December 2018	408,992
Reversal	-
At 31 March 2019	408,992

As at 31 March 2019 and 31 December 2018, there are no other long-term receivables that are past due but not impaired. The other classes and balances within long-term receivables, rental and investments are fully performing.

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

(b) *Customer Grants*

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

(c) *Investments in associates*

	31 March 2019	31 December 2018
Cost	23,073	23,073

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

	Interest	Assets	Liabilities	Net Assets	Income	Share of Profit
31 March 2019						
Bonifacio Gas Corporation	44%	221,432	123,771	97,661	47,480	20,891
Kamayan Realty Corporation	40%	24,950	6,457	18,493	1,438	575
31 December 2018						
Bonifacio Gas Corporation	44%	275,151	104,946	170,205	124,066	54,589
Kamayan Realty Corporation	40%	21,808	4,757	17,051	5,856	2,342

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 tax liabilities

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

	31 March 2019	31 December 2018
Deferred income tax assets (liabilities)		
Asset retirement obligation	440,133	427,354
Unamortized past service cost, net	222,084	237,915
Straight lining of Operating Leases	272,077	285,686
Provision for remediation costs	94,788	95,116
Provision for doubtful debts	205,880	187,628
Share-based compensation	38,489	38,489
Provision for inventory losses	45,306	63,579
Unrealized foreign exchange gain	(74,039)	(95,359)
Unrealized mark-to-market gain	9,438	9,637
Prepaid duties and taxes	(448,957)	(385,614)
Retirement benefit asset	(1,757,724)	(1,757,724)
Other provisions	203,317	199,719
Net deferred income tax	(749,208)	(693,574)

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

	31 March 2019	31 December 2018
At 1 January	(693,574)	(702,049)
Credited to profit and loss	(54,340)	69,977
Credited to other comprehensive income	(1,294)	(61,502)
Application of excess MCIT	-	-
At 31 March 2019 and 31 December 2018	(749,208)	(693,574)

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

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

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

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

financial statements in line with the BOI requirement for its ITH application. The Company availed the ITH benefit to arrive at the income tax liability as of 31 March 2019 and 31 December 2018.

The details of provision for income tax for the three-month period ended 31 March 2019 and 2018 are as follows:

	31 March 2019	31 March 2018
Current	745,535	1,017,904
Deferred	54,340	(25,122)
	799,875	992,782

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:

	31 March 2019	31 March 2018
Income tax at statutory income tax rate at 30%	939,584	994,519
Income tax effect of:		
Non-deductible expenses	928	72
Limitation on deductible interest expense	46	34
Interest income subjected to final tax	(139)	(104)
Non-taxable income	(141,903)	(3,345)
Income subjected to 8% final tax	(822)	(1,658)
Provision for income tax before final taxes	797,694	989,518
Final taxes on interest and other charges	2,181	3,264
Provision for income tax at effective tax rate	799,875	992,782

Note 8 – Right of use lease assets

The account as at 31 March 2019 consists of:

	31 March 2019
Cost	12,622,917
Accumulated depreciation and impairment	(547,375)
Net carrying amount at 31 March 2019	12,075,542

The right of use assets include assets which were recognized as operating lease assets in accordance with PAS 17 until 31 December 2018.

Note 9 - Other assets, net

The account as at 31 March 2019 and 31 December 2018 consists of:

	31 March 2019	31 December 2018
Pension asset	5,933,315	5,899,956
Equity through OCI (a)	527,168	516,707
Deferred input VAT (b)	124,467	127,707
Intangible assets (c)	54,379	55,726
	6,639,329	6,600,096

(a) *Equity through OCI*

Equity through OCI mainly represent equity securities and proprietary club shares which are carried at fair value. Details of the account as at 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019	31 December 2018
Cost		
As at 01 January	26,800	27,994
Reclassified to intangible asset	-	(1,194)
As at 31 December	26,800	26,800
Fair value adjustments recognized directly in other comprehensive income		
1 January	489,907	322,047
Changes during the period	10,461	167,860
	500,368	489,907
31 March 2019 and 31 December 2018	527,168	516,707
Current portion	-	-
Non-current portion	527,168	516,707

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

(b) *Deferred Input VAT*

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

(c) *Intangible asset*

Intangible asset consists of program software and others. As at 31 March 2019 and 31 December 2018 the movements in the accounts for the years consist of:

	31 March 2019	31 December 2018
At cost		
1 January	950,323	949,129
Reclassifications from AUC	-	-
Reclassification from available for sale financial assets	-	1,194
Write off	-	-
Balance at the end	950,323	950,323
Accumulated amortization		
1 January	(894,597)	(888,222)
Amortization for the period	(1,347)	(6,375)
Write off	-	-
Balance at the end	(895,944)	(894,597)
Net book value	54,379	55,726

Note 10 – Trade and other payables

The account as at 31 March 2019 and 31 December 2018 consists of:

	31 March 2019	31 December 2018
Trade Payables		
Third parties	6,493,233	7,554,917
Related parties	10,948,190	11,740,362
	17,441,423	19,295,279
Non-trade payables from related parties	347,209	407,110
Other payables		
Rent and utilities	1,738,275	1,578,017
Project-related costs and advances	1,408,463	1,575,540
Employee benefits	342,198	669,109
Provision for remediation	204,862	206,425
Supply and distribution	162,181	185,382
Advertising and promotions	337,857	379,069
Duties and taxes	551,370	88,308
Derivatives (a)	39,271	54,903
Others (b)	828,521	740,991
	23,401,630	25,180,133

(a) As at 31 March 2019, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P39.3 million (31 December 2018 – P54.9 million).

(b) Others include the current portion of asset retirement obligation and various other accruals.

Note 11 - Short-term loans

The account as at 31 March 2019 consists of unsecured short-term loans from bank as per below intended for working capital requirements and corporate expenses.

BANK	Loan Value	Maturity date	Tenure
Bank of The Philippine Islands	3,525,000	2 April 2019	4 days
Metropolitan Bank and Trust Company Philippines	1,500,000	1 April 2019	5 days
Metropolitan Bank and Trust Company Philippines	3,700,000	1 April 2019	4 days
	8,725,000		

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

The average interest rate on local borrowings for the three-month period ended 31 March 2019 was 5.26% (31 March 2018 – 2.76%). Total interest expense charged to operations for the three-month period ended 31 March 2019 arising from short-term loans amounted to P81.0 million (31 March 2018 – P136.7 million).

Note 12 – Long-term debt

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

31 March 2019	31 December 2018	Interest	Terms
9,000,000	9,000,000	5.97% as at 31st March 2019 effective until next re-pricing	Payable after sixty (60) months reckoned from the drawdown date on 08 March 2019. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months.

Total interest expense charged to operations for the three-month period ended 31 March 2019 arising from these loans amounted to P132.8 million (31 March 2018 – P8.8 million).

There are no borrowings related to acquisition, construction or production of a qualifying asset as at 31 March 2019 and 31 December 2018. 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 13 - Share capital; Treasury shares; Share premium

Capital stock and treasury shares as at 31 March 2019 and 31 December 2018 consist of:

	31 March 2019		31 December 2018	
	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	1,681,058,291	1,681,058	1,681,058,291	1,681,058
Treasury shares	(67,614,089)	(507,106)	(67,614,089)	(507,106)
Issued and outstanding shares	1,613,444,202	1,173,952	1,613,444,202	1,173,952

As at 31 March 2019, the Company has 321 shareholders, excluding treasury shares, (31 December 2018 - 316), 284 of whom hold at least 100 shares of the Company's common shares (31 December 2018 - 280).

Note 14 - Retained earnings; Dividends

Retained earnings as at 31 March 2019 and 31 December 2018 consist of:

	31 March 2019	31 December 2018
Unappropriated retained earnings, unadjusted	6,117,736	8,625,997
Re-measurement gains on net defined benefit obligation, net of tax, closed to retained earnings	2,448,901	2,448,901
Unappropriated Retained Earnings	8,566,637	11,074,898

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

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

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

Cash dividends declared and paid in 2019 and 2018

Date		Per share		
Declared	Paid		2019	2018
14 March 2018	19 April 2018	5.14	-	8,293,103
21 March 2019	30 April 2019	3.00	4,840,333	-
			4,840,333	8,293,103

As at 31 March 2019, cost of treasury shares, the accumulated earnings of its associates and unrealised mark-to-market gains are not available for dividend declaration. As at 31 March 2019, the dividend declared is unpaid and presented as part of dividend payable, the same has been paid on 30 April 2019.

Note 15 - Earnings per share

Computation of earnings per share (EPS) for the three-month period ended 31 March follow:

	YTD 1Q 2019	YTD 1Q 2018
Earnings available to stockholders:		
Profit for the period	2,332,072	2,322,282
Weighted average number of shares	1,681,058,291	1,681,058,291
Treasury shares	(67,614,089)	(67,614,089)
	1,613,444,202	1,613,444,202
Basic and diluted EPS	1.45	1.44

As at 31 March 2019 and 2018, the Company does not have any potentially dilutive stocks.

Trailing Earnings per share

	2019 (Trailing 12 months)	2018 (Trailing 12 months)
Earnings available to stockholders:		
Profit for the period	5,086,115	9,798,351
Weighted average number of shares	1,681,058,291	1,681,058,291
Treasury shares	(67,614,089)	(67,614,089)
	1,613,444,202	1,613,444,202
Basic and diluted EPS	3.15	6.07

Trailing 12 months Earnings/(Loss) per Share (Basic) = Trailing 12 months Net Income/(Loss) – Dividends Paid on Preferred Stock/Weighted Ave. No. of Common Shares Outstanding.

Trailing 12 months Net Income/(Loss) = Current Year-to-date Net Income/(Loss) + Latest Annual Net Income/(Loss) – Previous Year-to-date Net Income/(Loss).

Note 16 – Classification of other operating and non-operating income and finance expense

	YTD 1Q 2019	YTD 1Q 2018
Other operating income	414,874	166,689
Other operating expense	(16,388)	(107,275)
Other operating income, net	398,486	59,414
Finance income	83,261	42,186
Finance expenses	(552,231)	(472,892)
Finance expenses, net	(468,970)	(430,706)

Other operating income, net comprises rental income and franchise commission from non-fuel retail business, mark to market loss or gain from hedge settlements, loss on disposal of fixed assets and others.

Note 17 – Contingencies

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

**Pilipinas Shell Petroleum Corporation vs. Commissioner of Customs, Collector of Customs of the Port of Batangas, Bureau of Customs and Bureau of Internal Revenue
SC G.R. Nos. 227651 & 227087
Filed 03 December 2009**

Matter Summary:

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

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

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

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

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

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

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

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

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

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

The BOC filed a Petition for Review with the CTA en banc. Meanwhile, the Company filed its own Petition for Review with the CTA en banc because the CTA did not invalidate the 15 December 2009 Ruling of the CIR with respect to double taxation - first, upon importation and the other upon withdrawal of the finished grade products from the refinery.

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

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

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

Status:

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

Management believes that provision should not be recognized as at 31 March 2019 and 31 December 2018 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. No status change as of February 2019.

(b) *Excise tax on Importations of Alkylate*

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

CTA Case No. 8535, Court of Tax Appeals, 2nd Division

Filed 24 August 2012

Matter Summary:

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

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

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

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

On 02 June 2014, the Company filed a Petition for Certiorari with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the SC questioning the denial of its application for the issuance of a suspension order against the assessment and collection of excise taxes on its March 2014 alkylate shipment. On 7 July 2014, the SC issued a temporary restraining order enjoining the CTA and the tax-collecting agencies of the government from imposing excise taxes on incoming alkylate importations of the Company.

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

As disclosed in Note 6, the Company has excise duties and VAT paid under protest amounting to P1.1 billion for certain Alkylate shipments.

Status:

Trial on the merits is pending with the Court of Tax Appeals (“CTA”). Due to the retirement of two Justices which resulted in the reorganization of the Court, the case has been transferred to the 2nd Division from the 1st Division. Jurisdictional issues are pending with the Supreme Court 2nd Division.

On 07 January 2019, the Company received the Resolution dated 17 December 2018 issued by the CTA 2nd Division granting the filing of its Formal Offer of Evidence.

(c) *Tax Credit Certificates Cases*

Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation
SC GR No. 204119-20, Supreme Court 2nd Division
Filed 05 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:

The Supreme Court rejected the Bureau of Internal Revenue's effort to collect taxes totalling ~ \$37 million, which Pilipinas Shell (PSPC) had paid using Tax Credit Certificates (TCCs) acquired from other companies. According to the SC, PSPC obtained the TCCs in good faith and for value and used them in accordance with the applicable laws and rules. On 10 September 2018, a Motion for Reconsideration was filed by the Commissioner of Internal Revenue ("CIR") on the Supreme Court's Decision. Awaiting Resolution from the Supreme Court to direct PSPC to file a Comment/Opposition to the Appeal.

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

The Supreme Court rejected the Bureau of Internal Revenue's effort to collect taxes totalling ~ \$37 million, which Pilipinas Shell (PSPC) had paid using Tax Credit Certificates (TCCs) acquired from other companies. According to the SC, PSPC obtained the TCCs in good faith and for value and used them in accordance with the applicable laws and rules. On 10 September 2018, a Motion for Reconsideration was filed by the Commissioner of Internal Revenue ("CIR") on the Supreme Court's Decision. Awaiting Resolution from the Supreme Court to direct PSPC to file a Comment/Opposition to the Appeal.

Republic of the Philippines rep. by Bureau of Customs vs. Pilipinas Shell Petroleum Corporation & Filipino Way Industries
SC G.R. No. 209324 Supreme Court
Civil Case No. 02-103191, Regional Trial Court of Manila

Matter Summary:

Sometime in March 1996, TCCs were issued to Filway Industries for customs duties and taxes allegedly paid on raw materials used in the manufacture, processing or production of knitted fabrics. In 1997, Filway executed a deed of assignment over the TCCs in favour of the company. The Company then utilized said TCCs to settle its customs duties and taxes on oil importations.

According to the government, it was discovered that the said credit memos were fake and spurious as they did not conform to the records. Thus, the TCCS were cancelled and BOC is demanding anew for the payment of custom duties and taxes for the Company's importations.

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

Status:

Government concluded the presentation of its evidence. On 04 August 2018, PSPC filed a demurrer to evidence. Awaiting resolution.

(d) *Excise Tax Refund Case*

There are also tax cases filed by the Company for its claims from the government amounting to P733.1 million that are pending as at 31 March 2019 and 31 December 2018 in the CTA and SC. Management believes that the ultimate outcome of such cases will not have a material impact on the Company's financial statements.

(e) *Other significant cases*

(i) Cases Filed by the West Tower Condominium Corporation (WTCC)

(a) *West Tower Condominium Corp. et al. vs. Judge Elpidio R. Calis et al*
SC G.R. No. 215901, Supreme Court
Filed 11 June 2012

Matter Summary:

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

Status:

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

On 26 September 2014, the Company asked the Court of Appeals to deny the motion for reconsideration filed by West Tower Condominium Corporation, et al. for lack of merit. In its resolution dated 11 December 2014, the Court of Appeals denied the motion for reconsideration filed by the West Tower Condominium Corporation, et al. West Tower Condominium Corporation, et al.'s filed with the Supreme Court the present petition dated 11 February 2015 seeking a review of the decision of the Court of Appeals. The Company has filed its Comment with Opposition dated 18 September 2015 asking the Supreme Court to dismiss the petition and to deny the application for a temporary restraining order. Awaiting Supreme Court's action.

(b) *West Tower Condominium Corp. vs. Garde, et al (Criminal Negligence)*
PS No. XV-05-INV-11J-02709, Department of Justice
Filed 25 October 2011

Matter Summary:

This is a complaint for criminal negligence against the 11 Directors of the Company and 2 Officers of the Company who were also directors of FPIC at the time of the pipeline leak incident. 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 19 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:

In its Resolution dated 22 February 2018, the Office of the City Prosecutor of Manila dismissed the Complaint for lack of probable cause. The Resolution stated that the directors and officers of the Corporation were not under obligation to operate and maintain the pipeline belonging to FPIC. Complainants did not file an appeal thus, the Resolution has attained finality and the case shall be considered closed.

(iii) 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 23 December 2011

Matter Summary:

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

In August 2009, a Davao City trial court issued a Notice of Garnishment of the Company's funds in a bank. 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.

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 (SC G.R. No. 202295) was dismissed by the Supreme Court in 2012 and the company recently received the Supreme Court's Resolution dated 5 June 2017 which also dismisses the other set of petitions (SC G.R. No. 199182-89). In a Supreme Court Resolution dated 7 March 2018, the petitioners' appeal has been dismissed with finality.

Note 18 - Deregulation Law

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

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

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

Note 19 - Summary of significant accounting policies

19.1 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 and derivatives 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.

Statement of Compliance:

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

Changes in Accounting Policies and Disclosures:

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

- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- PFRS 16, Leases
- Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement
- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments
- Annual Improvements to PFRSs 2015-2017 Cycle
 - Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation
 - Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity
 - Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization

New and amended standards and interpretations

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

PFRS 16 Leases

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. Under the new standard, lessees are required to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases., with limited exceptions. This will be recognized in statement of financial position by way of right-of-use assets along with their corresponding lease liabilities.

The Company adopted PFRS 16 with effect from January 1, 2019 using the modified retrospective method. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application with no restatement of comparative information. The Company applied PFRS 16 to contracts that were previously identified as leases applying PAS 17 at the date of initial application. The Company also elected to use the recognition exemption for lease contracts that, at the date of initial application, have a lease term of 12 months or less (short-term leases) and do not contain a purchase option, and lease contracts for which the underlying asset is of low value (low-value leases).

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied. The right-of-use assets were recognized based on the amount equal to lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Company did not have any sub-lease or finance leases as on January 1, 2019.

Based on the above, as on January 1, 2019, the Company;

- recognized a right-of-use asset amounting to Php11.7 billion presented under Property, plant and equipment;
- recognized lease liability of Php 11.2 billion thousand disclosed separately in the condensed interim statement of financial position; and
- reclassified prepayments of Php0.6 billion thousand relating to previous leases as right-of-use asset.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

	PHP in 000's
Undiscounted operating lease commitments as at December 31, 2018	17,672,319
Impact of discounting	5,245,238
Exemptions	
Short-term leases	-
Low-value leases	-
Leases not yet commenced at January 1, 2019	305,647
Other reconciling items	958,559
Total lease liability at January 1, 2019	(11,162,875)
Weighted average incremental borrowing rate as at January 1, 2019	5.193%

Standards Issued But Not Yet Effective

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
Deferred effectivity
- Amendments to PFRS 10, *Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

Note 20 - Financial risk management

20.1 Financial risk factors

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

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

20.1.1 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 and considering the forecast of foreign exchange rates.

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

ii. Cash flow and fair value interest rate risk

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

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

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

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

For the year ended 31 March 2019, 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 year would have been P124.1 million (31 December 2018 – P85.8 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. Management uses 100 basis points as threshold in assessing the potential impact of interest rate movements in its operations.

iii. Commodity and Other Price risks

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

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

20.1.2 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. Additional information is presented in Note 2.

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

There is no concentration of credit risks as at statement of financial position dates as the Company deals with a large number of homogenous trade customers. Additional information is presented in Note 3.

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

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
31 March 2019					
<u>Financial assets:</u>					
Receivables	11,103,135	-	11,103,135	3,786,643	7,316,492
31 December 2018					
<u>Financial assets:</u>					
Receivables	10,990,771	-	10,990,771	3,839,423	7,151,348

20.1.3 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 and undrawn borrowing facilities at floating rate amounting to P63.2 billion as at 31 March 2019 (31 December 2018 – P68.7 billion) which is expiring within one year.

20.2 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 repurchase. The Company aims to maintain an efficient statement of financial position to be able to finance investment and growth, after the funding of dividends.

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

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

	Note	31 March 2019	31 December 2018
Total loans and borrowings	11,12	17,725,000	12,261,000
Less: cash	2	6,074,065	4,455,124
Net debt		11,650,935	7,805,876
Total equity (excluding other reserves)	13,14	35,902,325	38,410,586
Total Capital		47,553,260	46,216,462
Gearing ratio		25%	17%

The Company is not subject to externally imposed capital requirement.

20.3 Fair value estimation

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

	Notes	31 March 2019	31 December 2018
Financial assets			
Loans and receivables			
Cash	2	6,074,065	4,455,124
Receivables	3	11,103,135	10,990,771
Derivatives	5	7,811	22,780
Customer grants	6	53,420	54,071
Long-term receivables	6	141,069	191,601
Equity through OCI	9	527,168	516,707
Total financial assets		17,906,668	16,231,054
Financial liabilities			
Other financial liabilities			
Trade and other payables	10	22,810,989	25,036,922
Dividends payable		4,372,040	15,622
Derivatives	10	39,271	54,903
Cash security deposits		327,780	308,516
Short-term loans	11	8,725,000	3,261,000
Long-term debt, net of current portion	12	9,000,000	9,000,000
Total financial liabilities		45,275,080	37,676,963

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 21 – 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 22 – Issuances, repurchases, and repayments of debt and equity securities

There were no issuances, repurchases of debt and equity securities during the quarter.

Note 23 – 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 24 – 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 25 – 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 26 – 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 27 – 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 Pilipinas Shell Petroleum Corporation except for the cases enumerated under Note 17 - 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 2019, a budget of P6.0 billion has been approved for capital expenditures. Bulk of the capital expenditures will be allocated mainly for establishment of new retail service stations and growth projects, and the improvement of existing supply and distribution sites.
- 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**

The Statements of Financial Position and Statements of Income for the period ended 31 March 2019 and 2018, are shown in Million Philippine Pesos.

Financial condition as of the three-month period ended 31 March 2019 compared with the period ended 31 December 2018

	31 March 2019	31 December 2018	%Increase (decrease)
Current assets	44,910.8	40,778.6	10.1%
Non-Current assets	51,109.9	39,387.8	29.8%
Total assets	96,020.6	80,166.4	19.8%
Current Liabilities	36,498.7	28,456.8	28.3%
Non-Current Liabilities	23,049.2	12,737.8	81.0%
Total Liabilities	59,547.9	41,194.6	44.6%
Equity	36,472.7	38,971.8	-6.4%

Current assets

PSPC's current assets increased from P40,778.6 million as of 31 December 2018 to P44,910.8 million as of 31 March 2019 primarily due to the following:

Inventories, net increased by P3,752.8 million, or 19.1% from P19,642.8 million as of 31 December 2018 to P23,395.6 million as of 31 March 2019 driven by increase in general oil prices and slight increase in inventory levels

Cash increased by 1,618.9 million, or 36.3% from P4,455.1 million as of 31 December 2018 to 6,074.1 million as of 31 March 2019 as a result of cash generation from financing activities partially offset by cash used in investing and operating activities.

Prepayments and other current assets decreased by P1,162.8 million, or 31.5% from P3,687.8 million as of 31 December 2018 to P2,525.0 million as of 31 March 2019 mainly driven by utilization of input VAT and decrease in rental prepayments as a result of PFRS 16 implementation.

Non-Current Assets

PSPC's non-current assets increased from P39,387.8 million as of 31 December 2018 to P51,109.9 million as of 31 March 2019 primarily due to the following:

Right of use asset of Php12,075.5 million as of 31 March 2019 is mainly due to implementation of PFRS 16 previously recognized under prepayments and long-term receivables.

Long-term Receivables, rentals and investments, net decreased by P509.0 million, or 10.9% from P4,659.0 million as of 31 December 2018 to P4,150.0 million as of 31 March 2019 primarily due to decrease in rentals as a result of PFRS 16 implementation where operating leases are capitalized as right of use assets.

Current Liabilities

PSPC's current liabilities increased from P28,456.8 million as of 31 December 2018 to P36,498.7 million as of 31 March 2019 primarily due to the following:

Short-term loans increased by P5,464.0 million from P3,261.0 million as of 31 December 2018 to P8,725.0 million as of 31 March 2019 primarily due to higher short-term borrowings for working capital requirements.

Dividend payable increased by P4,356.4 million, from P15.6 million as of 31 December 2018 to P4,372.0 million as of 31 March 2019 primarily due to the dividend declared on 21 March 2019 payable on 30 April 2019.

Trade and other payables decreased by P1,778.5 million, or 7.1% from P25,180.1 million as of 31 December 2018 to P23,401.6 million as of 31 March 2019 primarily due to decrease in trade payables.

Non-Current Liabilities

PSPC's non-current liabilities increased from P12,737.8 million as of 31 December 2018 to P23,049.2 million as of 31 March 2019 primarily due to the following:

Lease liabilities of Php 10,224.9 million as of 31 March 2019 is mainly due to implementation of PFRS 16 previously recognized under prepayments and long-term receivables.

Equity

PSPC's total equity decreased from P38,971.8 million as of 31 December 2018 to P36,472.7 million as of 31 March 2019 primarily due to the decrease in retained earnings from P11,074.9 million as of 31 December 2018 to P8,566.6 million as of 31 March 2019. The 22.6% or P2,508.3 decrease in retained earnings is mainly driven by cash dividend declared amounting to P4,840.3 million partially offset by profits earned during the period. 2019 declared dividend of Php3 per share yielded a return of 5.8%.

Financial Performance

	YTD 1Q 2019	YTD 1Q 2018	%Increase (decrease)
Net Sales	50,876.8	49,535.1	2.7%
Sales Volumes (M liters)	1,401	1,369	2.3%
Cost of sales	44,178.2	42,463.8	4.0%
Gross profit	6,698.6	7,017.3	-5.3%
Selling, General and administrative expenses	3,496.1	3,385.0	3.3%
Other operating income, net	398.5	59.4	570.7%
Finance expenses, net	469.0	430.7	8.9%
EBITDA Adjusted for COSA	2,419.8	2,454.5	-1.4%
EBITDA	4,627.6	3,993.8	15.9%
Provision for income tax	799.9	992.8	-19.4%
Net Income	2,332.1	2,322.3	0.4%

Results of operations for the period ended 31 March 2019 compared with the period ended 31 March 2018

Net sales and cost of sales increased by P1,341.7 million, or 2.7% and P1,714.4 million or 4% respectively due to increase in sales volume sold for the period.

Other operating income, net increased significantly by P339.1 million from P59.4 million for the period ended 31 March 2018 to P398.5 million for the period ended 31 March 2019. This increase is primarily due to net mark to market gain in 2019 as compared to net mark to market loss in 2018 arising from favorable settlement deals.

Finance expense, net increased by P38.3 million, or 8.9%, from P430.7 million for the period ended 31 March 2018 to P469.0 million for the period ended 31 March 2019. This is mainly driven by increase in interest and finance charges owing to implementation of PFRS16. This is partially offset by the reduction in foreign exchange loss on account of lower foreign currency balance in 2019 compared to 2018.

EBITDA Adjusted for COSA decreased by P34.7 million or 1.4% from P2,454.5 million for the period ended 31 March 2018 to P2,419.8 million for the period ended 31 March 2019 driven by the lower regional refining margin environment and front-loaded expenses partially offset by strong performance from marketing businesses and impact of IFRS 16.

EBITDA increased by P633.8 million or 15.9% from P3,993.8 million for the period ended 31 March 2018 to P4,627.6 million for the period ended 31 March 2019 mainly due to impact of pre-tax inventory holding gains of P1,547.2 million in YTD 1Q 2019 against P1,077.5 million in YTD 1Q 2018.

Key financial ratios

	YTD 1Q 2019 (unaudited)	FY 2018 (Audited)
Current Ratio (a)	1.23	1.43
Debt Ratio (b)	0.12	0.10
Debt to Equity (c)	0.32	0.20
Asset to equity ratio (d)	2.67	2.09
Interest coverage ratio (e)	15.65	12.50
Return on Assets (f)	2.43%	6.33%
Return on Equity (g)	6.50%	13.22%
Return on average capital employed (h)	6.83%	14.81%

- a. Current ratio is computed by dividing current assets over current liabilities.
- b. Debt ratio is computed by dividing net debt (short-term and long-term borrowings less cash) over total assets.
- c. Debt to equity ratio is derived by dividing net debt (short-term and long-term borrowings less cash) over stockholder's equity (exclusive of Other Reserves).
- d. Asset to equity ratio is derived by dividing total assets over stockholder's equity (exclusive of Other Reserves).
- e. Interest coverage ratio is derived by dividing earnings before interest expense and taxes over interest expense.
- f. Return on assets is computed as Profit (Loss) for the year divided by total assets.
- g. Return on equity is computed as Profit (Loss) for the year divided by stockholder's equity (exclusive of Other Reserves).
- h. 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 2019 are only for YTD 1Q 2019 while those for 2018 are for the full year, as audited).

OTHER FINANCIAL DATA

Reconciliation from statutory profit for the year to EBIT and EBITDA

	YTD 1Q 2019	YTD 1Q 2018
Profit for the period	2,332.1	2,322.3
Add:		
Provision for income tax	799.9	992.8
Finance expense	466.4	167.1
Depreciation and amortization	1,029.2	513.7
Less:		
Finance income	0.0	2.1
EBITDA¹	4,627.6	3,993.8
Less:		
Depreciation and amortization	1,029.2	513.7
EBIT¹	3,598.4	3,480.1
	YTD 1Q 2019	YTD 1Q 2018
EBITDA	4,627.6	3,993.8
Less:		
Cost of Sales Adjustment (COSA) ²	2,207.8	1,539.3
EBITDA (adjusted for COSA) ³	2,419.8	2,454.5
Less:		
Depreciation and amortization	1,029.2	513.7
EBIT (adjusted for COSA) ³	1,390.6	1,940.8

The Company adopted modified retrospective approach for PFRS 16. 1Q 2019 EBITDA adjusted for COSA was calculated under PFRS 16 where depreciation and interest increased from the recognition of right of use and lease liability with a corresponding decrease in rental expenses. 1Q 2018 EBITDA adjusted for COSA was based on the old standard, PAS 17. 1Q 2019 EBITDA adjusted for COSA under PAS 17 would have resulted to Php 1,721.5 million.

¹ EBIT indicates profit for the period excluding interest income, interest and finance charges (and accretion) expense and benefit from (provision for) income tax. EBITDA indicates profit for the period excluding interest income, interest and finance charges (and accretion) expense, benefit from (provision for) income tax and depreciation and amortization. EBIT and EBITDA are not measurements of financial performance under PFRS and investors should not consider them in isolation or as an alternative to profit or loss for the period, income or loss from operations, an indicator of PSPC's operating performance, cash flow from operating, investing and financing activities, or as a measure of liquidity or any other measures of performance under PFRS. Because there are various EBIT and EBITDA calculation methods, PSPC's presentation of this measure may not be comparable to similarly titled measures used by other companies. EBIT and EBITDA above are both unaudited figures for YTD 1Q 2019.

² The COSA provides an approximate measure of PSPC's performance on a current cost of supplies basis, and is a financial measure used by PSPC in managing its day-to-day operations such as (but not limited to) allocating resources and assessing performance. The COSA is an adjustment that reflects PSPC's cost of sales using the current cost of supplies sold, rather than FIFO inventory accounting which is the actual standard applied by PSPC in preparing its PFRS financial statements. As such, the COSA excludes the accounting effect of changes in the oil price on inventory carrying amounts. The COSA as applied to EBIT and EBITA is applied on a pre-tax basis to arrive at adjusted EBIT and adjusted EBITDA. Prospective investors are cautioned that COSA, EBITDA, and EBIT (and any adjustments thereto) are in all cases not measurements of financial performance under PFRS and investors should not consider them in isolation or as an alternative to profit or loss for the year, income or loss from operations, or as an indicator of PSPC's operating performance, cash flow from operating, investing and financing activities, or as a measure of liquidity or any other measures of performance under PFRS. Although other oil refiners use similar measures, prospective investors are cautioned that there are various calculation methods, and PSPC's presentation of COSA may not be comparable to similarly titled measures used by other companies.


³ These figures have been adjusted to remove the effects of changes in oil prices on inventory carrying amounts, which adjustment is referred to herein as the cost of sales adjustment.

SIGNATURES


Pursuant to the requirements of Section 17 of the Code and Section 141 of PSPC Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on day of May 14, 2019.

Issuer:

Signature and Title:


ATTY. ERWIN R. OROCIO
Corporate Secretary

Signature and Title:


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

Signature and Title:


ANGELICA M. CASTILLO
Corporate Controller

SUBSCRIBED AND SWORN to before me this MAY 14 2019 at Makati City, affiant/s exhibiting to me the following Community Tax Certificate and/or Competent Evidence of Identification:

Name	Competent Evidence of Identification		
	Passport Number	Date of Issue	Place of Issue
ERWIN R. OROCIO		21 st April 2018	DFA Manila
ANGELICA M. CASTILLO		25 th January 2016	DFA Manila
JOSE JEROME R. PASCUAL III		7 th February 2016	DFA Manila

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

NOTARY PUBLIC

Doc. No. 111 ;
Page No. 24 ;
Book No. II ;
Series of 2019.


MARK HADRIAN P. GAMON
NOTARY PUBLIC FOR & IN MAKATI CITY
156 VALERO ST., SALCEDO VILLAGE, MAKATI CITY
ROLL NO. 53862 | IBP NO. 011503-MAKATI CHAPTER-LIFETIME
UNTIL DEC 31 2019/APPOINTMENT NO. M-249
PTR. NO. MKT-7347694 MAKATI CITY 11 JANUARY 2019
MCLE COMPLIANCE V-0016415/28 MARCH 2016