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**SECURITIES AND EXCHANGE COMMISSION**

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Company Information

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SEC Registration No. 0000014829

Company Name PILIPINAS SHELL PETROLEUM CORP (NEW)

Industry Classification Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains

Company Type Stock Corporation

**Document Information**

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Period Covered September 30, 2019

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Department CFD

Remarks

# COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

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

Jose Jerome R. Pascual III
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Contact Person

+632499-4001
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Company Telephone Number

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Month Day

1	7	-	Q	
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FORM TYPE

0	5	0	7
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Month Day

Fiscal Year

3<sup>rd</sup> Tuesday of May  
Annual General  
Meeting as per By-  
Laws

CERTIFICATE OF PERMIT TO OFFER SECURITIES FOR SALE DATED 14 OCTOBER 2016
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Secondary License Type, If  
Applicable

C	G	F	D
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Dept. Requiring this  
Doc.

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Amended Articles Number/Section

320
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Total No. of Stockholders  
(As of 30 September 2019)

Total Amount of Borrowings	
15,484,000,000	
Domestic	Foreign

To be accomplished by SEC Personnel concerned

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File Number

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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="58,000,503,000"/>

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 30 September 2019

With Comparative Figures for 31 December 2018

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

	Note	September 2019 Unaudited	December 2018 Audited
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	2	4,078,502	4,455,124
Trade and other receivables, net	3	13,551,013	12,992,819
Inventories, net	4	24,769,749	19,642,836
Prepayments and other current assets	5	1,921,824	3,687,782
<b>Total Current Assets</b>		<b>44,321,088</b>	<b>40,778,561</b>
<b>Noncurrent Assets</b>			
Long-term receivables, rentals and investments, net	6	4,488,614	4,659,005
Property and equipment, net		29,645,931	28,128,715
Right of use lease assets	8	11,028,206	-
Other assets, net	9	7,073,505	6,600,096
<b>Total Noncurrent Assets</b>		<b>52,236,256</b>	<b>39,387,816</b>
<b>TOTAL ASSETS</b>		<b>96,557,344</b>	<b>80,166,377</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	29,032,984	25,180,133
Short term loans	11	6,484,000	3,261,000
Dividends Payable		17,216	15,622
<b>Total Current Liabilities</b>		<b>35,534,200</b>	<b>28,456,755</b>
<b>Noncurrent Liabilities</b>			
Long-term debt, net of current portion	12	9,000,000	9,000,000
Lease liabilities		9,788,812	-
Deferred tax liabilities, net	7	619,585	693,574
Provisions and other liabilities		3,057,906	3,044,237
<b>Total Noncurrent Liabilities</b>		<b>22,466,303</b>	<b>12,737,811</b>
<b>Total liabilities</b>		<b>58,000,503</b>	<b>41,194,566</b>
<b>Equity</b>			
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	10,609,465	11,074,898
Other reserves		611,688	561,225
<b>Total Equity</b>		<b>38,556,841</b>	<b>38,971,811</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>96,557,344</b>	<b>80,166,377</b>

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

**PILIPINAS SHELL PETROLEUM CORPORATION**  
 Unaudited Statement of Income  
 For the period ended 30 September 2019 and 2018  
 (All amounts in thousands Philippine Peso, except earnings per share)

<b>3Q 2019</b>	<b>3Q 2018</b>		<b>YTD 3Q 2019</b>	<b>YTD 3Q 2018</b>
<b>52,633,991</b>	57,768,144	Net sales	<b>162,297,785</b>	161,876,048
<b>(47,718,540)</b>	(51,371,251)	Cost of sales	<b>(144,443,361)</b>	(141,087,484)
<b>4,915,451</b>	6,396,893	Gross profit	<b>17,854,424</b>	20,788,564
<b>(3,499,474)</b>	(3,827,908)	Selling, general and administrative expenses	<b>(10,940,590)</b>	(10,667,655)
<b>32,858</b>	320,284	Other operating income, net	<b>438,704</b>	828,278
<b>1,448,835</b>	2,889,269	Income from operations	<b>7,352,538</b>	10,949,187
<b>(514,762)</b>	(269,389)	Finance expense, net	<b>(1,235,218)</b>	(1,061,042)
<b>934,073</b>	2,619,880	Income before income tax	<b>6,117,320</b>	9,888,145
<b>(293,394)</b>	(867,366)	Provision for income tax	<b>(1,742,421)</b>	(2,691,993)
<b>640,679</b>	1,752,514	Net income	<b>4,374,899</b>	7,196,152
<b>0.40</b>	1.09	Earnings per share - Basic and Diluted	<b>2.71</b>	4.46

*\*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 3Q 2019 and for 3Q 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 30 September 2019 and 2018  
(All amounts in thousands Philippine Peso)

<b>3Q 2019</b>	<b>3Q 2018</b>		<b>YTD 3Q 2019</b>	<b>YTD 3Q 2018</b>
<b>640,679</b>	1,752,514	<b>Net Income</b>	<b>4,374,899</b>	7,196,152
		<b>Other comprehensive income</b>		
		<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		
<b>24,545</b>	(100,351)		<b>50,463</b>	81,389
<b>665,224</b>	1,652,163	<b>Total comprehensive income</b>	<b>4,425,362</b>	<b>7,277,541</b>

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 30 September 2019 and 2018  
(All amounts in thousands Philippine Peso)

	Share Capital	Share Premium	Treasury Stock	Retained Earnings	Other Reserves Share- based Reserve	Fair value Reserve	Total
Notes	13	13	13	14			
<b>Balance at 01 January 2018 (as previously published)</b>	<b>1,681,058</b>	<b>26,161,736</b>	<b>(507,106)</b>	<b>14,339,453</b>	<b>138,200</b>	<b>322,047</b>	<b>42,135,388</b>
Impact of IFRS 9*				(42,617)			(42,617)
Income for the period	-	-	-	7,196,152	-	-	7,196,152
Other comprehensive income:							
Increase in fair value of AFS financial assets	-	-	-	-	-	81,389	81,389
Total comprehensive income for the period	-	-	-	7,192,152	-	81,389	7,277,541
<b>Transactions with owners</b>							
Cash dividends	-	-	-	(8,293,103)	-	-	(8,293,103)
Total transactions with owners for the period	-	-	-	(8,293,103)	-	-	(8,285,103)
<b>Balances at September 30, 2018</b>	<b>1,681,058</b>	<b>26,161,736</b>	<b>(507,106)</b>	<b>13,199,885</b>	<b>138,200</b>	<b>403,436</b>	<b>41,077,209</b>
<b>Balances as at January 1, 2019</b>	<b>1,681,058</b>	<b>26,161,736</b>	<b>(507,106)</b>	<b>11,074,898</b>	<b>145,880</b>	<b>415,345</b>	<b>38,971,811</b>
Income for the period	-	-	-	4,374,899	-	-	4,374,899
Other comprehensive income:							
Increase in fair value of AFS financial assets	-	-	-	-	-	50,463	50,463
Total comprehensive income for the period	-	-	-	4,374,899	-	50,463	4,425,362
<b>Transactions with owners</b>							
Cash dividends	-	-	-	(4,840,332)	-	-	(4,840,332)
Total transactions with owners for the period	-	-	-	(4,840,332)	-	-	(4,840,332)
<b>Balances at September 30, 2019</b>	<b>1,681,058</b>	<b>26,161,736</b>	<b>(507,106)</b>	<b>10,609,465</b>	<b>145,880</b>	<b>465,808</b>	<b>38,556,841</b>

\* 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 30 September 2019 and 2018  
(All amounts in thousands Philippine Peso)

	September 2019	September 2018
<b>Cash flows from operating activities</b>		
Income before income tax	6,117,320	9,888,145
<b>Adjustments:</b>		
Depreciation and amortization	3,205,756	1,473,237
Amortization of prepaid lease payments	1,340,202	1,232,696
Interest and finance charges	1,376,652	459,729
Unrealized mark-to-market loss, net	94,854	4,698
Unrealized foreign exchange (gain) loss, net	(136,026)	21,019
Pension expense	93,390	98,215
Accretion expense	88,109	60,225
Loss (Gain) on disposal of property and equipment	5,267	(36,536)
Interest Income	(1,432)	(1,882)
Share in profit of associates	(56,702)	(26,685)
Operating income before working capital changes	12,127,390	13,172,861
Increase in inventories, trade and other receivables, prepayments and other assets	(8,272,102)	(8,113,603)
Increase in trade and other payables and provisions and other liabilities	3,672,706	3,760,939
Cash generated from operations	7,527,994	8,820,197
Pension contributions paid	(53,362)	(17,529)
Net cash from operating activities	7,474,632	8,802,668
<b>Cash flows from investing activities</b>		
Additions to property and equipment	(2,940,834)	(2,341,709)
Increase in long term receivables and rentals, net	(997,657)	(320,664)
Proceeds from sale of property and equipment	3,551	132,730
Dividend received	54,716	34,912
Interest received	1,432	1,882
Net cash used in investing activities	(3,878,792)	(2,492,849)
<b>Cash flows from financing activities</b>		
Repayment of long term loan	-	(2,000,000)
Cash Dividends paid	(4,838,739)	(8,293,103)
Net proceeds from short-term borrowings	3,223,000	3,558,000
Right to use asset	(980,138)	-
Interest and finance charges paid	(1,376,585)	(468,254)
Net cash used in financing activities	(3,972,462)	(7,203,357)
<b>Net increase in cash</b>	(376,622)	(893,538)
Cash at the beginning of the period	4,455,124	6,163,261
Effect of exchange rate changes on cash	-	159,680
<b>Cash at the end of the period</b>	<b>4,078,502</b>	<b>5,429,403</b>

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

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

As at 30 September 2019 and 31 December 2018 and for the  
Nine-month period ended 30 September 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 673 regular employees as at 30 September 2019 (31 December 2018 - 703).

**Note 2 - Cash**

The account as at 30 September 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 30 September 2019 and 31 December 2018 is maintained with the following type of financial institutions:

	30 September 2019	31 December 2018
Universal banks	1,560,353	3,252,242
Commercial banks	2,518,149	1,202,882
	<b>4,078,502</b>	<b>4,455,124</b>

**Note 3 – Trade and other receivables, net**

The account as at 30 September 2019 and 31 December 2018 consists of:

	30 September 2019	31 December 2018
Trade receivables		
Third parties	10,499,335	10,318,584
Related parties	438,616	685,969
Provision for impairment of trade receivables from third parties	(238,704)	(185,107)
	10,699,247	10,819,446
Non-trade receivables from related parties	109,194	171,325
Other receivables		
Creditable Withholding tax	747,300	521,240
Duty drawback and other claims	1,416,859	383,124
Non trade receivable from third party	285,340	214,125
Miscellaneous	334,382	919,149
Provision for impairment of other receivables	(41,309)	(35,590)
	2,742,572	2,002,048
	13,551,013	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 30 September 2019 valued at P2.3 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 P8.4 billion as at 30 September 2019 (31 December 2018 – P7.2 billion) (see Note 20.1.2). These balances relate to a number of independent 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 30 September 2019 and 31 December 2018 are as follows:

	30 September 2019	31 December 2018
Less than 30 days	265,762	156,535
31 - 60 days	25,371	260,531
61 - 90 days	57,168	111,893
Greater than 90 days	218,975	169,249
	567,276	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)	63,225	5,719	68,944
Write Off	(9,628)	-	(9,628)
Reclassification IFRS 9			-
At 30 September 2019	238,704	41,309	280,013

For the nine-month period ended 30 September 2019, trade receivables written-off directly to statement of income amounted to P8.8 million (30 September 2018 direct write off P6.1 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 30 September 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)	30 September 2019	31 December 2018
A	1,059,720	1,760,357
B	1,788,011	1,641,799
C	4,839,081	4,622,298
D	2,006,543	1,410,815
Total trade receivables	9,693,355	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 years ended 30 September 2019 and for the year ended 31 December 2018.

**Note 4 - Inventories, net**

The account as at 30 September 2019 and 31 December 2018 consists of:

	30 September 2019	31 December 2018
Crude oil and finished products, net	24,464,360	19,345,555
Materials and supplies, net	305,389	297,281
	<b>24,769,749</b>	<b>19,642,836</b>

Details of and changes in allowance for inventory write-down and obsolescence as at and for the nine-month period ended 30 September 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
Provision, net	126,204	-	126,204
At 31 December 2018	152,656	-	152,656
Reversals, net	199,005	-	199,005
At 30 September 2019	351,661	-	351,661

The provision for inventory resulting from the write-down of crude and finished products to arrive at the net realizable value amounted to P322.5 million and P29.1 million relates to obsolescence of finished products as at 30 September 2019 (31 December 2018 – P124.5 million and P28.2 million).

Of the total amount of inventories, the inventories with a value of P10,275.9 million as at 30 September 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 P117.3 billion for the nine-month period ended 30 September 2019 (30 September 2018 – P121.6 billion).

**Note 5 - Prepayments and other current assets**

The account as at 30 September 2019 and 31 December 2018 consists of:

	September 2019	December 2018
Input value added tax (VAT), net of Output VAT (c)	494,153	1,083,898
Prepaid specific tax (a)	442,904	966,174
Prepaid duties and taxes	358,409	4,646
Others	321,816	132,250
Advance rentals	121,838	693,895
Advances to suppliers	115,249	115,114
Derivatives (d)	46,754	22,780
Prepaid corporate income tax (b)	20,701	669,025
	<b>1,921,824</b>	<b>3,687,782</b>

*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 30 September 2019, the notional principal amount of the outstanding commodity forward contracts amounted to P4.3 billion (31 December 2018 – P2.2 billion). As at 30 September 2019, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P46.8 million (31 December 2018 – P22.8 million).

For the nine-month period ended 30 September 2019, the Company's fair value of settled derivatives amounted to gain of P22.1 million (30 September 2018 – loss of P376.0 million).

For the nine-month period ended 30 September 2019, net fair value changes of the outstanding commodity forward contracts amounting to a loss of P94.8 million (30 September 2018 loss of P4.7 million) were recognized in 'Other operating income, net.

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

The account as at 30 September 2019 and 31 December 2018 consists of:

	30 September 2019	31 December 2018
Advance rentals	87,468	1,062,648
Customer Grants (b)	38,557	54,071
Investments in associates (c)	76,829	74,843
	202,854	1,191,562
Long-term receivables (a)	4,694,302	3,876,435
Provision for impairment of long-term receivables	(408,542)	(408,992)
	4,285,760	3,467,443
	<b>4,488,614</b>	<b>4,659,005</b>

*(a) Long-term receivables*

Long-term receivables include claims from government agencies amounting to P4.5 billion as at 30 September 2019 (31 December 2018 - P3.7 billion) representing the amount to be recovered from the government on various taxes paid. Included in this P4.5 billion is P1.1 billion of excise duties paid under protest for Alkylate shipment. The management has assessed that its recoverability is beyond 12 months from the reporting date and hence reclassified as non-current for the nine-month period ended 30 September 2019.

As at 30 September 2019, long-term receivables of P408.5 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	-
Reversal	(88,775)
At 31 December 2018	408,992
Reversal	(450)
At 30 September 2019	408,542

As at 30 September 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 amounts of market investment loans and 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*

	30 September 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
30 September 2019						
Bonifacio Gas Corporation	44%	298,877	121,655	177,222	127,040	55,898
Kamayan Realty Corporation	40%	20,637	5,113	15,524	4,317	1,727
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 30 September 2019 and 31 December 2018 are as follows:

	30 September 2019	31 December 2018
Deferred income tax assets (liabilities)		
Asset retirement obligation	456,716	427,354
Unamortized past service cost, net	190,421	237,915
Straight lining of Operating Leases	444,279	285,686
Provision for remediation costs	94,031	95,116
Provision for impairment of receivables	203,123	187,628
Share-based compensation	38,489	38,489
Provision for inventory losses	110,803	63,579
Unrealized foreign exchange gain	(131,164)	(95,359)
Unrealized mark-to-market gain	38,093	9,637
Prepaid duties and taxes	(554,474)	(385,614)
Retirement benefit asset	(1,757,724)	(1,757,724)
Other provisions	247,822	199,719
Net deferred income tax	(619,585)	(693,574)

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

	30 September 2019	31 December 2018
At 1 January	(693,574)	(702,049)
Credited to profit and loss	82,926	69,977
Credited to other comprehensive income	(8,937)	(61,502)
Application of excess MCIT	-	-
At 30 September 2019 and 31 December 2018	(619,585)	(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 30 September 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) under registration no. 2014-073 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 May 09, 2014 to produce Euro IV products. In March 13, 2017, the BOI granted the Company another ITH for its registered project under existing industry participant with new investment for the Production of Bitumen (penetration grade 60/70 and 80/100) with registration no. 2017-062.



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 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 30 September 2019 and 31 December 2018.

The details of provision for income tax for the nine-month period ended 30 September 2019 and 2018 are as follows:

	30 September 2019	30 September 2018
Current	1,825,347	2,674,007
Deferred	(82,926)	17,986
	1,742,421	2,691,993

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:

	30 September 2019	30 September 2018
Income tax at statutory income tax rate at 30%	1,835,196	2,966,444
Income tax effect of:		
Non-deductible expenses	46,684	45,003
Limitation on deductible interest expense	74	50
Interest income subjected to final tax	(212)	(147)
Non-taxable income	(98,745)	(332,355)
Income subjected to 8% final tax	(7,291)	(5,450)
Provision for income tax before final taxes	1,775,706	2,673,545
Final taxes on interest and other charges	14,929	18,448
Prior year current tax	(48,214)	-
Provision for income tax at effective tax rate	1,742,421	2,691,993

#### **Note 8 – Right of use lease assets**

The account as at 30 September 2019 consists of:

	30 September 2019
Cost	12,732,346
Accumulated depreciation and impairment	(1,704,140)
Net carrying amount at 30 September 2019	11,028,206

The right of use assets includes 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 30 September 2019 and 31 December 2018 consists of:

	30 September 2019	31 December 2018
Pension asset	6,271,682	5,899,956
Equity through OCI (a)	576,108	516,707
Deferred input VAT (b)	120,854	127,707
Intangible assets (c)	104,861	55,726
	<b>7,073,505</b>	<b>6,600,096</b>

**(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 at 30 September 2019 and 31 December 2018 are as follows:

	30 September 2019	31 December 2018
Cost		
As at 01 January	26,801	27,994
Reclassified to intangible asset	-	(1,194)
As at 31 December	26,801	26,800
Fair value adjustments recognized directly in Other comprehensive income		
1 January	489,907	322,047
Changes during the period	59,400	167,860
	<b>549,307</b>	<b>489,907</b>
30 September 2019 and 31 December 2018	576,108	516,707
Current portion	-	-
Non-current portion	576,108	516,707

The Company does not intend to sell equity instrument within 12 months from 30 September 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 30 September 2019 and 31 December 2018.

(c) *Intangible asset*

Intangible asset consists of program software and others. As at 30 September 2019 and 31 December 2018 the movements in the accounts for the years consist of:

	30 September 2019	31 December 2018
At cost		
1 January	950,322	949,129
Acquisitions	53,063	-
Reclassification from available for sale financial assets	-	1,194
Balance at the end	1,003,385	950,323
Accumulated amortization		
1 January	(894,597)	(888,222)
Amortization for the period	(3,927)	(6,375)
Write off	-	-
Balance at the end	(898,524)	(894,597)
Net book value	104,861	55,726

**Note 10 - Trade and other payables**

The account as at 30 September 2019 and 31 December 2018 consists of:

	30 September 2019	31 December 2018
Trade Payables		
Third parties	7,760,382	7,554,917
Related parties	15,529,211	11,740,362
	23,289,593	19,295,279
Non-trade payables from related parties	297,758	407,110
Other payables		
Rent and utilities	1,659,947	1,578,017
Project-related costs and advances	1,658,796	1,575,540
Employee benefits	557,483	669,109
Provision for remediation	170,406	206,425
Supply and distribution	145,922	185,382
Advertising and promotions	203,966	379,069
Duties and taxes	158,060	88,308
Derivatives (a)	173,731	54,903
Others (b)	717,322	740,991
	29,032,984	25,180,133

(a) As at 30 September 2019, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P173.7 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 30 September 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 - PSPC (AGENT)	2,150,000	1 Oct 2019	1 day
Metropolitan Bank and Trust Co Phil - PSPC (AGENT)	4,334,000	1 Oct 2019	4 days
	6,484,000		

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 annual interest rate on local borrowings for nine-month period ended 30 September 2019 was 5.06% (30 September 2018 - 3.27%%). Total interest expense charged to operations for the nine-month period ended 30 September 2019 arising from short-term loans amounted to P296.4 million (30 September 2018 - P260.2 million)

#### **Note 12 – Loans Payable**

Details of the loan agreements with Bank of the Philippine Islands (BPI) as at 30 September 2019 and 31 December 2018 follow:

30 September 2019	31 December 2018	Interest	Terms
9,000,000	9,000,000	5.97% as at 30th September 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 nine-month period ended 30 September 2019 arising from these loans amounted to P400.1 million (30 September 2018 - P197.9 million).

There are no borrowings related to acquisition, construction or production of a qualifying asset as at 30 September 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 a permitted encumbrance as defined in the loan agreements.
- The Company shall duly pay and discharge all taxes, assessment and charges of whatsoever nature levied upon or against it, or against its properties, revenues and assets prior to the date on which penalties attach thereto, and to the extent only that the same shall be contested in good faith and by appropriate legal proceedings.

The Company is in compliance with the covenants as at reporting periods presented.

**Note 13 - Share capital; Treasury shares; Share premium**

Capital stock and treasury shares as at 30 September 2019 and 31 December 2018 consist of:

	30 September 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 30 September 2019, the Company has 320 shareholders, excluding treasury shares, (31 December 2018 - 316), 283 of whom hold at least 100 shares of the Company's common shares (31 December 2018 - 280).

**Note 14 - Retained earnings; Dividends**

Retained earnings as at 30 September 2019 and 31 December 2018 consist of:

	30 September 2019	31 December 2018
Unappropriated retained earnings, unadjusted	8,160,564	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	10,609,465	11,074,898

At the special meeting of the Board held on 20 April 2017, the Board approved the distribution of cash dividends 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 dividends 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 dividends 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	2019	2018
Declared	Paid			
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 30 September 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 30 September 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 nine-month period ended 30 September follow:

	YTD 3Q 2019	YTD 3Q 2018
Earnings available to stockholders:		
Profit for the period	4,374,899	7,196,152
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	2.71	4.46

As at 30 September 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	2,255,072	10,930,582
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	1.40	6.77

*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 3Q 2019	YTD 3Q 2018
Other operating income	623,078	928,453
Other operating expense	(184,374)	(100,175)
<b>Other operating income, net</b>	<b>438,704</b>	<b>828,278</b>
Finance income	236,895	1,882
Finance expenses	(1,472,113)	(1,062,924)
<b>Finance expenses, net</b>	<b>(1,235,218)</b>	<b>(1,061,042)</b>

*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 3<sup>rd</sup> 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 3<sup>rd</sup> 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 30 June 2018 and 31 December 2017 since based on the Company's assessment, the liability 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 change in status as of October 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”). Jurisdictional issues are pending with the Supreme Court.

***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 had paid using Tax Credit Certificates (TCCs) acquired from other companies. According to the SC, Pilipinas Shell 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.

On 22 July 2019, the Supreme Court has issued an Entry of Judgment following its Resolution dated 01 April 2019 that denies the CIR's Motion for Reconsideration.

***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. WA

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:**

Hearings for the presentation of PSPC's evidence have been set on 13 and 27 November 2019.

**(d) Excise Tax Refund Case**

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

(e) *Other significant case*

Case filed by the West Tower Condominium Corporation (WTCC)

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

**Matter Summary:**

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

**Status:**

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

On 26 September 2014, the Company asked the Court of Appeals to deny the motion for reconsideration filed by West Tower Condominium Corporation, et al. for lack of merit. In its resolution dated 11 December 2014, the Court of Appeals denied the motion for reconsideration filed by the West Tower Condominium Corporation, et al. West Tower Condominium Corporation, et al.'s filed with the Supreme Court the present petition dated 11 February 2015 seeking a review of the decision of the Court of Appeals. The Company has filed its Comment with Opposition dated 18 September 2015 asking the Supreme Court to dismiss the petition and to deny the application for a temporary restraining order. Awaiting Supreme Court's action. No change in status as of October 2019.

**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 disclosed separately in the condensed interim statement of financial position; and
- reclassified prepayments of Php0.6 billion 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
<b>Undiscounted operating lease commitments as at December 31, 2018</b>	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
<b>Total lease liability at January 1, 2019</b>	<b>(11,162,875)</b>
<b>Weighted average incremental borrowing rate as at January 1, 2019</b>	<b>5.193%</b>

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 30 September 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 30 September 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 30 September 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 period would have been P108.4 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. Moreover, there is no material exposure of fair value risk arising from outstanding forward contracts (Note 22).

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 September 30, 2019 and December 31, 2018, the Company has the following:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
30 September 2019					
<u>Financial assets:</u>					
Receivables	10,808,440	-	10,808,440	2,338,785	8,469,655
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 of P65.4 billion as at 30 September 2019 and undrawn borrowing facilities at floating rate amounting to P65.4 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 30 September 2019 and 31 December 2018 are as follows:

	Note	30 September 2019	31 December 2018
Total loans and borrowings	11,12	15,484,000	12,261,000
Less: cash	2	4,078,502	4,455,124
Net debt		11,405,498	7,805,876
Total equity (excluding other reserves)	13,14	37,945,153	38,410,586
Total Capital		49,350,651	46,216,462
Gearing ratio		23%	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 30 September 2019 and 31 December 2018:



	Notes	30 September 2019	31 December 2018
<b>Financial assets</b>			
Loans and receivables			
Cash	2	4,078,502	4,455,124
Receivables	3	10,808,441	10,990,771
Derivatives	5	46,754	22,780
Customer grants	6	38,557	54,071
Long-term receivables	6	149,219	191,601
Equity through OCI	9	576,108	516,707
<b>Total financial assets</b>		<b>15,697,581</b>	<b>16,231,054</b>
<b>Financial liabilities</b>			
Other financial liabilities			
Trade and other payables	10	28,701,193	25,036,922
Dividends payable		17,216	15,622
Derivatives	10	173,731	54,903
Cash security deposits		279,179	308,516
Short-term loans	11	6,484,000	3,261,000
Long-term debt, net of current portion	12	9,000,000	9,000,000
<b>Total financial liabilities</b>		<b>44,655,319</b>	<b>37,676,963</b>

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 30 September 2019 and 2018, are shown in Million Philippine Pesos.

**Financial condition as of the nine-month period ended 30 September 2019 compared with the period ended 31 December 2018**

	30 September 2019	31 December 2018	%Increase (decrease)
Current assets	44,321.1	40,778.6	8.7%
Non-Current assets	52,236.3	39,387.8	32.6%
Total assets	96,557.3	80,166.4	20.4%
Current Liabilities	35,534.2	28,456.8	24.9%
Non-Current Liabilities	22,466.3	12,737.8	76.4%
Total Liabilities	58,000.5	41,194.6	40.8%
Equity	38,556.8	38,971.8	(1.1)%

**Current assets**

PSPC's current assets increased from P40,778.6 million as of 31 December 2018 to P44,321.1 million as of 30 September 2019 primarily due to the following:

*Cash* decreased by 376.6 million, or 8.5% from P4,455.1 million as of 31 December 2018 to P4,078.5 million as of 30 September 2019 as a result of cash dividends paid in April 2019 and capital investments. This is partially augmented by strong cash from operations.

*Receivables, net* increased by 558.2 million or 4.3% from P12,992.8 million as of 31 December 2018 to P13,551.0 million as of 30 September 2019 driven by higher sales volumes and increasing prices brought by general increase in global crude oil prices and higher excise duties.

*Inventories, net* increase by P5,126.9 million, or 26.1% from P19,642.8 million as of 31 December 2018 to P24,769.7 million as of 30 September 2019 primarily as a result of increase in global crude oil prices and a slight increase in finished product imports to ensure supply continuity during the planned cyclical inspection and maintenance of the Tabangao Refinery.

*Prepayments and other current assets* decreased by P1,766 million, or 47.9% from P3,687.8 million as of 31 December 2018 to P1,921.8 million as of 30 September 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 P52,236.3 million as of 30 September 2019 primarily due to the following:

*Right of use asset* of Php11,028.2 million as of 30 September 2019 is due to the implementation of PFRS 16 starting January 1, 2019. This was previously recognized under prepayments and long-term receivables under PAS 17.

*Long-term Receivables, rentals and investments, net* decreased by P170.4 million, or 3.7% from P4,659.0 million as of 31 December 2018 to P4,488.6 million as of 30 September 2019 primarily due to decrease in rentals because of PFRS 16 implementation where some 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 P35,534.2 million as of 30 September 2019 primarily due to the following:

*Short-term loans* increased by P3,223.0 million from P3,261.0 million as of 31 December 2018 to P6,484.0 million as of 30 September 2019 primarily due to higher short-term borrowings for working capital requirements.

*Trade and other payables* increased by P3,852.9 million, or 15.3% from P25,180.1 million as of 31 December 2018 to P29,033.0 million as of 30 September 2019 primarily due to increase in trade payables as a result of increase in average global crude prices.

### **Non-Current Liabilities**

PSPC's non-current liabilities increased from P12,737.8 million as of 31 December 2018 to P22,466.3 million as of 30 September 2019 primarily due to the following:

*Lease liabilities* of Php 9,788.8 million as of 30 September 2019 mainly due to implementation of PFRS 16.

### **Equity**

PSPC's total equity decreased from P38,971.8 million as of 31 December 2018 to P36,556.8 million as of 30 September 2019 primarily due to decrease in retained earnings from P11,074.9 million as of 31 December 2018 to P10,609.5 million as of 30 September 2019 as a result of the cash dividend declared amounting to P4,840.3 million. This is partially offset by profits earned during the period.

## **Financial Performance**

	YTD 3Q 2019	YTD 3Q 2018	%Increase (decrease)
Net Sales	162,297.8	161,876.0	0.3%
Sales Volumes (M liters)	4,290.9	4,166.5	3.0%
Cost of sales	144,443.4	141,087.5	2.4%
Gross profit	17,854.4	20,788.6	-14.1%
Selling, General and administrative expenses	10,940.6	10,667.7	2.6%
Other operating income, net	438.7	828.3	-47.0%
Finance expenses, net	1,235.2	1,061.0	16.4%
EBITDA Adjusted for COSA	8,590.9	6,414.0	33.9%
EBITDA	10,786.4	11,879.5	-9.2%
Provision for income tax	1,742.4	2,692.0	-35.3%
Net Income	4,374.9	7,196.2	-39.2%

### **Results of operations for the period ended 30 September 2019 compared with the period ended 30 September 2018**

*Net sales and cost of sales* increased by P421.7 million, or 0.3% and P3,355.9 million or 2.4% respectively, primarily as a result of increase in global oil prices and stronger marketing delivery for the period.

*Selling, General and administrative expenses* increased by P272.9 million or 2.6% from P10,667.7 million for the period ended 30 September 2018 to P10,940.6 million for the period ended 30 September 2019 primarily driven by PFRS 16 implementation partially offset by lower storage and handling costs.

*Other operating income, net* decreased by P389.6 million or -47.0% from P828.3 million for the period ended 30 September 2018 to P438.7 million for the period ended 30 September 2019. This decrease is primarily due to the lower net mark to market gain in 2019 as compared to 2018.

*Finance expense, net* increased by P174.2 million, or 16.4%, from P1,061.0 million for the period ended 30 September 2018 to P1,235.2 million for the period ended 30 September 2019. This is mainly driven by increase in interest and finance charges due to PFRS 16 implementation, offset by net foreign exchange gain in 2019 vs net foreign exchange loss realized in 2018.

EBITDA Adjusted for COSA increased by P2,177 million or 33.9% from P6,414.0 million for the period ended 30 September 2018 to P8,590.9 million for the period ended 30 September 2019 primarily driven by robust earnings delivery from the marketing businesses and impact of PFRS 16 implementation. This is against a backdrop of depressed refining margins. EBITDA adjusted for COSA for the period ended 30 September 2019 under PAS 17 would have resulted to Php 6,486.7 million.

*EBITDA* decreased by P1,093 million or 9.2% from P11,879.5 million for the period ended 30 September 2018 to P10,786.4 million for the period ended 30 September 2019 mainly due to lower pre-tax inventory holding gains of P2,195.5 million in YTD 3Q 2019 against P5,465.5 million in YTD 3Q 2018.

## Key financial ratios

	YTD 3Q 2019 (unaudited)	FY 2018 (Audited)
Current Ratio (a)	1.25	1.43
Debt Ratio (b)	0.12	0.10
Debt to Equity (c)	0.30	0.20
Asset to equity ratio (d)	2.54	2.09
Interest coverage ratio (e)	9.78	12.50
Return on Assets (f)	4.53%	6.33%
Return on Equity (g)	11.53%	13.22%
Return on average capital employed (h)	14.40%	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 3Q 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 3Q 2019	YTD 3Q 2018
Profit for the period	4,374.9	7,196.2
Add:		
Provision for income tax	1,742.4	2,692.0
Finance expense	1,464.8	520.0
Depreciation and amortization	3,205.8	1,473.2
Less:		
Finance income	1.4	1.9
<b>EBITDA<sup>1</sup></b>	<b>10,786.5</b>	<b>11,879.5</b>
Less:		
Depreciation and amortization	3,205.8	1,473.2
<b>EBIT<sup>1</sup></b>	<b>7,580.7</b>	<b>10,406.3</b>
	<b>YTD 3Q 2019</b>	<b>YTD 3Q 2018</b>
EBITDA	10,786.5	11,879.5
Less:		
Cost of Sales Adjustment (COSA) <sup>2</sup>	2,195.5	5,465.5
EBITDA (adjusted for COSA) <sup>3</sup>	8,591.0	6,414.0
Less:		
Depreciation and amortization	3,205.0	1,473.2
EBIT (adjusted for COSA) <sup>3</sup>	5,386.0	4,940.7

The Company adopted modified retrospective approach for PFRS 16. YTD 3Q 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. YTD 3Q 2018 EBITDA adjusted for COSA was based on the old standard, PAS 17. EBITDA adjusted for COSA for the period ended 30 September 2019 under PAS 17 would have resulted to Php 6,486.7 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 3Q 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 NOV 11 2019.

Issuer:

Signature and Title:   
ATTY. ELLIE CHRIS C. NAVARRA  
Assistant 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 NOV 11 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
ELLIE CHRIS C. NAVARRA			
ANGELICA M. CASTILLO			
JOSE JEROME R. PASCUAL III			

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

NOTARY PUBLIC

*mpgamo*

Doc. No. 135;  
Page No. 28;  
Book No. III;  
Series of 2019.

**MARK HADRIAN P. GAMO**  
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 II JANUARY 2019  
MCLE COMPLIANCE VI-0019987 / 18 MARCH 2019