

**-COVER SHEET**

1 4 8 2 9  
S.E.C. Registration Number

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

(Company's Full Name)

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

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

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

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

Jose Jerome R. Pascual III  
Contact Person

+632 3 4994001  
Company Telephone Number

0 9 3 0  
Month Day

1 7 - Q  
FORM TYPE

0 6 1 6  
Month Day

Fiscal Year

2<sup>nd</sup> Tuesday of May  
Annual General Meeting as per By-Laws

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

Secondary License Type, If  
Applicable

C G F D  
Dept. Requiring this  
Doc.

Amended Articles Number/Section

320  
Total No. of Stockholders  
(As of 31 December 2020)

Total Amount of Borrowings

27,400,000,000  
Domestic Foreign

**To be accomplished by SEC Personnel concerned**

File Number

LCU

Document I. D.

Cashier

**STAMPS**

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

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

<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="61,398,955,000"/>

11. Are any or all of the securities listed on a Stock Exchange?    Yes [ X ]    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 [ X ]                      No [ ]
- (b) has been subject to such filing requirements for the past ninety (90) days
- Yes [ X ]                      No [ ]

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## PART I – FINANCIAL INFORMATION

### ITEM 1

#### PILIPINAS SHELL PETROLEUM CORPORATION

Statements of Financial Position

As at 30 September 2020

With Comparative Figures for 31 December 2019

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

	Note	September 2020 Unaudited	December 2019 Audited
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	2	4,793,475	4,778,877
Trade and other receivables, net	3	10,235,627	15,767,566
Inventories, net	4	13,957,422	25,422,717
Prepayments and other current assets	5	3,907,615	1,500,241
<b>Total Current Assets</b>		<b>32,894,139</b>	<b>47,469,401</b>
<b>Noncurrent Assets</b>			
Long-term receivables, rentals and investments, net	6	6,075,172	4,622,849
Property and equipment, net		22,518,899	30,925,797
Right of use lease assets	8	13,781,763	12,649,096
Deferred income tax assets, net	7	4,938,928	-
Other assets, net	9	7,140,079	7,252,325
<b>Total Noncurrent Assets</b>		<b>54,454,841</b>	<b>55,450,067</b>
<b>TOTAL ASSETS</b>		<b>87,348,980</b>	<b>102,919,468</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	17,819,494	29,684,153
Short term loans	11	18,400,000	9,752,000
Dividends Payable		17,074	17,054
<b>Total Current Liabilities</b>		<b>36,236,568</b>	<b>39,453,207</b>
<b>Noncurrent Liabilities</b>			
Long-term debt, net of current portion	12	9,000,000	9,000,000
Lease liabilities		12,204,745	10,477,414
Deferred tax liabilities, net	7	-	1,000,115
Provisions and other liabilities	13	3,957,642	3,160,418
<b>Total Noncurrent Liabilities</b>		<b>25,162,387</b>	<b>23,637,947</b>
<b>Total liabilities</b>		<b>61,398,955</b>	<b>63,091,154</b>
<b>Equity</b>			
Share capital - P1 par value	14	1,681,058	1,681,058
Share premium	14	26,161,736	26,161,736
Treasury shares	14	(507,106)	(507,106)
Retained earnings	15	(1,931,858)	11,937,980
Other reserves		546,195	554,646
<b>Total Equity</b>		<b>25,950,025</b>	<b>39,828,314</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>87,348,980</b>	<b>102,919,468</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 2020 and 2019  
 (All amounts in thousands Philippine Peso, except earnings per share)

3Q 2020	3Q 2019		YTD 3Q 2020	YTD 3Q 2019
33,857,691	52,633,991	Net sales	107,892,283	162,297,785
(40,129,889)	(47,718,540)	Cost of sales	(116,050,101)	(144,443,361)
(6,272,198)	4,915,451	Gross profit	(8,157,818)	17,854,424
(3,584,822)	(3,499,474)	Selling, general and administrative expenses	(10,047,901)	(10,940,590)
135,838	32,858	Other operating income, net	(203,237)	438,704
(9,721,182)	1,448,835	Income from operations	(18,408,956)	7,352,538
(434,874)	(514,762)	Finance expense, net	(1,383,982)	(1,235,218)
(10,156,056)	934,073	Income before income tax	(19,792,938)	6,117,320
3,027,456	(293,394)	Provision for income tax	5,923,100	(1,742,421)
(7,128,600)	640,679	Net income	(13,869,838)	4,374,899
(4.42)	0.40	Earnings per share - Basic and Diluted	(8.60)	2.71

*\*Income attributable to Pilipinas Shell shareholders was a loss of P13.9 billion as of the third quarter 2020, the reported loss includes an impairment charge of P7.5 billion post-tax on account of cessation of refining operations and macroeconomic conditions as well as energy market demand and supply fundamentals.*

*Pilipinas Shell reported a net loss of P6.4 billion from its principal business activities excluding the impairment charge mentioned above.*

*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 2020 and for 3Q 2019 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 2020 and 2019  
(All amounts in thousands Philippine Peso)

<b>3Q 2020</b>	<b>3Q 2019</b>		<b>YTD 3Q 2020</b>	<b>YTD 3Q 2019</b>
<b>(7,128,600)</b>	<b>640,679</b>	<b>Net income</b>	<b>(13,869,838)</b>	<b>4,374,899</b>
		<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>(1,246)</b>	<b>24,545</b>		<b>(8,451)</b>	<b>50,463</b>
<b>(7,129,846)</b>	<b>665,224</b>	<b>Total comprehensive income</b>	<b>(13,878,289)</b>	<b>4,425,362</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 2020 and 2019  
(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 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
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>
<b>Balance at 01 January 2020</b>	<b>1,681,058</b>	<b>26,161,736</b>	<b>(507,106)</b>	<b>11,937,980</b>	<b>82,038</b>	<b>472,608</b>	<b>39,828,314</b>
Income for the period	-	-	-	(13,869,838)	-	-	(13,869,838)
Other comprehensive income:							
Increase in fair value of AFS financial assets	-	-	-	-	-	(8,451)	(8,451)
Total comprehensive income for the period	-	-	-	(13,869,838)	-	(8,451)	(13,878,289)
<b>Transactions with owners</b>							
Cash dividends	-	-	-	-	-	-	-
Total transactions with owners for the period	-	-	-	-	-	-	-
<b>Balances at September 30, 2020</b>	<b>1,681,058</b>	<b>26,161,736</b>	<b>(507,106)</b>	<b>(1,931,858)</b>	<b>82,038</b>	<b>464,157</b>	<b>25,950,025</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 2020 and 2019  
 (All amounts in thousands Philippine Peso)

	<b>September 2020</b>	<b>September 2019</b>
<b>Cash flows from operating activities</b>		
Income before income/(loss) tax	(19,792,938)	6,117,320
<b>Adjustments:</b>		
Depreciation and amortization	3,488,520	3,205,756
Amortization of prepaid lease payments	204,259	1,340,202
Interest and finance charges	1,565,109	1,376,652
Unrealized mark-to-market (gain) loss, net	(977)	94,854
Unrealized foreign exchange loss (gain), net	(24,588)	(136,026)
Pension expense	143,622	93,390
Accretion expense	46,161	88,109
Impairment of fixed and intangible assets	10,546,141	-
Loss (Gain) on disposal of property and equipment	49,401	5,267
Write off of fixed asset	769	-
Interest Income	(3,119)	(1,432)
Share in profit of associates	(92,443)	(56,702)
Operating income before working capital changes	(3,870,083)	12,127,390
Increase in inventories, trade and other receivables, prepayments and other assets	14,456,291	(8,272,102)
Increase in trade and other payables and provisions and other liabilities	(9,919,561)	(3,672,706)
Cash generated from operations	666,647	7,527,994
Pension contributions paid	(85,872)	(53,362)
Net cash from operating activities	580,775	7,474,632
<b>Cash flows from investing activities</b>		
Additions to property and equipment	(5,082,588)	(2,940,834)
Increase in long term receivables and rentals, net	(1,457,601)	(997,657)
Proceeds from sale of property and equipment	971	3,551
Dividend received	69,833	54,716
Interest received	3,119	1,432
Net cash used in investing activities	(6,466,266)	(3,878,792)
<b>Cash flows from financing activities</b>		
Net proceeds (settlements of) from short-term borrowings	8,648,000	3,223,000
Dividends paid	-	(4,838,739)
Principle lease payments	(1,381,688)	(980,138)
Interest and finance charges paid	(1,366,208)	(1,376,585)
Net cash from/(used) in financing activities	5,900,104	(3,972,462)
<b>Net increase in cash</b>	<b>14,613</b>	<b>(376,622)</b>
Cash at the beginning of the period	4,778,877	4,455,124
Effect of exchange rate changes on cash	(15)	-
<b>Cash at the end of the period</b>	<b>4,793,475</b>	<b>4,078,502</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 2020 and 31 December 2019 and for the six-month period ended 30 September 2020 and 2019  
(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 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. The IPO proceeds have been fully utilized as at 31 December 2017.

Pilipinas Shell announced its decision to convert its oil refinery into a world-class import terminal to optimize its asset portfolio and enhance its cost and supply chain competitiveness on 13 August 2020.

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 same has been terminated on 6 August 2020 pursuant to the Company’s decision to convert its Refinery to world-class import terminal.

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 651 regular employees as at 30 September 2020 (30 September 2019 - 673).

**Note 2 - Cash**

The account as at 30 September 2020 and 31 December 2019 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 2020 and 31 December 2019 is maintained with the following type of financial institutions:

	30 September 2020	31 December 2019
Universal banks	4,275,173	3,640,929
Commercial banks	518,302	1,137,948
	<b>4,793,475</b>	<b>4,778,877</b>

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

The account as at 30 September 2020 and 31 December 2019 consists of:

	30 September 2020	31 December 2019
Trade receivables		
Third parties	8,302,174	11,246,826
Related parties	804,969	1,318,369
Provision for impairment of trade receivables from third parties	(260,268)	(252,621)
	8,846,875	12,312,574
Non-trade receivables from related parties	106,153	277,129
Other receivables		
Creditable Withholding tax	422,047	623,092
Duty drawback and other claims	46,457	1,387,271
Non-trade receivable from third party	356,894	359,578
Miscellaneous	534,552	856,311
Provision for impairment of other receivables	(77,351)	(48,389)
	1,282,599	3,177,863
	10,235,627	15,767,566

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 2020 valued at P4.5 billion (31 December 2019 – P1.2 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 P4.5 billion as at 30 September 2020 (31 December 2019 – P11.4 billion) (see Note 21.1.2). These balances relate to a number of customers with no recent history of default.

*(a) Past due receivables but not impaired*

The aging of past due trade receivables, net of provision from third parties as at 30 September 2020 and 31 December 2019 are as follows:

	30 September 2020	31 December 2019
Less than 30 days	202,811	244,736
31 - 60 days	95,497	134,933
61 - 90 days	62,842	58,307
Greater than 90 days	359,610	157,481
	720,760	595,457

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 2019	185,107	35,590	220,697
Provisions (Reversals)	83,487	12,799	96,286
Write Off	(15,973)	-	(15,973)
At 31 December 2019	252,621	48,389	301,010
Provisions (Reversals)	16,287	28,961	45,258
Write Off	(8,640)	-	(8,640)
At 30 September 2020	260,268	77,350	337,618

For the nine-month period ended 30 September 2020, trade receivables written-off directly to statement of income amounted to P28.5 million (30 September 2019 direct recovery of P8.8 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 2020 and 31 December 2019 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 2020	31 December 2019
A	1,144,768	1,141,113
B	909,471	1,915,455
C	1,979,054	5,582,695
D	3,287,854	1,759,485
Total trade receivables	7,321,147	10,398,748

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

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

There are no receivables that are neither past due nor impaired that have been renegotiated for the nine-month period ended 30 September 2020 and for the year ended 31 December 2019.

#### **Note 4 - Inventories, net**

The account as at 30 September 2020 and 31 December 2019 consists of:

	30 September 2020	31 December 2019
Crude oil and finished products, net	13,687,267	25,170,506
Materials and supplies, net	270,155	252,211
	<u>13,957,422</u>	<u>25,422,717</u>

Details of and changes in allowance for inventory write-down and obsolescence as at and for the nine-month period ended 30 September 2020 and for the year ended 31 December 2019 are as follows:

	Crude oil and finished products	Materials and supplies	Total
At 1 January 2019	152,656	-	152,656
Provision, net	10,994	-	10,994
At 31 December 2019	163,650	-	163,650
Provision, net	(22,294)	-	(22,294)
At 30 September 2020	<u>141,356</u>	<u>-</u>	<u>141,356</u>

The provision for inventory resulting from the write-down of crude and finished products to net realizable value, driven by the decline in global oil prices amounted to P121.3 million and P20.0 million relates to obsolescence of finished products as at 30 September 2020 (31 December 2019 – P136.3 million and P27.4 million).

Of the total amount of inventories, the inventories with a value of P924.0 million as at 30 September 2020 (31 December 2019 – P4,283.6 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 P78.7 billion for the nine-month period ended 30 September 2020 (30 September 2019 – P117.3 billion).

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

The account as at 30 September 2020 and 31 December 2019 consists of:

	30 September 2020	31 December 2019
Prepaid specific tax (a)	1,890,653	756,806
Prepaid corporate income tax (b)	1,400,383	226,863
Input value added tax (VAT), net of Output VAT (c)	311,517	192,587
Advance rentals	245,022	153,997
Derivatives (d)	14,003	3,715
Prepaid duties and taxes	2,115	5,438
Deposits	-	121,793
Others	43,922	39,042
	<u>3,907,615</u>	<u>1,500,241</u>

(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 other oil products requirements. As at 30 September 2020, the notional principal amount of the outstanding commodity forward contracts amounted to P2.6 billion (31 December 2019 – P0.5 billion). As at 30 September 2020, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P14.0 million (31 December 2019 – P3.7 million).

For the nine-month period ended 30 September 2020, the Company's fair value of settled derivatives amounted to loss of P686.9 million (30 September 2019 – gain of P22.1 million). When there is a downward trend for market prices, commodity hedging may result in mark-to-market losses, which is offset by the lower cost of materials.

For the nine-month period ended 30 September 2020, net fair value changes of the outstanding commodity forward contracts amounting to a gain of P1.0 million (30 September 2019 – loss of P94.8 million) were recognized in 'Other operating income, net'.

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

The account as at 30 September 2020 and 31 December 2019 consists of:

	30 September 2020	31 December 2019
Advance rentals	137,474	135,798
Customer Grants (b)	66,794	36,783
Investments in associates (c)	53,142	30,532
	257,410	203,113
Long-term receivables (a)	6,209,729	4,828,278
Provision for impairment of long-term receivables	(391,967)	(408,542)
	5,817,762	4,419,736
	<b>6,075,172</b>	<b>4,622,849</b>

(a) *Long-term receivables*

Long-term receivables include claims from government agencies amounting to P6.2 billion as at 30 September 2020 (31 December 2019 – P4.7 billion) representing the amount to be recovered from the government on various taxes paid. Included in this P6.2 billion is P1.1 billion of excise duties and VAT paid under protest for Alkylate shipment. The management has assessed that its recoverability is beyond 12 months from the reporting date and hence has been classified as non-current for the nine-month period ended 30 September 2020 and year ended 31 December 2019.

As at 30 September 2020, long-term receivables of P391.9 million (31 December 2019 – P408.5 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 2019	408,992
Provision	-
Reclassification	-
Reversal	(450)
At 31 December 2019	408,542
Reversal	(16,575)
At 30 September 2020	391,967

As at 30 September 2020 and 31 December 2019, there are no other long-term receivables that are past due but not impaired. The other classes and balances within long-term receivables, rental and investments are fully performing.

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

(b) *Customer Grants*

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

(c) *Investments in associates*

	30 September 2020	31 December 2019
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
<b>30 September 2020</b>						
Bonifacio Gas Corporation	44%	200,194	93,984	106,210	51,953	22,859
Kamayan Realty Corporation	40%	27,477	5,736	21,741	4,428	1,771
<b>31 December 2019</b>						
Bonifacio Gas Corporation	44%	337,796	283,555	54,241	165,815	72,362
Kamayan Realty Corporation	40%	23,116	5,783	17,333	6,126	2,450

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 assets/(liabilities)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts at 30 September 2020 and 31 December 2019 are as follows:

	30 September 2020	31 December 2019
Deferred income tax assets (liabilities)		
Asset retirement obligation	1,296,993	420,811
Unamortized past service cost, net	134,797	174,590
Impairment of PP&E	2,698,664	
IFRS16 Lease Liability & Lease straight lining accrual	633,513	394,807
Provision for remediation costs	81,608	88,266
Provision for doubtful debts	214,506	208,495
Share-based compensation	22,122	22,122
Provision for inventory losses	59,329	66,018
Unrealized foreign exchange gain	(124,536)	(117,160)
Unrealized mark-to-market gain	(814)	(521)
Prepaid duties and taxes	(649,708)	(595,203)
Retirement benefit asset	(1,905,376)	(1,905,376)
Other provisions	381,380	243,036
Net operating loss carryover (NOLCO)	2,096,450	-
Net deferred income tax	4,938,928	(1,000,115)

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

	30 September 2020	31 December 2019
At 1 January	(1,000,115)	(693,574)
Credited to profit and loss	5,936,874	(236,279)
Credited to other comprehensive income	2,169	(70,262)
At 30 September 2020 and 31 December 2019	4,938,928	(1,000,115)

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 2020 and 31 December 2019 are fully realizable.

Year of incurrence	Year of expiration	NOLCO			MCIT		
		2020	2019	2018	2020	2019	2018
2020	2023	6,988,168	-	-	-	-	-
		6,988,168	-	-	-	-	-
Expired		-	-	-	-	-	-
Applied		-	-	-	-	-	-
		6,988,168	-	-	-	-	-
Tax rate		0.30	-	-	-	-	-
Tax liability		2,096,450	-	-	-	-	-

On May 9, 2014, the Company upon application was granted an income tax holiday (ITH) by the Board of Investments (BOI) for the production of Euro IV products (diesel and gasoline) in support of the Clean Air Act. The Company was additionally granted with ITH for the local production of bitumen on 13 March 2017 for a period of 5 years (2018-2022) on a pioneer status. The Company has terminated both ITH grants, on 6 August 2020 pursuant to the Company's decision to convert its Refinery to world-class import terminal..

The company's last year of ITH entitlement was severely impacted by the drastic decline in crude prices and refining margins and the COVID-19 pandemic. In Q1 2020, PSPC recorded P8.0 billion of pre-tax inventory holding losses due to the steep decline in crude prices from ~\$67/bbl during the start of the year to ~\$26/bbl by end of March 2020 driven by the price war between OPEC and Russia coupled with slower global demand for petroleum products as a result of the COVID-19 pandemic. Regional refining margins have continued to be depressed and further declined, even reaching negative territory early this year. This led PSPC's refinery operations (the ITH-registered activity) to record losses month-on-month and was eventually forced to undergo a temporary economic shutdown starting the last week of May 2020.

Due to the losses realized by the refinery, the Company requested and secured BOI's approval to waive its ITH entitlement for 2020. The waiver will allow the Company to include the losses incurred from its BOI-registered activities in its net operating loss carryover (NOLCO) for a period of three years or until 2023. If granted, this will allow the Company to enjoy the full amount of NOLCO and will effectively reduce income tax payable in subsequent years.

The details of provision for income tax for the nine-month period ended 30 September 2020 and 2019 are as follows:

	30 September 2020	30 September 2019
Current	13,773	1,825,347
Deferred	(5,936,873)	(82,926)
	(5,923,100)	1,742,421

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 2020	30 September 2019
Income tax at statutory income tax rate at 30%	(5,937,878)	1,835,196
Income tax effect of:		
Non-deductible expenses	31,628	46,684
Limitation on deductible interest expense	290	74
Interest income subjected to final tax	(879)	(212)
Non-taxable income	(27,738)	(98,745)
Income subjected to 8% final tax	(2,296)	(7,291)
Provision for income tax before final taxes	(5,936,873)	1,775,706
Prior year current tax		(48,214)
Final taxes on interest and other charges	13,773	14,929
Provision for income tax at effective tax rate	(5,923,100)	1,742,421

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

The account as at 30 September 2020 and 31 December 2019 consists of:

	30 September 2020	31 December 2019
Cost	20,180,594	16,069,284
Accumulated depreciation	(6,398,831)	(3,420,188)
Net carrying amount	13,781,763	12,649,096



## **Note 9 - Other assets, net**

The account as at 30 September 2020 and 31 December 2019 consists of:

	30 September 2020	31 December 2019
Pension asset	6,431,378	6,441,783
Equity through OCI (a)	573,488	584,107
Deferred input VAT (b)	133,727	123,013
Intangible assets (c)	1,486	103,422
	7,140,079	7,252,325

### *(a) Equity through OCI*

Equity through OCI mainly represent equity securities and proprietary club shares which are carried at fair value. Details of the account as at 30 September 2020 and 31 December 2019 are as follows:

	30 September 2020	31 December 2019
Cost		
As at 01 January	26,800	26,800
Reclassified to intangible asset	-	-
As at 31 December	26,800	26,800
Fair value adjustments recognized directly in other comprehensive income		
1 January	557,307	489,907
Changes during the period	(10,619)	67,400
	546,688	557,307
30 September 2020 and 31 December 2019	573,488	584,107
Current portion	-	-
Non-current portion	573,488	584,107

The Company does not intend to sell equity instruments within 12 months from 30 September 2020 and 31 December 2019.

### *(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 2020 and 31 December 2019.

### *(c) Intangible asset*

Intangible asset consists of program software and others. As at 30 September 2020 and 31 December 2019 the movements in the accounts for the years consist of:

	30 September 2020	31 December 2019
At cost		
1 January	1,003,459	950,323
Reclassifications from AUC	7,043	53,136
Reclassification from available for sale financial assets	-	-
Balance at the end	1,010,502	1,003,459
Accumulated amortization		
1 January	(900,037)	(894,597)
Amortization for the period	(4,684)	(5,440)
Impairment of intangible assets	(104,295)	-
Balance at the end	(1,009,016)	(900,037)
Net book value	1,486	103,422

## **Note 10 – Trade and other payables**

The account as at 30 September 2020 and 31 December 2019 consists of:

	30 September 2020	31 December 2019
Trade Payables		
Third parties	6,070,405	6,595,947
Related parties	4,584,788	15,800,160
	10,655,193	22,396,107
Non-trade payables from related parties	516,462	473,463
Other payables		
Rent and utilities	367,926	305,242
Project-related costs and advances	2,034,026	2,593,866
Employee benefits	422,403	450,909
Provision for remediation	804,551	179,184
Supply and distribution	52,394	218,860
Advertising and promotions	262,358	340,556
Duties and taxes	118,246	158,180
Lease liabilities	1,402,354	1,581,846
Derivatives (a)	11,289	1,979
Others (b)	1,172,292	983,961
	17,819,494	29,684,153

(a) As at 30 September 2020, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P11.3 million (31 December 2019 – P2.0 million).

(b) Others include the current portion of various other accruals.

## **Note 11 - Short-term loans**

As at 30 September 2020, unsecured short-term loan amounted to P18,400.0 million with tenure ranging from 60 to 360 days. The loans are intended solely for working capital requirements and corporate expenses.

As at 31 December 2019, unsecured short-term loan amounted to P9,752.0 million with tenure ranging from 6 to 11 days. The loans are intended solely for working capital requirements and corporate expenses.

The average interest rate on local borrowings for the nine-month period ended 30 September 2020 was 3.91% (30 September 2019 – 5.06%). Total interest expense charged to operations for the nine-month period ended 30 September 2020 arising from short-term loans amounted to P479.8 million (30 September 2019 – P296.4 million).

## **Note 12 – Long-term debt**

Details of the loan agreements with Bank of the Philippine Islands (BPI) as at 30 September 2020 and 31 December 2019 follow:

30 September 2020	31 December 2019	Interest	Terms
9,000,000	9,000,000	2.56% as at 30th September 2020 effective until next re- pricing	Payable after sixty (60) months reckoned from the drawdown date on 08 March 2018. Principal is payable in lump sum at maturity date 08 Mar 2023. Interest is re- priced every three (3) months.

Total interest expense charged to operations for the nine-month period ended 30 September 2020 arising from this loan amounted to P216.9 million (30 September 2019 – P400.2 million).

There are no borrowings related to acquisition, construction or production of a qualifying asset as at 30 September 2020 and 31 December 2019. The borrowings are intended solely for working capital requirements.

There are no collaterals pledged as security against these borrowings.

Under the loan agreements, the Company is required to comply with certain covenants, as follows:

- Maintenance of the Company's legal status.
- Ensure that at all times the loans rank at least *pari passu* with the claims of all other unsecured and in subordinated creditors except those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.
- The Company shall not create or permit to subsist any encumbrance over all or any of its present or future revenues or assets other than permitted encumbrance as defined in the loan agreements.
- The Company shall duly pay and discharge all taxes, assessment and charges of whatsoever nature levied upon or against it, or against its properties, revenues and assets prior to the date on which penalties attach thereto, and to the extent only that the same shall be contested in good faith and by appropriate legal proceedings.

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

## **Note 13 – Provisions and Other Liabilities**

As at 30 September 2020, provisions and other liabilities amounted to P3,957.6 million which also contains asset retirement obligation representing the future estimated dismantling costs of various assets used in retail, depot and commercial operations, amounting to P2,738.8 million and cash security deposits amounting to P280.9 million.

As at 31 December 2019, provisions and other liabilities amounted to P3,160.4 million which also contains asset retirement obligation representing the future estimated dismantling costs of various assets used in retail, depot and commercial operations, amounting to P1,832.3 million and cash security deposits amounting to P280.1 million.

**Note 14 - Share capital; Treasury shares; Share premium**

Capital stock and treasury shares as at 30 September 2020 and 31 December 2019 consist of:

	30 September 2020		31 December 2019	
	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 2020, the Company has 320 shareholders, excluding treasury shares, (31 December 2019 - 320), 283 of whom hold at least 100 shares of the Company's common shares (31 December 2019 - 283).

**Note 15 - Retained earnings; Dividends**

Retained earnings as at 30 September 2020 and 31 December 2019 consist of:

	30 September 2020	31 December 2019
Unappropriated retained earnings, unadjusted	(4,463,019)	9,406,819
Re-measurement gains on net defined benefit obligation, net of tax, closed to retained earnings	2,589,192	2,589,192
PFRS16 Deferred tax	(58,031)	(58,031)
Unappropriated Retained Earnings	(1,931,858)	11,937,980

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

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

**Note 16 - Earnings per share**

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

	YTD 3Q 2020	YTD 3Q 2019
Earnings available to stockholders:		
Profit for the period	(13,869,838)	4,374,899
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	(8.60)	2.71

As at 30 September 2020 and 2019, the Company does not have any potentially dilutive stocks.

Trailing Earnings per share

	2020 (Trailing 12 months)	2019 (Trailing 12 months)
Earnings available to stockholders:		
Profit for the period	(12,593,071)	2,255,072
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	(7.81)	1.40

*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 17 – Classification of other operating and non-operating income and finance expense**

	YTD 3Q 2020	YTD 3Q 2019
Other operating income	550,473	623,078
Other operating expense	(753,710)	(184,374)
<b>Other operating income, net</b>	<b>(203,237)</b>	<b>438,704</b>
Finance income	233,670	236,895
Finance expenses	(1,617,652)	(1,472,113)
<b>Finance expenses, net</b>	<b>(1,383,982)</b>	<b>(1,235,218)</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 19 – 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. On 6 March 2020, the Office of the Solicitor General filed a Motion for Early Resolution. The Company subsequently filed a motion for leave to file an opposition on 23 March 2020. Awaiting action by the Supreme Court. No change in status as of September 2020.

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

(b) *Excise tax on Importations of Alkylate*

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

CTA Case No. 8535, Court of Tax Appeals, 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. Hearings will continue in September 2020.

***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:**

The court turned down PSPC's motion for reconsideration from the denial of the demurrer to evidence. Hearings for the presentation of evidence have been concluded. Status hearing to be reset in view of the community quarantine being implemented. No change in status as of September 2020.

(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 September 2020.

### **Note 19 - 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 20 - Summary of significant accounting policies**

#### 20.1 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 2020.

- 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

## 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*

## **20.2 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 2020 and 31 December 2019, there are no financial assets and financial liabilities that were offset.

## **Note 21 - Financial risk management**

### **21.1 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.

#### **21.1.1 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 2020 and 31 December 2019, 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 nine-month period ended 30 September 2020, if interest rates on Philippine peso-denominated borrowings had been 100 basis points (assessment threshold used by management) higher/lower with all other variables held constant, post-tax profit for the year would have been P191.8 million (31 December 2019 – P65.0 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. Management uses 100 basis points as threshold in assessing the potential impact of interest rate movements in its operations.

*iii. Commodity and Other Price risks*

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

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

**21.1.2 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 30 September 2020 and 31 December 2019, the Company has the following:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
<b>30 September 2020</b>					
<u>Financial assets:</u>					
Receivables	8,953,029	-	8,953,029	4,451,204	4,501,825
<b>31 December 2019</b>					
<u>Financial assets:</u>					
Receivables	12,589,703	-	12,589,703	1,237,171	11,352,532

### 21.1.3 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 over P55 billion and undrawn borrowing facilities at floating rate amounting to over P55 billion as at 30 September 2020 (31 December 2019 – P62.1 billion) which is expiring within one year.

### 21.2 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 gearing ratios at 30 September 2020 and 31 December 2019 are as follows:

	Note	30 September 2020	31 December 2019
Total loans and borrowings	11,12	27,400,000	18,752,000
Less: cash	2	4,793,475	4,778,877
Net debt		22,606,525	13,973,123
Total equity (excluding other reserves)	13,14	25,403,832	39,273,668
Total Capital		48,010,357	53,246,791
Gearing ratio		47%	26%

The Company is not subject to externally imposed capital requirement.

### 21.3 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 2020 and 31 December 2019:

	Notes	30 September 2020	31 December 2019
Financial assets			
Loans and receivables			
Cash	2	4,793,475	4,778,877
Receivables	3	8,953,029	12,589,703
Derivatives	5	14,003	3,715
Customer grants	6	66,794	36,783
Long-term receivables	6	172,230	198,510
Equity through OCI	9	573,488	584,107
Total financial assets		14,573,019	18,191,695
Financial liabilities			
Other financial liabilities			
Trade and other payables	10	17,689,959	29,523,994
Dividends payable		17,074	17,054
Derivatives	10	11,289	1,979
Cash security deposits	13	280,916	280,058
Short-term loans	11	18,400,000	9,752,000
Long-term debt, net of current portion	12	9,000,000	9,000,000
Total financial liabilities		45,399,238	48,575,085

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 22 – 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 23 – Issuances, repurchases, and repayments of debt and equity securities**

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

**Note 24 – 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 25 – 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 26 – 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 27 – 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 28 – Other Matters**

- a. The COVID-19 pandemic during the interim period had a material impact on the financial results of operations, further details have been provided as part of the MD&A.
- 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 18 - 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 2020, a budget of P4.0 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.
- h. On 13 August 2020, the Company announced on the transformation of its Tabangao Refinery into a world-class full import terminal to optimize its asset portfolio and enhance its cost and supply chain competitiveness.



## **ITEM 2**

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

#### **Impact of COVID-19 pandemic to business operations**

The COVID-19 pandemic has disrupted the business operations and affected people's way of life. In the Philippines, the first case was confirmed by the Department of Health on January 30, 2020. The government has taken action to control the spread of the virus by convening an Inter-Agency Task Force (IATF) for the Management of Emerging Infectious Diseases, responsible for implementing measures against the pandemic.

During March 2020, the government declared enhanced community quarantine across (ECQ) Metro Manila, the whole Luzon island and other key cities and provinces.. Under ECQ, malls and public establishments were closed, mass public transport facilities were suspended, and mass gatherings prohibited. People were only allowed to leave their homes to access basic necessities (food, healthcare, utilities, and critical services, etc.). Further, only establishments and workers who provide these essential services are exempted from the ECQ.

The Oil & Energy sector was classified as an essential service during the ECQ. Hence, Pilipinas Shell was able to continue its business operations nationwide, ensuring the stable supply of fuel in the country. Starting June 1, 2020, the government downgraded the restrictions in Metro Manila and other areas in Luzon to general community quarantine (GCQ). Under GCQ, most sectors were allowed to operate and restrictions on public and private vehicles were loosened.

Pilipinas Shell puts top priority on the health and safety of its people, customers and the community, along with the safe operations of all its businesses. Pilipinas Shell, along with Shell companies of the Philippines and the Pilipinas Shell Foundation, implemented Project Shelter which aims to ensure safety in business operations and extend aid to the communities where the companies operate. For more information on these initiatives, readers can visit <https://www.shell.com.ph/media.html>.

Despite lower demand due to mobility restrictions owing to the pandemic, Pilipinas Shell continued to serve its customers and front liners through its retail stations and the unhampered delivery of products to its commercial customers. All sites follow and implement strict safety and health protocols. Partnership with delivery companies were established to help deliver non-fuels retail products to selected parts of the country. The Company leverages on its integrated supply chain and the support from the Shell Group to respond to the drastic changes in demand brought about by the pandemic.

As crude prices reached record-lows due to the breakdown of production cut discussions between OPEC and Russia and product prices in the global and regional market decline, pre-tax inventory holding losses for the Company, reach P8,175.9 million as of Q3 2020. Global crude prices showed a steep decline from \$67/bbl as of the end of December 2019 to ~\$20/bbl in April, contributing bulk of the inventory holding loss booked for the period. The prices have stabilized since May with an average price of ~\$41/barrel reported for the month of June 2020. The average crude price is ~\$41/barrel for the month of September 2020.

Pilipinas Shell's profitability has been affected by the pandemic. The Company's marketing volumes posted 6% growth prior to the announcement of the ECQ. After the announcement of the ECQ, total marketing volumes decreased by 34% in the second half of March. Despite this, total volumes in Q1 2020 was higher by 3% versus same period last year. During the full month of ECQ implementation in April across Metro Manila and key cities and provinces, the marketing volumes further plunged by 58% vs April 2019 levels. With the implementation of GCQ effective from June 1, 2020 the market conditions improved due to the relaxation of restrictions on mobility, leading to an 80% increase in marketing volumes in the month of June 2020 versus April 2020. The government's attempts to reopen the economy led to increased mobility in the country and consequently resulted in a 23% increase in marketing volumes in Q3 2020 versus Q2 2020.

To further build financial resiliency during the pandemic, Pilipinas Shell implemented a cash governance framework and cash preservation initiatives that include the delivery of a P1 billion reduction in operating expenses. The Company will also reduce its planned capital expenditures by P1 billion. By the third

quarter of 2020 the company's capital expenditures have decreased by ~P0.8 billion and operating expenses (excluding depreciation and amortisations) by ~P1.2 billion versus the same period last year.

Although the refinery recorded high reliability in the Q2 2020, its earnings were hampered by the further deterioration of regional refining margins. A planned economic shut down for the refinery was implemented during the last week of May 2020 to reduce the impact of losses arising from the further deterioration of the refining margins and drop in demand brought by the pandemic.

On 13th August 2020, Pilipinas Shell announced its decision to convert its oil refinery into a world-class import terminal to optimize its asset portfolio and enhance its cost and supply chain competitiveness. This move will further strengthen the Company's financial resilience amidst the significant changes and challenges in the global refining industry. PSPC remains committed to the Philippines and will pursue opportunities that enable the entity to leverage its global expertise in line with its growth strategy.

PSPC reported a net loss after tax for this quarter amounting to P13.9 billion, which includes P7.5 billion in impairment of refinery assets and other one-off costs related to the cessation of the refinery operations and accounts for 54.1% of reported net loss. Excluding one-off charges resulting from the refinery conversion, net loss as of the end of the quarter would have resulted to P6.4 billion.

PSPC's net earnings from its principal business activities stabilised due to improved margins on account of premium fuel penetration and volume recoveries, coupled with the Company's cash preservation initiatives. This resulted in improvement of net earnings in Q3 2020 to be more than double that of Q2 2020 (discrete numbers), excluding the impairment and other provisions mentioned above.

Pilipinas Shell continues to monitor the situation and is prepared to seize opportunities as the world enters the "new normal".

*The Statements of Financial Position and Statements of Income for the period ended 30 September 2020 and 2019, are shown in Million Philippine Pesos.*

**Financial condition as of the nine-month period ended 30 September 2020 compared with the period ended 31 December 2019**

	30 September 2020	31 December 2019	%Increase (decrease)
Current assets	32,894.1	47,469.4	(30.7)%
Non-Current assets	54,454.8	55,450.0	(1.8)%
Total assets	87,349.0	102,919.4	(15.1)%
Current Liabilities	36,236.6	39,453.2	(8.2)%
Non-Current Liabilities	25,162.4	23,637.9	6.4%
Total Liabilities	61,399.0	63,091.1	(2.7)%
Equity	25,950.0	39,828.3	(34.8)%

**Current assets**

PSPC's current assets decreased from P47,469.4 million as of 31 December 2019 to P32,894.1 million as of 30 September 2020 primarily due to the following:

*Receivables* decreased by P5,531.9 million, or 35.1% from P15,767.6 million as of 31 December 2019 to P10,235.6 million as of 30 September 2020 as a result of decrease in trade receivables mainly driven by general decrease in global oil prices and volume decline driven by the pandemic.

*Inventories, net* decreased by P11,465.3 million, or 45.1% from P25,422.7 million as of 31 December 2019 to P13,957.4 million as of 30 September 2020 mainly driven by decrease in volume of crude oil owing to the cession of refining operations. This was partially offset by the increase in volume of finished products combined with decrease in oil prices. Crude oil price decreased from ~\$67/bbl as of 31 December 2019 to ~\$41/bbl by end of 30 September 2020.

*Prepayments and other current assets* increased by P2,407.4 million, or 160.5% from P1,500.2 million as of 31 December 2019 to P3,907.6 million as of 30 September 2020 mainly driven by increase in prepaid corporate taxes arising from unutilized tax credits coupled with increase in prepaid excise taxes.

### **Non-Current Assets**

PSPC's non-current assets decreased from P55,450.0 million as of 31 December 2019 to P54,454.8 million as of 30 September 2020 primarily due to the following:

*Property, plant and equipment, net* decreased by P8,406.9 million or 27.2% from P30,925.8 as of 31 December 2019 to 22,518.9 as of 30 September 2020 primarily driven by the impairment of refinery assets owing to cessation of the refining operations.

*Right of use asset* increased by 1,132.7 million or 9.0% from P12,649.1 as of 31 December 2019 to 13,781.8 as of 30 September 2020 primarily driven by renewal of lease contracts.

*Long-term Receivables, rentals and investments, net* increased by P1,452.3 million, or 31.4% from P4,622.8 million as of 31 December 2019 to P6,075.2 million as of 30 September 2020 mainly due to increase in excise duty claims.

### **Current Liabilities**

PSPC's current liabilities decreased from P39,453.2 million as of 31 December 2019 to P36,236.6 million as of 30 September 2020 primarily due to the following:

*Short-term loans* increased by P8,648.0 million from P9,752.0 million as of 31 December 2019 to P18,400.0 million as of 30 September 2020 primarily due to higher short-term bridge-financing requirements.

*Trade and other payables* decreased by P11,864.7 million, or 40.0% from P29,684.2 million as of 31 December 2019 to P17,819.5 million as of 30 September 2020 primarily due to decrease in trade payables owing to reduction in global oil prices and demand decline driven by the pandemic. This was partially offset by the increase in provision for decommissioning and restoration owing to the cessation of the refining operations.

### **Non-Current Liabilities**

PSPC's non-current liabilities increased from P23,637.9 million as of 31 December 2019 to P25,162.4 million as of 30 September 2020 primarily due to the following:

*Lease liabilities* increased by P1,727.3 million from P10,477.4 million as of 31 December 2019 to P12,204.7 million as of 30 September 2020 mainly due to renewal of lease contracts.

*Provisions and other liabilities* increased by P797.2 million from P3,160.4 million as of 31 December 2019 to P3,957.6 million as of 30 September 2020 mainly driven by provision for decommissioning and restoration costs of the refinery equipment that will no longer be used following the decision to transform the refinery into world-class import terminal.

*Deferred Tax* moved from a net liability position of P1000.1 million as of 31 December 2019 to a net asset position of P4,938.9 million as of 30 September 2020.

### **Equity**

PSPC's total equity decreased from P39,828.3 million as of 31 December 2019 to P25,950.0 million as of 30 September 2020 primarily due to the decrease in retained earnings from P11,938 million as of 31 December 2019 to P1,931.9 million as of 30 September 2020. The reduction in retained earnings is primarily on account of the P13,869.8 million net loss realized owing to COVID-19 impact on demand,

decline in crude oil prices, and one-off charges related to the impairment and its associated costs on refinery assets following the decision to shut down the refinery operations and convert it into a world-class import terminal facility.

### **Financial Performance**

	YTD 3Q 2020	YTD 3Q 2019	%Increase (decrease)
Net Sales	107,892.3	162,297.8	(33.5)%
Sales Volumes (M liters)	3,679.0	4,290.9	(14.3)%
Cost of sales	116,050.1	144,443.4	(19.7)%
Gross profit	(8,157.8)	17,854.4	(145.7)%
Selling, General and administrative expenses	10,047.9	10,940.6	(8.2)%
Other operating income (expense), net	(203.2)	438.7	(146.3)%
Finance expenses, net	1,384.0	1,235.2	12.0%
EBITDA Adjusted for COSA	(6,520.3)	8,590.9	(175.9)%
EBITDA Adjusted for COSA, impairment, and other one-off charges	4,436.1	8,590.9	(48.4)%
EBITDA	(14,696.2)	10,786.4	(236.3)%
Provision for income tax	(5,923.1)	1,742.4	(439.9)%
Net Income	(13,869.8)	4,374.9	(417.0)%

### **Results of operations for the period ended 30 September 2020 compared with the period ended 30 September 2019**

*Net sales* decreased by P54,405.5 million, or 33.5% primarily due to decline in global oil prices leading to a decline in average pump prices in the country, and lower marketing volumes due to community lockdowns imposed by the government to prevent the spread of the pandemic. The Government has taken measures to relax the community lockdowns to improve the market conditions in the country.

*Cost of sales* decreased by P28,393.3 billion or 19.7% due to lower purchase prices on account of decline in global crude prices and reduction in sales volume as a result of COVID-19. This also includes one-off charges related to the impairment of refinery assets and its associated cost on account of the cessation of the refinery operations.

*Selling, General and administrative* expenses decreased by P892.7 million or 8.2% from P10,940.6 million for the period ended 30 September 2019 to P10,047.9 million for the period ended 30 September 2020 as a result of reduced spending on advertising expenses, logistics and transshipment, and decrease in travel expenses in line with the cash preservation initiatives.

*Other operating income/expense*, net decreased significantly by P641.9 million or 146.3% from net operating income of P438.7 million for the period ended 30 September 2019 to net operating expense of P203.2 million for the period ended 30 September 2020 primarily due to notional net mark to market loss in 2020 as compared to net mark to market gain in 2019, primarily driven by decline in market prices. When there is a downward trend for market prices, commodity hedging may result in mark-to-market losses, which is offset by the lower cost of materials.

*Finance expense*, net increased by P148.8 million, or 12.0%, from P1,235.2 million for the period ended 30 September 2019 to P1,384.0 million for the period ended 30 September 2020. This is mainly driven increase in interest on lease liabilities as a result of renewal of lease contracts.

*EBITDA Adjusted for COSA* decreased by P15,111.3 million or 175.9% from profit of P8,590.9 million for the period ended 30 September 2019 to loss of P6,520.4 million for the period ended 30 September 2020 driven by the lower demand on oil products arising from the COVID-19 pandemic. Marketing volumes pre COVID-19 showed an increase of 6% as compared to the previous year. Due to mobility restrictions, marketing volumes have reduced by 23% in YTD September vs same period last year due to the implementation of nationwide lockdown measures. Due to the Government's push to open the economy, marketing volumes have steadily improved by 23% in Q3 vs Q2 2020.

*EBITDA* decreased by P25,482.7 million or 236.2% from profit of P10,786.4 million for the period ended 30 September 2019 to loss of P14,696.3 million for the period ended 30 September 2020 mainly due to pre-tax inventory holding loss of P8,175.9 million in YTD 3Q 2020 against gains of P2,195.5 million in YTD 3Q 2019.

*Key financial ratios*

	YTD 3Q 2020 (unaudited)	FY 2019 (Audited)
Current Ratio (a)	0.91	1.20
Debt Ratio (b)	0.26	0.14
Debt to Equity (c)	0.89	0.36
Asset to equity ratio (d)	3.44	2.62
Interest coverage ratio (e)	(27.41)	10.19
Return on Assets (f)	(15.88)%	5.46%
Return on Equity (g)	(54.60)%	14.31%
Return on average capital employed (h)	(32.49)%	16.34%
Gearing ratio (i)	47%	26%

- 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.
- i. Gearing ratio is computed by dividing net debt over total capital and debt.

(Please note that the numbers for 2020 are only for YTD 3Q 2020 while those for 2019 are for the full year, as audited).

## OTHER FINANCIAL DATA

### Reconciliation from statutory profit for the year to EBIT and EBITDA

	YTD 3Q 2020	YTD 3Q 2019
Profit for the period	(13,869.8)	4,374.9
Add:		
Provision for income tax	-	1,742.4
Finance expense	1,611.3	1,464.8
Depreciation and amortization	3,488.5	3,205.8
Less:		
Finance income	3.1	1.4
Provision for income tax	5,923.1	-
<b>EBITDA<sup>1</sup></b>	<b>(14,696.2)</b>	<b>10,786.5</b>
Less:		
Depreciation and amortization	3,488.5	3,205.8
<b>EBIT<sup>1</sup></b>	<b>(18,184.7)</b>	<b>7,580.7</b>
	<b>YTD 3Q 2020</b>	<b>YTD 3Q 2019</b>
EBITDA	(14,696.2)	10,786.5
Less:		
Cost of Sales Adjustment (COSA) <sup>2</sup>	(8,175.9)	2,195.5
EBITDA (adjusted for COSA) <sup>3</sup>	(6,520.3)	8,591.0
Less:		
Depreciation and amortization	3,488.5	3,205.0
EBIT (adjusted for COSA) <sup>3</sup>	(10,008.8)	5,386.0
Add:		
Impairment and other one-off charges <sup>4</sup>	10,956.4	-
Depreciation and amortization	3,488.5	3,205.0
EBITDA (adjusted for COSA, impairment, and other one-off charges)	4,436.1	8,591.0

*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 2020.*

*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.*


4 These figures have been adjusted to remove the effects of impairment and other one-off charges incurred on account of cessation of refining operations in Tabangao.

**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 Taguig on day of 11 November 2020.

Issuer:

Signature and Title:   
ATTY. ELLIE CHRIS C. NAVARRA  
Corporate Secretary

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

Signature and Title:   
ANGELICA M. CASTILLO  
Corporate Controller