

COVER SHEET

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S.E.C. Registration Number

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

(Company's Full Name)

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

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M | A | N | I | L | A | 1 | 6 | 3 | 5

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

Reynaldo P. Abilo
Contact Person

+632 3 4994001
Company Telephone Number

0 | 9 | | 3 | 0 |
Month Day

1 | 7 | - | Q | |
FORM TYPE

0 | 5 | | 1 | 1 |
Month Day

Fiscal Year

2nd 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

326
Total No. of Stockholders
(As of 30 September 2021)

Total Amount of Borrowings

22,724,000,000 Foreign
Domestic

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="63,084,230,000"/>

11. Are any or all of the securities listed on a Stock Exchange? Yes No
- If yes, state the name of such stock exchange and the classes of securities listed therein:
Philippines Stock Exchange - Common Shares

12. Indicate by check mark whether the registrant
- (a) has filed all reports required to be filed with Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
- Yes No
- (b) has been subject to such filing requirements for the past ninety (90) days
- Yes No

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PART I – FINANCIAL INFORMATION

ITEM 1

PILIPINAS SHELL PETROLEUM CORPORATION

Statements of Financial Position

As at 30 September 2021

With Comparative Figures for 31 December 2020

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

	Note	September 2021 Unaudited	December 2020 Audited
ASSETS			
Current Assets			
Cash	2	1,469,013	6,290,505
Trade and other receivables, net	3	13,942,172	11,732,615
Inventories, net	4	15,365,470	10,016,402
Prepayments and other current assets	5	3,529,122	1,863,121
Total Current Assets		34,305,777	29,902,643
Noncurrent Assets			
Long-term receivables, rentals and investments, net	6	5,841,023	5,605,240
Property and equipment, net		23,270,766	23,134,977
Right of use lease assets	8	15,811,542	14,507,495
Deferred income tax assets, net	7	3,732,686	6,102,753
Other assets, net	9	7,376,544	7,297,081
Total Noncurrent Assets		56,032,561	56,647,546
TOTAL ASSETS		90,338,338	86,550,189
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	10	20,276,459	20,377,235
Short term loans	11	13,724,000	13,000,000
Dividends Payable		16,836	17,074
Total Current Liabilities		34,017,295	33,394,309
Noncurrent Liabilities			
Long-term debt, net of current portion	12	9,000,000	9,000,000
Lease liabilities		14,438,320	13,018,762
Deferred tax liabilities, net	7	-	-
Provisions and other liabilities	13	5,628,615	7,505,247
Total Noncurrent Liabilities		29,066,935	29,524,009
Total liabilities		63,084,230	62,918,318
Equity			
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	(753,521)	(4,304,059)
Other reserves		671,941	600,242
Total Equity		27,254,108	23,631,871
TOTAL LIABILITIES AND EQUITY		90,338,338	86,550,189

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

PILIPINAS SHELL PETROLEUM CORPORATION
 Unaudited Statement of Income
 For the period ended 30 September 2021 and 2020
 (All amounts in thousands Philippine Peso, except earnings per share)

3Q 2021	3Q 2020		YTD 3Q 2021	YTD 3Q 2020
42,085,307	33,857,691	Net sales	124,317,889	107,892,283
(36,267,118)	(40,129,889)	Cost of sales	(107,023,134)	(116,050,101)
5,818,189	(6,272,198)	Gross profit	17,294,755	(8,157,818)
		Selling, general and		
(3,838,941)	(3,584,822)	administrative expenses	(10,712,051)	(10,047,901)
374,332	135,838	Other operating income, net	1,158,837	(203,237)
2,353,580	(9,721,182)	Income from operations	7,741,541	(18,408,956)
(779,024)	(434,874)	Finance expense, net	(1,681,580)	(1,383,982)
-	-	Other non-operating income, net	2,728	-
1,574,556	(10,156,056)	Income before income tax	6,062,689	(19,792,938)
(430,327)	3,027,456	Provision for income tax	(2,697,238)	5,923,100
1,144,229	(7,128,600)	Net income	3,365,451	(13,869,838)
0.71	(4.42)	Earnings per share - Basic and Diluted	2.09	(8.60)

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 2021 and for 3Q 2020 is 1,613,444,202 respectively.

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

PILIPINAS SHELL PETROLEUM CORPORATION

Unaudited Statement of Comprehensive Income
For the period ended 30 September 2021 and 2020
(All amounts in thousands Philippine Peso)

3Q 2021	3Q 2020		YTD 3Q 2021	YTD 3Q 2020
1,144,229	(7,128,600)	Net Income	3,365,451	(13,869,838)
		Other comprehensive income		
		<i>Items not to be reclassified to income or loss in subsequent periods:</i>		
-	-	Remeasurement of tax on retirement benefits	185,086	-
18,267	(1,246)	Increase/(Decrease) in fair value of equity through OCI financial assets, net of tax	71,700	(8,451)
1,162,496	(7,129,846)	Total comprehensive income	3,622,237	(13,878,289)

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

PILIPINAS SHELL PETROLEUM CORPORATION

Unaudited Statement of Changes in Equity
For the period ended 30 September 2021 and 2020
(All amounts in thousands Philippine Peso)

	Share Capital	Share Premium	Treasury Stock	Retained Earnings	Share-based Reserve	Other Reserves Fair value Reserve	Total
Notes	14	14	14	15			
Balance at 01 January 2020	1,681,058	26,161,736	(507,106)	11,937,980	82,038	472,608	39,838,314
Loss for the period	-	-	-	(13,869,838)	-	-	(13,869,838)
Decrease in fair value of AFS financial assets	-	-	-	-	-	(8,451)	(8,451)
Total comprehensive loss for the period	-	-	-	(13,869,838)	-	(8,451)	(13,878,289)
Transactions with owners							
Cash dividends	-	-	-	-	-	-	-
Total transactions with owners for the period	-	-	-	-	-	-	-
Balances at September 30, 2020	1,681,058	26,161,736	(507,106)	(1,931,858)	82,038	464,157	25,950,025
Balance at 01 January 2021	1,681,058	26,161,736	(507,106)	(4,304,059)	130,494	469,748	23,631,871
Income for the period	-	-	-	3,365,451	-	-	3,365,451
Other comprehensive income:							
Increase in fair value of AFS financial assets	-	-	-	-	-	71,700	71,700
Remeasurement of tax on retirement benefits	-	-	-	185,086	-	-	185,086
Total comprehensive income for the period	-	-	-	3,550,537	-	71,700	3,622,237
Transactions with owners							
Cash dividends	-	-	-	-	-	-	-
Total transactions with owners for the period	-	-	-	-	-	-	-
Balances at September 30, 2021	1,681,058	26,161,736	(507,106)	(753,521)	130,494	541,448	27,254,108

* Refer to "Basis of Preparation"

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

PILIPINAS SHELL PETROLEUM CORPORATION
Unaudited Statement of Cash Flows
For the period ended 30 September 2021 and 2020
(All amounts in thousands Philippine Peso)

	September 2021	September 2020
Cash flows from operating activities		
Income before income tax	6,062,689	(19,792,938)
Adjustments:		
Depreciation and amortization	2,606,623	3,488,520
Amortization of prepaid lease payments	-	204,259
Interest and finance charges	1,107,009	1,565,109
Unrealized mark-to-market (gain) loss, net	(12,436)	(977)
Unrealized foreign exchange loss (gain), net	253,605	(24,588)
Pension expense	131,345	143,622
Accretion expense	51,972	46,161
Impairment of fixed and intangible assets	-	10,546,141
Loss (Gain) on disposal of property and equipment	(61,575)	49,401
Write off of fixed asset	-	769
Interest Income	-	(3,119)
Share in profit of associates	(16,982)	(92,443)
Operating income before working capital changes	10,122,250	(3,870,083)
Increase in inventories, trade and other receivables, prepayments and other assets	(9,187,960)	14,456,291
Decrease in trade and other payables and provisions and other liabilities	(2,030,479)	(9,919,561)
Cash generated from operations	(1,096,189)	666,647
Pension contributions paid	(53,657)	(85,872)
Net cash from operating activities	(1,149,846)	580,775
Cash flows from investing activities		
Additions to property and equipment	(1,936,534)	(5,082,588)
Increase in long term receivables and rentals, net	-	(1,457,601)
Proceeds from sale of property and equipment	76,252	971
Dividend received	-	69,833
Interest received	-	3,119
Net cash used in investing activities	(1,860,282)	(6,466,266)
Cash flows from financing activities		
Net proceeds (settlements of) from short-term borrowings	724,000	8,648,000
Dividends paid	-	-
Principal lease payments	(1,980,084)	(1,381,688)
Interest and finance charges paid	(555,211)	(1,366,208)
Net cash used in financing activities	(1,811,295)	5,900,104
Net increase in cash	(4,821,423)	14,613
Cash at the beginning of the period	6,290,506	4,778,877
Effect of exchange rate changes on cash	(70)	(15)
Cash at the end of the period	1,469,013	4,793,475

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO FINANCIAL STATEMENTS

As at 30 September 2021 and 31 December 2020 and for the nine-month period ended 30 September 2021 and 2020
(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 09 January 1959 primarily to engage in the marketing of petroleum products. On 05 December 2008, the SEC approved the extension of the corporate term of the Company for another fifty (50) years from 09 January 2009 to 08 January 2059.

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

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 used to operate an oil refinery in Tabangao, Batangas (decision to convert to an import terminal was made on 12 August 2020). The Company continues to operate various oil depots and installations all over the Philippines. The Company has 484 regular employees as of 30 September 2021 (31 December 2020 - 606).

Certain operations of the Company was registered with the Board of Investments (BOI) and entitled to Income Tax Holiday (ITH) provided under Republic Act 8479, otherwise known as the Downstream Oil Deregulation Act of 1998 (see Note 29). The same has been surrendered on 06 August 2020 pursuant to the Company’s decision to convert its Refinery to world-class import terminal.

Note 2 - Cash

The account as at 30 September 2021 and 31 December 2020 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 2021 and 31 December 2020 is maintained with the following type of financial institutions:

	30 September 2021	31 December 2020
Universal banks	1,195,106	5,417,473
Commercial banks	273,907	873,032
	1,469,013	6,290,505

Note 3 – Trade and other receivables, net

The account as at 30 September 2021 and 31 December 2020 consists of:

	30 September 2021	31 December 2020
Trade receivables		
Third parties	10,054,777	8,175,941
Related parties	284,801	911,107
Provision for impairment of trade receivables from third parties	(314,735)	(336,472)
	10,024,843	8,750,576
Non-trade receivables from related parties	24,126	79,910
Other receivables		
Creditable Withholding tax	390,286	449,425
Duty drawback and other claims	2,528,350	1,993,225
Non-trade receivable from third party	366,328	275,774
Miscellaneous	644,376	223,591
Provision for impairment of other receivables	(36,136)	(39,886)
	3,893,203	2,902,129
	13,942,172	11,732,615

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 2021 valued at P4.1 billion (31 December 2020 - P4.2 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 P5.9 billion as at 30 September 2021 (31 December 2020 - P4.6 billion) (see Note 29.1.2). These balances relate to a number of independent customers for whom there is 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 2021 and 31 December 2020 are as follows:

	30 September 2021	31 December 2020
Less than 30 days	199,794	186,812
31 - 60 days	27,671	141,528
61 - 90 days	57,814	62,412
Greater than 90 days	183,752	255,030
	469,031	645,782

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 2020	252,621	48,388	301,009
Provisions (Reversals)	92,546	(8,502)	84,044
Write Off	(8,695)	-	(8,695)
At 31 December 2020	336,472	39,886	376,358
Provisions (Reversals)	(17,576)	(3,750)	(21,326)
Write Off	(4,161)	-	(4,161)
At 30 September 2021	314,735	36,136	350,871

For the year ended 30 September 2021, total trade receivables written-off directly to statement of income amounted to P2.7 million (30 September 2020 - direct write off P28.5 million) based on the Company's assessment of recoverability.

(c) *Neither past due nor impaired*

The credit quality of trade receivables from third parties at 30 September 2021 and 31 December 2020 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 2021	31 December 2020
A	1,289,974	775,563
B	1,545,729	1,050,128
C	2,812,211	2,052,863
D	3,623,097	3,315,133
Total trade receivables	9,271,011	7,193,687

- 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 2021 and for the year ended 31 December 2020.

Note 4 - Inventories, net

The account as at 30 September 2021 and 31 December 2020 consists of:

	30 September 2021	31 December 2020
Crude oil and finished products, net	15,178,778	9,854,709
Materials and supplies, net	186,692	161,693
	15,365,470	10,016,402

Details of and changes in allowance for inventory write-down and obsolescence as at and for the nine-month period ended 30 September 2021 and for the year ended 31 December 2020 are as follows:

	Crude oil and finished products	Materials and supplies	Total
At 1 January 2020	163,650	-	163,650
Write-off	(582,275)	-	(582,275)
Provision, net	487,594	106,000	593,594
At 31 December 2020	68,969	106,000	174,969
Write off	(78,829)	-	(78,829)
Provision/(reversals), net	32,993	(24,363)	8,631
At 30 September 2021	23,133	81,637	104,770

The provision for inventory resulting from the write-down of crude and finished products to arrive at the net realizable value amounted to P12.2 million and P10.9 million relates to obsolescence of finished products as at 30 September 2021 (31 December 2020 - P51.6 million and P17.3 million).

Write-down of crude as at 30 September 2021 amounted to P78.8 million (31 December 2020 - P582.3 million), due to cessation of refining operations.

Of the total amount of inventories, the inventories with a value of P209.9 million as at 30 September 2021 (31 December 2020 - 243.9 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 P84.9 billion for the nine-month period ended 30 September 2021 (30 September 2020 – P78.7 billion).

Note 5 - Prepayments and other current assets

The account as at 30 September 2021 and 31 December 2020 consists of:

	30 September 2021	31 December 2020
Prepaid specific tax (a)	804,068	37,037
Prepaid corporate income tax (b)	2,098,823	1,469,116
Input value added tax (VAT), net of Output VAT (c)	340,213	5,676
Advance rentals	256,339	251,651
Derivatives (d)	45,528	20,392
Prepaid duties and taxes	1,174	3,887
Deposits	-	-
Others	(17,022)	75,362
	3,529,122	1,863,121

(a) *Prepaid specific tax*

These are excise tax deposits made to the BIR pertaining to importation of finished products.

(b) *Prepaid corporate income tax*

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

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

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

(d) *Derivatives*

The Company enters into commodity forward contracts to hedge the commodity price risks arising from its crude oil and other oil products requirements. As at 30 September 2021, the notional principal amount of the outstanding commodity forward contracts amounted to P2.3 billion (31 December 2020 – P1.2 billion). As at 30 September 2021, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P45.5 million (31 December 2020 – P20.4 million).

For the nine-month period ended 30 September 2021, the Company's fair value of settled derivatives amounted to gain of P482.5 million (30 September 2020 – loss of P686.9 million).

For the nine-month period ended 30 September 2021, net fair value changes of the outstanding commodity forward contracts amounting to a gain of P12.4 million (30 September 2020 – gain of P1.0 million) were recognized in 'Other operating income, net'.

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

The account as at 30 September 2021 and 31 December 2020 consists of:

	30 September 2021	31 December 2020
Advance rentals	138,782	137,253
Market Investment loans (b)	112,897	61,469
Investments in associates (c)	58,166	41,184
	309,844	239,906
Long-term receivables (a)	5,800,912	5,635,067
Provision for impairment of long-term receivables	(269,734)	(269,733)
	5,531,179	5,365,334
	5,841,023	5,605,240

(a) *Long-term receivables*

Long-term receivables include claims from government agencies amounting to P5.6 billion as at 30 September 2021 (31 December 2020 – P5.5 billion) representing the amount to be recovered from the government on various taxes paid. Included in this P5.6 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 2021 and year ended 31 December 2020.

As at 30 September 2021, long-term receivables of P269.7 million (31 December 2020 – P269.7 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 2020	408,542
Provision	-
Reclassification	-
Reversal	(138,809)
At 31 December 2020	269,734
Write off	-
At 30 September 2021	269,734

As at 30 September 2021 and 31 December 2020, 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) *Market Investment loans*

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

(c) *Investments in associates*

		30 September 2021	31 December 2020			
Cost		23,073	23,073			
	Interest	Assets	Liabilities	Net Assets	Income	Share of Profit
30 September 2021						
Bonifacio Gas Corporation	44%	228,205	99,845	128,361	52,353	23,035
Kamayan Realty Corporation	40%	34,074	11,787	22,288	4,849	1,940
31 December 2020						
Bonifacio Gas Corporation	44%	219,902	144,055	75,847	72,341	31,570
Kamayan Realty Corporation	40%	26,786	6,574	20,212	5,952	2,381

Bonifacio Gas Corporation is an entity engaged in wholesale distribution of LPG and was established to operate a centralized gas distribution system within the Bonifacio Global City. PSPC has entered into a share purchase agreement to sell its 3.64% shares of Bonifacio Gas Corporation in Q1 2021. The parties are waiting the completion of legal and administrative requirements to complete the transfer of shares. PSPC has also executed a Proxy and Declaration of Rights of Trust assigning its related voting rights to the buyers.

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 2021 and 31 December 2020 are as follows:

	30 September 2021	31 December 2020
Deferred income tax assets (liabilities)		
Asset retirement obligation	791,927	1,157,304
Unamortized past service cost, net	73,927	121,532
PFRS16 lease liability & lease straight lining accrual	750,628	733,256
Provision for remediation costs	67,316	81,719
Provision for doubtful debts	151,510	189,458
Share-based compensation	30,549	36,658
Provision for inventory losses	246,389	244,099
Unrealized foreign exchange gain	(45,783)	(131,021)
Unrealized mark-to-market gain	(8,095)	(5,984)
Prepaid duties and taxes	(577,554)	(707,732)
Retirement benefit asset	(1,623,442)	(1,948,131)
Other provisions	671,155	1,709,912
Impairment of property, plant and equipment	2,254,844	2,557,570
NOLCO	590,544	1,850,522
Minimum corporate income tax (MCIT) – Recognition	358,772	213,591
Net deferred income tax	3,732,686	6,102,753

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

	30 September 2021	31 December 2020
At 1 January	6,102,751	(1,000,115)
Credited to profit and loss	(2,552,774)	6,863,543
Credited to other comprehensive income	(15,870)	25,734
Application of excess MCIT	198,578	213,591
At 30 September 2021 and 31 December 2020	3,732,686	6,102,753

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 2021 and 31 December 2020 are fully realizable.

On 30 September 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

NOLCO balances as of 30 September 2021

As at 30 September 2021, the Company has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Year Incurred	Availment Period	Amount	NOLCO Applied Previous Years	NOLCO Expired	NOLCO Applied Current Year	NOLCO Unapplied
2020	2021-2025	5,899,148	-	-	3,536,971	2,362,177

MCIT balances as on 30 September 2021

Year Incurred	Availment Period	Amount	MCIT Applied Previous Years	MCIT Expired	MCIT Applied Current Year	MCIT Unapplied
2020	2021-2023	160,193	-	-	-	160,193
2021	2022-2024	198,578	-	-	-	198,578

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

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 first quarter of 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. This led PSPC's refinery operations (the ITH-registered activity) to record losses month-on-month. The refinery 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 allowed the Company to include the losses incurred from its BOI-registered activities in its NOLCO. This allowed the Company to enjoy the full amount of NOLCO and effectively reduced income tax payable.

The details of provision for income tax for the nine-month period ended 30 September 2021 and 2020 are as follows:

	30 September 2021	30 September 2020
Current	157,956	13,773
Deferred	2,539,282	(5,936,873)
	2,697,238	(5,923,100)

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 2021	30 September 2020
Income tax at statutory income tax rate	1,515,672	(5,937,878)
Income tax effect of:		
Non-deductible expenses	4,657	31,628
Limitation on deductible interest expense	126	290
Interest income subjected to final tax	(628)	(879)
Non-taxable income	(11,275)	(27,738)
Income subjected to 8% final tax	(4,685)	(2,296)
Movement of deferred tax asset	1,180,681	-
Prior year deferred tax asset	53,312	-
Provision for income tax before final taxes	2,737,860	(5,936,873)
Final taxes on interest and other charges	12,772	
Prior Year Current Tax	(53,394)	13,773
Provision for income tax at effective tax rate	2,697,238	(5,923,100)

Note 8 – Right of use lease assets

The account as at 30 September 2021 and 31 December 2020 consists of:

	30 September 2021	31 December 2020
Cost	23,848,682	22,105,920
Accumulated depreciation	(8,037,140)	(7,598,425)
Net carrying amount	15,811,542	14,507,495

Note 9 - Other assets, net

The account as at 30 September 2021 and 31 December 2020 consists of:

	30 September 2021	31 December 2020
Pension asset	6,575,775	6,584,298
Equity through OCI (a)	668,528	580,958
Deferred input VAT (b)	131,047	130,464
Intangible assets (c)	1,194	1,361
	7,376,544	7,297,081

(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 2021 and 31 December 2020 are as follows:

	30 September 2021	31 December 2020
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	554,158	557,307
Changes during the period	87,570	(3,149)
	641,728	554,158
30 September 2021 and 31 December 2020	668,528	580,958
Current portion	-	-
Non-current portion	668,528	580,958

The Company does not intend to sell equity instruments within 12 months from 30 September 2021 and 31 December 2020.

(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 2021 and 31 December 2020.

(c) *Intangible Asset*

Intangible asset consists of program software and others. As at 30 September 2021 and 31 December 2020 the movements in the accounts for the years consist of:

	30 September 2021	31 December 2020
At cost		
1 January	1,007,623	1,003,459
Reclassifications from AUC	-	-
Additions	-	7,044
Disposals	-	(2,880)
Balance at the end	1,007,623	1,007,623
Accumulated amortization		
1 January	(1,006,262)	(900,037)
Amortization for the period	(167)	(3,335)
Impairment of Intangible assets	-	(105,770)
Write off	-	2,880
Balance at the end	(1,006,429)	(1,006,262)
Net book value	1,194	1,361

Note 10 – Trade and other payables

The account as at 30 September 2021 and 31 December 2020 consists of:

	30 September 2021	31 December 2020
Trade Payables		
Third parties	6,357,399	7,152,253
Related parties	7,963,859	6,592,795
	14,321,258	13,745,048
Non-trade payables from related parties	338,704	402,446
Other payables		
Rent and utilities	386,726	436,207
Project-related costs and advances	994,643	1,364,371
Employee benefits	450,066	287,381
Provision for remediation	382,069	805,867
Supply and distribution	8,295	48,084
Advertising and promotions	482,227	326,700
Duties and taxes	201,424	271,762
Lease liabilities	1,657,815	1,458,590
Derivatives (a)	13,147	447
Others (b)	1,040,085	1,230,332
	20,276,459	20,377,235

(a) As at 30 September 2021, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P13.15 million (31 December 2020 – P0.45 million).

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

Note 11 - Short-term loans

As at 30 September 2021, unsecured short-term loan amounted to P13,724 million with tenure ranging from 1 to 360 days. The loans are intended solely for working capital requirements and corporate expenses.

As at 31 December 2020, unsecured short-term loan amounted to P13,000 million with tenure ranging from 211 to 360 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 2021 was 2.07% (30 September 2020 – 3.91%). Total interest expense charged to operations for the nine-month period ended 30 September 2021 arising from short-term loans amounted to P284.82 million (30 September 2020 – P479.8 million).

Note 12 – Long-term debt

Details of the loan agreements with Bank of the Philippine Islands (BPI) as at 30 September 2021 and 31 December 2020 follow:

30 September 2021	31 December 2020	Interest
9,000,000	9,000,000	1.79% as at 30 September 2021 effective until next re-pricing

Total interest expense charged to operations for the nine-month period ended 30 September 2021 arising from these loans amounted to P111.79 million (30 September 2020 – P216.9 million).

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.

The carrying amounts of loans payable approximate their fair values as balances are subject to changing interest rates based on market, which falls under level 2 of fair value hierarchy.

Note 13 – Provisions and Other Liabilities

As at 30 September 2021, provisions and other liabilities amounted to P5,628.6 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 P3,410.2 million and cash security deposits amounting to P241.6 million.

As at 31 December 2020, provisions and other liabilities amounted to P7,505.3 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 P3,674.2 million and cash security deposits amounting to P290.5 million.

Note 14 - Share capital; Treasury shares; Share premium

Capital stock and treasury shares as at 30 September 2021 and 31 December 2020 consist of:

	30 September 2021		31 December 2020	
	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 2021, the Company has 326 shareholders excluding treasury shares (31 December 2020 - 320), 289 of whom hold at least 100 shares of the Company's common shares (31 December 2020 - 283).

Note 15 - Retained earnings

Retained earnings as at 30 September 2021 and 31 December 2020 consist of:

	30 September 2021	31 December 2020
Unappropriated retained earnings, unadjusted	(3,410,402)	(6,775,853)
Re-measurement gains on net defined benefit obligation, net of tax, closed to retained earnings	2,714,912	2,529,825
PFRS16 Deferred tax	(58,031)	(58,031)
Unappropriated Retained Earnings	(753,521)	(4,304,059)

Note 16 - Earnings per share

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

	YTD 3Q 2021	YTD 3Q 2020
Earnings available to stockholders:		
Profit for the period	3,365,451	(13,869,838)
Weighted average number of shares	1,681,058,291	1,681,058,291
Treasury shares	(67,614,089)	(67,614,089)
	1,613,444,202	1,613,444,202
Basic and diluted EPS	2.09	(8.60)

As at 30 September 2021 and 2020, the Company does not have any potentially dilutive stocks.

Trailing Earnings per share

	2021 (Trailing 12 months)	2020 (Trailing 12 months)
Earnings available to stockholders:		
Profit for the period	1,052,616	(12,623,582)
Weighted average number of shares	1,681,058,291	1,681,058,291
Treasury shares	(67,614,089)	(67,614,089)
	1,613,444,202	1,613,444,202
Basic and diluted EPS	0.65	(7.81)

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 2021	YTD 3Q 2020
Other operating income	1,185,404	550,473
Other operating expense	(26,567)	(753,710)
Other operating income, net	1,158,837	(203,237)
Finance income	(3,115)	233,670
Finance expenses	(1,678,467)	(1,617,652)
Finance expenses, net	(1,681,582)	(1,383,982)

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 18 – Contingencies

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

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

Matter Summary:

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

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

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

The COC denied the appeal of the Company and demanded the payment of excise tax and VAT for the Company’s CCG and LCCG importations this time from 2004 to 2009. The Company filed a motion for reconsideration of the Letter-Decision, which was denied by the

COC. The COC then ordered the Company to pay the principal amount of P7.35 billion and pay the excise tax and VAT on all incoming CCG and LCCG shipments.

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

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

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

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

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

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

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

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

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

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

Status:

The Supreme Court consolidated the said petitions and the parties have filed their respective Comments. The Government and the Company filed their Reply on 22 January 2018 and 06 June 2018, respectively. On 06 March 2020, the Office of the Solicitor General filed a Motion for Early Resolution. The Company subsequently filed a motion for leave to file an opposition on 23 March 2020. Awaiting action by the Supreme Court. No change in status as of 12 October 2021.

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 07 July 2014, the SC issued a temporary restraining order (TRO) 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:

Decision on the merits is pending with the Court of Tax Appeals (“CTA”). The parties have concluded the presentation of their witnesses. The court is expected to set a deadline for the submission of the respective memoranda of the Parties.

In July 2021, the Supreme Court lifted the temporary restraining order (TRO) against the collection of excise tax for the Company’s alkylate importations from March 2014 to April 2020 (principal amount is around Php 3.4 Billion) and remanded the case to the Court of Tax Appeals (CTA) for the latter to determine the propriety of issuing a TRO / injunction in favour of the Company. In line with said Supreme Court ruling, PSPC has filed an application for TRO / injunction with the CTA, which remains pending to date. In August 2021, PSPC received a demand letter from the District Collector of the Bureau of Customs for the payment of around Php 3.4 Billion. PSPC has responded to the demand letter that there is no final decision from either the CTA or Supreme Court on the taxability of alkylate importations.

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

Matter Summary:

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

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

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

Status:

In a decision dated 16 February 2021, the RTC dismissed the case on the merits.

(c) *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.

(d) *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 April 2021.

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 its 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 equity through OCI, derivatives and retirement assets that are measured at fair value. The financial statements are presented in Philippine peso, the functional and presentation currency of the Company. All amounts are rounded off to the nearest thousand-peso unit unless otherwise indicated.

Statement of Compliance:

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

Changes in Accounting Policies and Disclosures:

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to previously issued PAS and PFRS which were adopted as at 01 January 2021.

- Amendments to PFRS 3, Business Combinations, 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
- Conceptual Framework for Financial Reporting issued on 29 March 2018
- Amendments to PFRS 16, COVID-19-related Rent Concessions
- Amendments to PFRS 7, Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform

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 01 January 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform-Phase 2

Effective beginning on or after 01 January 2022

- Amendments to PFRS 3, Reference to the Conceptual Framework
- Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use
- Amendments to PAS 37, Onerous Contracts - Costs of Fulfilling a Contract
- Annual Improvements to PFRSs 2018-2020 Cycle
- Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter
- Amendments to PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities - Amendments to PAS 41, Agriculture, Taxation in fair value measurements

Effective beginning on or after 01 January 2023

- Amendments to PAS 1, Classification of Liabilities as Current or Non-current
- PFRS 17, Insurance Contracts

Deferred effectivity

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

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 2021 and 31 December 2020, 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 2021 and 31 December 2020, the Company's short-term borrowings and loans payable carry floating rates based on a certain index plus applicable premium.

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

For the year ended 30 September 2021, 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 P170 million (31 December 2020 – P154 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 2021 and 31 December 2020, the Company has the following:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
30 September 2021					
<u>Financial assets:</u>					
Receivables	10,048,968	-	10,048,968	4,123,470	5,925,498
31 December 2020					
<u>Financial assets:</u>					
Receivables	8,830,486	-	8,830,486	4,206,465	4,624,021

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 and undrawn borrowing facilities at floating rate amounting to over P70 billion as at 30 September 2021 (31 December 2020 – P60.3 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 Company does not have a fixed gearing target and management considers whether the present gearing level is commercially acceptable based on the ability of the Company to operate on a stand-alone basis and is set after appropriate advice has been taken from Tax, Treasury and Legal advisors.

The gearing ratios at 30 September 2021 and 31 December 2020 are as follows:

	Note	30 September 2021	31 December 2020
Total loans and borrowings	11,12	22,724,000	22,000,000
Less: cash	2	1,469,013	6,290,505
Net debt		21,254,987	15,709,495
Total equity (excluding other reserves)	14,15	26,582,167	23,031,629
Total Capital		47,837,154	38,741,124
Gearing ratio		44%	41%

The Company's gearing ratio as compared to the previous years (2019 and earlier) are higher due to retained earnings deficit as a result of decline in global oil prices driven by slower global demand for petroleum products due to the COVID-19 pandemic and depressed regional refining margins.

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 2021 and 31 December 2020:

	Notes	30 September 2021	31 December 2020
Financial assets			
Loans and receivables			
Cash	2	1,469,013	6,290,505
Receivables	3	10,048,968	8,830,486
Derivatives	5	45,528	20,392
Customer grants	6	112,897	61,469
Long-term receivables	6	197,582	159,836
Equity through OCI	9	668,528	580,958
Total financial assets		12,542,516	15,943,646
Financial liabilities			
Other financial liabilities			
Trade and other payables	10	20,061,888	20,105,026
Dividends payable		16,836	17,074
Derivatives	10	13,147	447
Cash security deposits		241,565	290,472
Short-term loans	11	13,724,000	13,000,000
Long-term debt, net of current portion	12	9,000,000	9,000,000
Total financial liabilities		43,057,435	42,413,019

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 2021, a budget of ~P3 to 4 billion has been approved for capital expenditures. Bulk of the capital expenditures will be allocated mainly for establishment of new mobility service stations and growth projects, and the improvement of existing supply and distribution facilities.

- f. Global developments, particularly the volatility in oil prices, will continue to impact supply of petroleum products, both internationally and in the domestic market.
- g. There were no significant elements of income or loss that did not arise from the Company's continuing operations.

ITEM 2

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

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 30 January 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 were 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. On 01 June 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.

During the pandemic, Pilipinas Shell's priorities are care, continuity and cash. These reflect the urgency needed to respond to the new reality. By focusing on them, the Company aims to do its part in limiting the spread and impact of COVID-19 inside and outside of Shell, to continue providing essential products and services to our customers, and to accelerate its cost savings initiatives and recovery plans. Pilipinas Shell, along with Shell companies of the Philippines and the Pilipinas Shell Foundation, Inc. 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.

On 13 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 aims to 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 corporation to leverage its global expertise in line with its growth strategy.

As product prices steadily improve in 2021 since its record-lows due to the breakdown of production cut discussions between OPEC and Russia and lower demand due to the pandemic, pre-tax inventory holding gains for the Company, reached P1,866.7 million as of Q3 2021. Mean of Platts Singapore (MOPS) movement in product prices showed a steep increase from ~\$53/bbl as of the end of December 2020 to ~\$80/bbl by end of September 2021, contributing to bulk of the inventory holding gains booked for the period.

In April 2021, the government imposed another two-week ECQ in Metro Manila. This was followed by different forms of lighter restrictions. However, in August 2021, the government once again imposed a two-week ECQ in Metro Manila and some cities in Visayas and Mindanao. In the second half of September, the government piloted the COVID-19 Alert Level System. In the first week of its implementation, Metro Manila has been placed under Alert Level 4, wherein limitations were imposed for restaurants and personal care services while indoor entertainment venues (e.g., cinemas, galleries, and libraries, etc.) were not allowed to operate. In an article published by Bloomberg, vaccination czar Carlito

Galvez, Jr. said that fully vaccinating 70% of the population will be achieved in February 2022, later than its original goal of achieving this by end of year.

While the restrictions have impacted the company's volumes in Q2 and Q3, the company's marketing businesses continue to report positive net earnings in 2021.

The Company reported a net income of P3.4 billion as a result of strong marketing delivery, inventory holding gains, successful sale of some of the refinery assets, and conclusion of some of the refinery's contracts, partially offset by the adjustments arising from the implementation of the Corporate Recovery and Tax Incentives for Enterprises Act or "CREATE" Bill.

The "CREATE" Bill was signed into law on 26 March 2021. This effectively amended applicable corporate income tax rates to PSPC from 30% to 25%, and minimum corporate income tax rates from 2% to 1% effective 01 July 2020. The change in tax rates means that deferred taxes can only be realized at 25% from 01 July to 31 December 2020 vs the 30% corporate income tax rate used in full year 2020 before the CREATE bill was signed into law. As a result, the Company posted one-off adjustments for deferred taxes, incurring an additional provision for income tax of ~P1.0 billion.

Excluding the CREATE adjustment, the Company could have delivered a net income of P4.4 billion for the YTD Q3 2021. This is a significant improvement from the previous year's net loss of P13.9 billion driven by depressed refining margins and inventory losses.

Pilipinas Shell posted core earnings of P2.0 billion which significantly improved from prior year loss of P0.7 billion, despite the pandemic.

The Statements of Financial Position and Statements of Income for the period ended 30 September 2021 and 2020, are shown in Million Philippine Pesos.

Financial condition as of the nine-month period ended 30 September 2021 compared with the period ended 31 December 2020

	30 September 2021	31 December 2020	%Increase (decrease)
Current assets	34,305.8	29,902.6	14.7%
Non-Current assets	56,032.6	56,647.6	-1.1%
Total assets	90,338.3	86,550.2	4.4%
Current Liabilities	34,017.3	33,394.3	1.9%
Non-Current Liabilities	29,066.9	29,524.0	-1.5%
Total Liabilities	63,084.2	62,918.3	0.3%
Equity	27,254.1	23,631.9	15.3%

Current assets

PSPC's current assets increased from P29,902.6 million as of 31 December 2020 to P34,305.8 million as of 30 September 2021 primarily due to the following:

Cash decreased by P4,821.5 million, or 77% from P6,290.5 million as of 31 December 2020 to P1,469.0 million as of 30 September 2021 primarily driven by settlement of short-term borrowings and partial payment of contractual obligations from cessation of refinery operations.

Receivables increased by P2,209.6 million or 18.8% from P11,732.6 million as of 31 December 2020 to P13,942.2 million as of 30 September 2021 primarily driven by the increase in finished products prices in the region.

Inventories, net increased by P5,349.1 million, or 53.4% from P10,016.4 million as of 31 December 2020 to P15,365.5 million as of 30 September 2021 primarily driven by finished product prices in the region which increased from ~\$53/bbl as of 31 December 2020 to ~\$80/bbl by end of September 2021.

Prepayments and other current assets increased by P1,666.0 million, or 89.4% from P1,863.1 million as of 31 December 2020 to P3,529.1 million as of 30 September 2021 mainly driven by the increase in prepaid corporate taxes, input VAT credit and prepaid excise taxes for imports.

Non-Current Assets

PSPC's non-current assets decreased from P56,647.6 million as of 31 December 2020 to P56,032.6 million as of 30 September 2021 primarily due to the following:

Right of use assets increased by P1,304.0 million, or 9.0% from P14,507.5 million as of 31 December 2020 to P15,811.5 million as of 30 September 2021 mainly driven by the renewal of lease contracts.

Deferred income tax assets, net, decreased by P2,370.1 million, or 38.8% from P6,102.8 million as of 31 December 2020 to P3,732.7 million primarily due to the reduction in Regular Corporate Income Tax Rate (RCIT) from 30% to 25% effective 01 July 2020, and adjustments in the provisions related to the cessation of refinery operations.

Current Liabilities

PSPC's current liabilities increased from P33,394.3 million as of 31 December 2020 to P34,017.3 million as of 30 September 2021 primarily due to the following:

Short-term loans increased by P724.0 million from P13,000.0 million as of 31 December 2020 to P13,724.0 million as of 30 September 2021 primarily due to working capital requirements driven by the increase in product prices in the market.

Non-Current Liabilities

PSPC's non-current liabilities decreased from P29,524.0 million as of 31 December 2020 to P29,066.9 million as of 30 September 2021 primarily due to the following:

Provision and other liabilities decreased by P1,876.6 million from P7,505.2 million as of 31 December 2020 to P5,628.6 million as of 30 September 2021 primarily driven by provision reversal for decommissioning and restoration costs of the refinery equipment due to asset sales and adjustment on provisions related to cessation of refinery operations

Lease liabilities increased by P1,419.6 million from P13,018.8 million as of 31 December 2020 to P14,438.3 million as of 30 September 2021 mainly due to renewal of lease contracts.

Equity

PSPC's total equity increased from P23,631.8 million as of 31 December 2020 to P27,254.1 million as of 30 September 2021 due to profits earned during the period mainly driven by strong marketing earnings and inventory gains.

Financial Performance

	YTD 3Q 2021	YTD 3Q 2020	%Increase (decrease)
Net Sales	124,317.9	107,892.3	15.2%
Sales Volumes (M liters)	2,841.7	3,678.7	-22.7%
Marketing Volumes (M liters)	2,810.2	2,996.6	-6.2%
Cost of sales	107,023.1	116,050.1	-7.8%
Gross profit	17,294.8	(8,157.8)	312.0%
Selling, General and administrative expenses	10,712.1	10,047.9	6.6%
Other operating income, net	1,158.8	(203.2)	670.2%
Finance expenses, net	1,681.6	1,384.0	21.5%
EBITDA	9,831.4	(14,696.2)	166.9%
Provision for income tax	2,697.2	(5,923.1)	145.5%
Net Income	3,365.5	(13,869.8)	124.3%
Core earnings	2,043.3	(659.1)	410.0%

Results of operations for the period ended 30 September 2021 compared with the period ended 30 September 2020

Net sales increased by P16,425.6 million, or 15.2% primarily due to higher pump prices driven by the general increase in global oil prices.

Gross profit increased by P25,452.6 million or 312.0% mainly due to higher premium fuel penetration, and inventory gains as a result of increase in global oil prices, and lower costs as a result of the cessation of refinery operations.

Selling, General and Administrative expenses increased by P664.2 million, or 6.6% from P10,047.9 million for the year ended 30 September 2020 to P10,712.1 million for the year ended 30 September 2021 as a result of increase in business activities in marketing and supply chain.

Other operating income/expense, net increased by P1,362.0 million from net operating expense of P203.2 million for the period ended 30 September 2020 to net operating income of P1,158.8 million for the period ended 30 September 2021 primarily driven by increase in market prices leading to commodity hedging net mark to market gain in 2021 as compared to net mark to market loss in 2020.

EBITDA increased by P24,527.7 million or 166.9% from loss of P14,696.2 million for the period ended 30 September 2020 to profit of P9,831.4 million for the period ended 30 September 2021 mainly due to the significant recovery of core earnings from prior year loss position and impact of post-tax inventory holding gains of P1,866.7 million in YTD 3Q 2021 against losses of P5,720.5 million in YTD 3Q 2020.

Core earnings increased by P2,702.4 million from loss of P659.1 million for the period ended 30 September 2020 to P2,043.3 million for the period ended 30 September 2021, mainly driven by resilient marketing earnings and lower costs from the cessation of refining operations. Core earnings represents net profits after excluding inventory holding gains and losses (2021 – P1,866.7 million income, 2020 – P5,720.5 million loss post-tax), and other one-off items (2021 CREATE adjustment on deferred taxes of ~ P1.0 billion and post-tax one of manufacturing expenses amounting to P0.2 billion).

Key financial ratios

	YTD 3Q 2021 (unaudited)	FY 2020 (Audited)
Current Ratio (a)	1.01	0.90
Debt Ratio (b)	0.24	0.18
Debt to Equity (c)	0.80	0.68
Asset to equity ratio (d)	3.40	3.76
Interest coverage ratio (e)	16.29	(24.92)
Return on Assets (f)	3.73%	-18.70%
Return on Equity (g)	12.66%	-70.26%
Return on average capital employed (h)	15.11%	-39.81%

- a. Current ratio is computed by dividing current assets over current liabilities.
- b. Debt ratio is computed by dividing net debt (short-term and long-term borrowings less cash) over total assets.
- c. Debt to equity ratio is derived by dividing net debt (short-term and long-term borrowings less cash) over stockholder's equity (exclusive of Other Reserves).
- d. Asset to equity ratio is derived by dividing total assets over stockholder's equity (exclusive of Other Reserves).
- e. Interest coverage ratio is derived by dividing earnings before interest expense and taxes over interest expense.
- f. Return on assets is computed as Profit (Loss) for the year divided by total assets.
- g. Return on equity is computed as Profit (Loss) for the year divided by stockholder's equity (exclusive of Other Reserves).
- h. Return on average capital employed is defined as EBIT as a percentage of the average capital employed for the period. Capital employed consists of total equity, short-term borrowings and loans payable. Average capital is calculated as the mean of the opening and closing balances of capital employed for that period.

(Please note that the numbers for 2021 are only for YTD 3Q 2021 while those for 2020 are for the full year, as audited).

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 _____.

Issuer:

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

Signature and Title:  _____
ANGELICA M. CASTILLO
Corporate Controller and Investor Relations Manager

Signature and Title:  _____
REYNALDO P. ABILO
Chief Financial Officer