

# COVER SHEET

## for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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### COMPANY NAME

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

### PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

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Form Type

A	A	F	S
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Department requiring the report

S	E	C
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Secondary License Type, If Applicable

N	/	A
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### COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
<a href="http://www.shell.com">www.shell.com</a>	(632) 3 4994001	N/A
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
315	05/14	12/31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

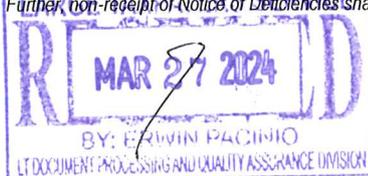
Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Reynaldo P. Abilo	<a href="mailto:Rev.Abilo@shell.com">Rev.Abilo@shell.com</a>	(632) 3 4994001	N/A

### CONTACT PERSON'S ADDRESS

41<sup>st</sup> Floor, The Finance Center, 26<sup>th</sup> Street corner 9<sup>th</sup> Avenue Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila

**NOTE 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2:** All Boxes must be properly and completely filled up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.





## SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City, 1307

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Shell Pilipinas Corporation** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year ended **31 December 2023**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

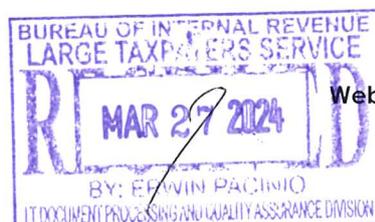
The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

**Min Yih Tan**  
*Chairman of the Board*

Signed this 21st day of March 2024

**Shell Pilipinas Corporation**  
41<sup>st</sup> Floor, The Finance Center  
26<sup>th</sup> Street corner 9<sup>th</sup> Avenue  
Bonifacio Global City  
1635 Taguig City, Philippines



Tel. (632) 3 499 4001  
Website <http://www.pilipinas.shell.com.ph>



**Lorelie Quiambao-Osial**  
*President and Chief Executive Officer*

**Reynaldo H. Abilo**  
*Vice-President – Finance, Treasurer  
and Chief Risk Officer*

Signed this 21st day of March 2024

**Shell Pilipinas Corporation**  
41<sup>st</sup> Floor, The Finance Center  
26<sup>th</sup> Street corner 9<sup>th</sup> Avenue  
Bonifacio Global City  
1635 Taguig City, Philippines



Tel. (632) 3 499 4001  
Website <http://www.pilipinas.shell.com.ph>

SUBSCRIBED AND SWORN to before me this 21 MAR 2024 at Taguig City, affiants exhibiting to me the following Community Tax Certificate and/or Competent Evidence of Identification:

Name	Competent Evidence of Identification		
	Passport Number	Date of Issue	Place of Issue
LORELIE Q. OSIAL	[REDACTED]		
REYNALDO P. ABILO			

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

NOTARY PUBLIC

Doc. No. 421 ;  
Page No. 86 ;  
Book No. XVI ;  
Series of 2024.

  
ATTY. MARIE CHRISTINE DURAN-SCHULZE  
Notary Public for Taguig City  
NCC No. 15 (2023-2024) Expires on 12/31/2024  
Unit 1210 High Street South Corporate Plaza Tower 2  
26th St. Bonifacio Global City, Taguig City  
Roll No. 56901; LM IBP No. 08278; 15 April 2009; RSM  
PTR No. A-6104015; 01/02/2024; Taguig City  
MCE No. VII-005298 valid until 04/14/2025



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Shell Pilipinas Corporation  
41st floor, The Finance Centre, 26th Street corner 9th Avenue  
Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Shell Pilipinas Corporation (the Company), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the financial statements, including material accounting policy information.

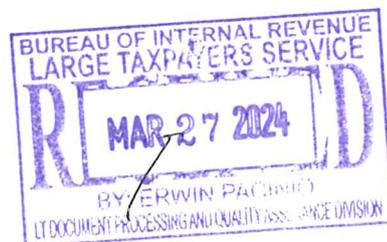
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

***Assessment of provisions and contingencies for tax cases and recoverability of claims***

The Company is involved in legal proceedings and assessments for excise tax arising from importations of Catalytic Cracked Gasoline (CCG), Light Catalytic Cracked Gasoline (LCCG) and Alkylate. This matter is significant to our audit because the estimation of the potential liability resulting from these tax assessments require significant judgment by management. The inherent uncertainty over the outcome of these tax matters is brought about by the differences in the interpretation and implementation of the laws and tax rulings.

In addition, the Company has claims from the government relating to excise duties paid under protest for Alkylate shipments amounting to Php 4.55 billion as at December 31, 2023. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The Company's disclosures on these matters are included in Notes 9 and 27 to the financial statements.

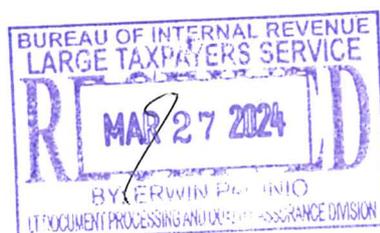
***Audit response***

We discussed with management the status of the tax assessments and obtained correspondences with courts and regulatory agencies, and opinions of both the Company's internal and external legal counsels. We involved our internal specialist in the evaluation of management's assessments on (a) whether any provision for tax contingencies should be recognized and the estimation of such amount, and (b) the recoverability of the claims. We evaluated the tax position of the Company by considering the tax laws, rulings, and jurisprudence. We traced selected claims from the government to the supporting documents. We also discussed with management and its internal legal counsel the status of these claims and obtained the opinions of both the Company's internal and external legal counsels.

**Other Information**

Other information consists of the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditor's report. Management is responsible for these other information.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.



In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

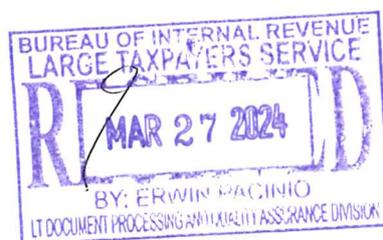
Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

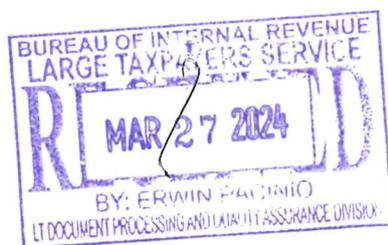
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 33 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Shell Pilipinas Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

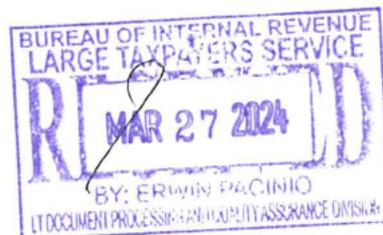


The engagement partner on the audit resulting in this independent auditor's report is Editha V. Estacio.

SYCIP GORRES VELAYO & CO.

  
Editha V. Estacio  
Partner

March 21, 2024



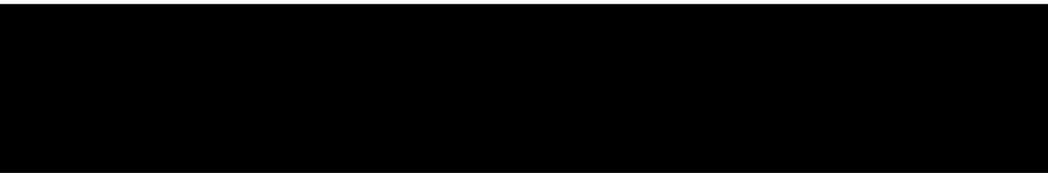
**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Shell Pilipinas Corporation  
41st floor, The Finance Centre, 26th Street corner 9th Avenue  
Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila

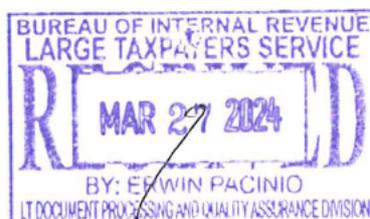
We have audited in accordance with Philippine Standards on Auditing, the financial statements of Shell Pilipinas Corporation (the Company), as at December 31, 2023 and 2022, and for each of the three years in the period ended December 31, 2023, and have issued our report thereon dated March 21, 2024. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

  
Editha V. Estacio  
Partner



March 21, 2024



## INDEPENDENT AUDITOR'S REPORT COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

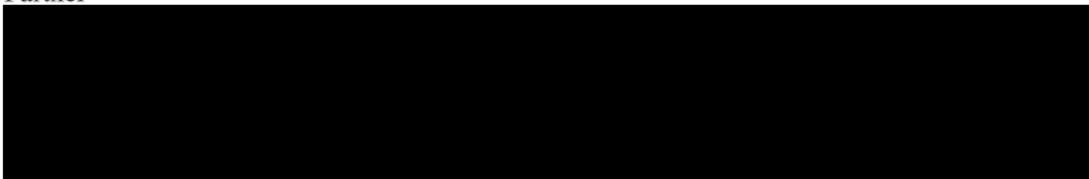
The Stockholders and the Board of Directors  
Shell Pilipinas Corporation  
41st floor, The Finance Centre, 26th Street corner 9th Avenue  
Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Shell Pilipinas Corporation (the Company) as at December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023, and have issued our report thereon dated March 21, 2024. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023 and no material exceptions were noted.

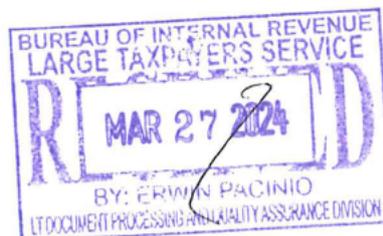
SYCIP GORRES VELAYO & CO.



Editha V. Estacio  
Partner

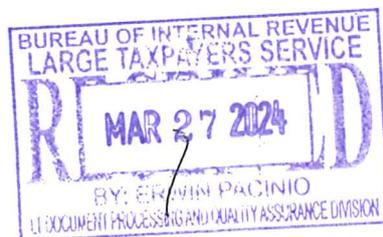


March 21, 2024



# **Shell Pilipinas Corporation**

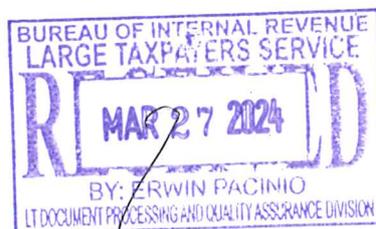
**Financial Statements**  
**For the years ended December 31, 2023 and 2022**



# Shell Pilipinas Corporation

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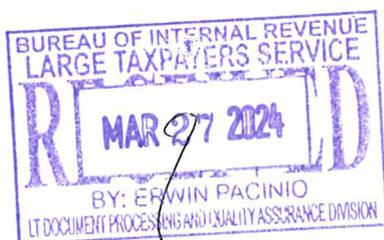
**SHELL PILIPINAS CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

As at December 31

(All amounts in thousand Philippine pesos, except par value per share)

	Note	2023	2022
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	3	1,796,813	2,957,163
Trade and other receivables	4	16,463,571	19,690,781
Inventories	5	14,854,051	17,939,924
Current financial assets	11	16,238	101,897
Prepayments and other current assets	6	10,305,021	9,143,486
<b>Total Current Assets</b>		<b>43,435,694</b>	<b>49,833,251</b>
<b>Noncurrent Assets</b>			
Property, plant and equipment	7	31,099,060	27,262,700
Right to use assets	8	20,592,931	20,113,272
Long term receivables and rentals	9	12,307,625	11,305,339
Deferred tax assets	10	2,650,540	3,037,513
Non-current financial assets	11	977,828	816,858
Investments in associates	12	30,607	26,161
Other assets, net	13	4,827,930	4,641,311
<b>Total Noncurrent Assets</b>		<b>72,486,521</b>	<b>67,203,154</b>
<b>TOTAL ASSETS</b>		<b>115,922,215</b>	<b>117,036,405</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	14	23,541,398	32,926,048
Short term loans	15	24,290,000	17,827,000
Dividends payable		17,541	17,764
Current portion of loans payable	16	-	9,000,000
<b>Total Current Liabilities</b>		<b>47,848,939</b>	<b>59,770,812</b>
<b>Noncurrent Liabilities</b>			
Lease liabilities	8	18,266,086	18,126,332
Loans payable	16	15,000,000	6,000,000
Provisions	17	3,766,587	3,625,857
Other liabilities		758,914	584,028
<b>Total Noncurrent Liabilities</b>		<b>37,791,587</b>	<b>28,336,217</b>
<b>Equity</b>			
Share capital - P1 par value	18	1,681,058	1,681,058
Share premium	19	21,857,677	21,857,677
Treasury shares	18	(507,106)	(507,106)
Retained earnings	19	4,971,092	3,788,190
Remeasurement gains on defined benefit plans	26	1,243,703	1,199,567
Other reserves	11, 26	1,035,265	909,990
<b>Total Equity</b>		<b>30,281,689</b>	<b>28,929,376</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>115,922,215</b>	<b>117,036,405</b>

See accompanying Notes to Financial Statements



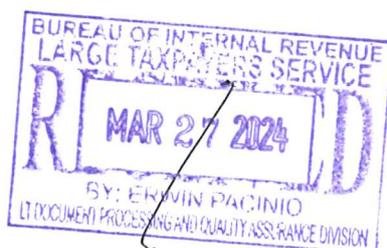
**SHELL PILIPINAS CORPORATION**  
**STATEMENTS OF INCOME**

For the years ended December 31

(All amounts in thousand Philippine pesos, except earnings per share)

	Note	2023	2022	2021
<b>NET SALES</b>				
Sale of goods		258,788,786	296,382,416	182,522,484
Sales discounts and rebates		(5,472,658)	(4,899,787)	(5,365,622)
		<b>253,316,128</b>	<b>291,482,629</b>	<b>177,156,862</b>
<b>COSTS AND EXPENSES (INCOME)</b>				
Cost of sales	21	233,176,703	266,119,767	154,412,692
Selling expenses	22	14,782,695	14,198,488	13,112,780
General and administrative expenses	22	2,589,342	2,481,106	2,234,958
Asset Impairment Loss (Reversal)	7	(997,008)	-	300,368
Other operating losses (income), net	23	(1,273,814)	3,065	(1,914,787)
		<b>248,277,918</b>	<b>282,802,426</b>	<b>168,146,011</b>
<b>INCOME FROM OPERATIONS</b>		<b>5,038,210</b>	<b>8,680,203</b>	<b>9,010,851</b>
Finance expense	24	(3,725,170)	(2,067,643)	(1,551,092)
Other income (charges)	24	301,101	(1,146,285)	(693,814)
		(3,424,069)	(3,213,928)	(2,244,906)
<b>INCOME BEFORE INCOME TAX</b>		<b>1,614,141</b>	<b>5,466,275</b>	<b>6,765,945</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>	10	<b>431,239</b>	<b>1,390,528</b>	<b>2,910,232</b>
<b>NET INCOME</b>		<b>1,182,902</b>	<b>4,075,747</b>	<b>3,855,713</b>
<b>EARNINGS PER SHARE - BASIC AND DILUTED</b>	20	<b>0.73</b>	<b>2.53</b>	<b>2.39</b>

*See accompanying Notes to Financial Statements*



**SHELL PILIPINAS CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31

(All amounts in thousand Philippine pesos)

	Note	2023	2022	2021
<b>NET INCOME</b>		1,182,902	4,075,747	3,855,713
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Items not to be reclassified to income or loss in subsequent periods:</i>				
Remeasurement gain (loss) on retirement benefits, net of tax	26	58,848	69,429	(1,904,460)
Increase in fair value of financial assets at FVOCI	11	160,970	184,240	51,659
Income tax effect		(38,858)	(44,993)	515,666
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>		<b>180,960</b>	<b>208,676</b>	<b>(1,337,135)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>1,363,862</b>	<b>4,284,423</b>	<b>2,518,578</b>

*See accompanying Notes to Financial Statements*



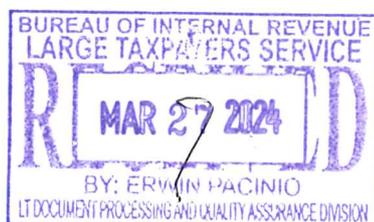
**SHELL PILIPINAS CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**

For the years ended December 31

(All amounts in thousand Philippine pesos)

	Share Capital (Note 18)	Share Premium (Note 19)	Treasury Shares (Note 18)	Retained Earnings (Note 19)	Other Reserves Share-based Reserve (Note 26)	Fair value Reserve (Note 11)	Remeasurement Gain on Defined Benefit Plan (Note 26)	Total
<b>Balances at 1 January 2021</b>	<b>1,681,058</b>	<b>26,161,736</b>	<b>(507,106)</b>	<b>(6,833,885)</b>	<b>130,494</b>	<b>469,748</b>	<b>2,529,826</b>	<b>23,631,871</b>
Net income for the year	-	-	-	3,855,713	-	-	-	3,855,713
Increase in fair value of equity through OCI (net of tax amounting to P6,463)	-	-	-	-	-	45,196	-	45,196
Equity restructuring (Note 19)	-	(4,304,059)	-	4,304,059	-	-	-	-
Remeasurement loss on retirement benefits (net of tax amounting to P522,129)	-	-	-	-	-	-	(1,382,331)	(1,382,331)
Total comprehensive income (loss)	-	(4,304,059)	-	8,159,772	-	45,196	(1,382,331)	2,518,578
<i>Transactions with owners</i>								
Share-based compensation	-	-	-	-	21,055	-	-	21,055
<b>Balance as at December 2021</b>	<b>1,681,058</b>	<b>21,857,677</b>	<b>(507,106)</b>	<b>1,325,887</b>	<b>151,549</b>	<b>514,944</b>	<b>1,147,495</b>	<b>26,171,504</b>
Net income for the year	-	-	-	4,075,747	-	-	-	4,075,747
Increase in fair value of equity through OCI (net of tax amounting to P27,636)	-	-	-	-	-	156,604	-	156,604
Remeasurement gain on retirement benefits (net of tax amounting to P17,357)	-	-	-	-	-	-	52,072	52,072
Total comprehensive income	-	-	-	4,075,747	-	156,604	52,072	4,284,423
<i>Transactions with owners</i>								
Share-based compensation	-	-	-	-	86,893	-	-	86,893
Cash dividends	-	-	-	(1,613,444)	-	-	-	(1,613,444)
Total transactions with owners for the year	-	-	-	(1,613,444)	86,893	-	-	(1,526,551)
<b>Balances at 31 December 2022</b>	<b>1,681,058</b>	<b>21,857,677</b>	<b>(507,106)</b>	<b>3,788,190</b>	<b>238,442</b>	<b>671,548</b>	<b>1,199,567</b>	<b>28,929,376</b>
Net income for the year	-	-	-	1,182,902	-	-	-	1,182,902
Increase in fair value of equity through OCI (net of tax amounting to P24,146)	-	-	-	-	-	136,824	-	136,824
Remeasurement gain on retirement benefits (net of tax amounting to P14,712)	-	-	-	-	-	-	44,136	44,136
Total comprehensive income	-	-	-	1,182,902	-	136,824	44,136	1,363,862
<i>Transactions with owners</i>								
Share-based compensation	-	-	-	-	(11,549)	-	-	(11,549)
<b>Balances at 31 December 2023</b>	<b>1,681,058</b>	<b>21,857,677</b>	<b>(507,106)</b>	<b>4,971,092</b>	<b>226,893</b>	<b>808,372</b>	<b>1,243,703</b>	<b>30,281,689</b>

See accompanying Notes to Financial Statements



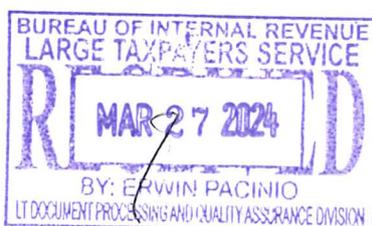
**SHELL PILIPINAS CORPORATION**  
**STATEMENTS OF CASH FLOWS**

For the years ended December 31

(All amounts in thousand Philippine pesos)

	Note	2023	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		1,614,141	5,466,275	6,765,945
<i>Adjustments for:</i>				
Depreciation and amortization	7, 8	5,264,529	4,418,580	4,043,275
Interest and finance charges	24	3,725,170	2,067,643	1,551,092
Impairment (reversal) of property and equipment	7	(997,008)	-	300,368
Reversal of provision for legal case	17	(218,090)	-	-
Provision (remeasurement of) for ARO and remediation	17	204,359	(842,880)	249,772
Movements in pension	26	(160,818)	31,739	(21,058)
Share-based reserve	26	127,372	195,016	85,405
Unrealized mark to market (gain) loss, net	24	114,003	(88,039)	12,846
Share in profit of associates	23	(90,979)	(105,190)	(16,374)
Unrealized foreign exchange loss (gain), net	24	(68,411)	(116,989)	308,468
Loss (gain) on disposal of property and equipment	23	52,808	30,603	(41,588)
Amortization of prepaid lease payments		3,513	11,760	442,545
Interest income	24	(2,454)	(526)	(3,066)
Write-off of assets	23	-	262	8,468
<i>Working capital changes:</i>				
Decrease/(increase) in inventories, trade and other receivables, prepayments and other assets		503,182	(15,663,001)	(14,139,288)
Increase/(decrease) in trade and other payables and provisions and other liabilities		(5,815,538)	6,215,762	1,524,746
Net cash flows from operating activities		4,255,779	1,621,015	1,071,556
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property and equipment		(5,419,969)	(4,749,353)	(3,412,268)
Dividend received	12	86,533	111,495	25,092
Proceeds from sale of property and equipment		27,072	129,489	44,802
Interest received	24	2,454	526	3,066
Net cash flows used in investing activities		(5,303,910)	(4,507,843)	(3,339,308)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Drawdown of long-term loan	16	9,000,000	-	6,000,000
Repayment of loan		(9,000,000)	-	-
Net proceeds from (settlements of) short-term borrowings	15	6,463,000	9,607,000	(4,780,000)
Interest and finance charges paid		(3,478,733)	(1,969,700)	(1,659,014)
Principal elements of lease payments	8	(3,096,265)	(1,852,042)	(1,912,249)
Cash dividends paid		(223)	(1,612,516)	(238)
Net cash flows generated from (used in) financing activities		(112,221)	4,172,742	(2,351,501)
<b>NET INCREASE (DECREASE) IN CASH</b>		(1,160,352)	1,285,914	(4,619,253)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>		2	(13,003)	13,000
<b>CASH AT BEGINNING OF YEAR</b>		2,957,163	1,684,252	6,290,505
<b>CASH AT END OF YEAR</b>	3	1,796,813	2,957,163	1,684,252

See accompanying Notes to Financial Statements



# **SHELL PILIPINAS CORPORATION**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31

(Amounts in Thousands, Except Number of Shares and Unless Otherwise Specified)

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### **1. Corporate information**

Shell Pilipinas 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 refining and marketing of petroleum products. The Company conducted its initial public offering (“IPO”) to list in the Philippine Stock Exchange on 03 November 2016.

The Company is 55% owned by Shell Overseas Investments BV (“SOIBV”), a corporation registered under the laws of the Netherlands and 45% owned by Filipino and other foreign shareholders. The ultimate parent of the Company is Shell plc., incorporated in the United Kingdom.

The Company during its Stockholder’s Meeting on 11 May 2021 amended its Primary Purpose in the Articles of Incorporation. The Primary Purpose now is to purchase, acquire, import, manufacture, refine, transport, use, and store any and all kinds of petroleum and petroleum products, components, additives, lubricants, bitumen, chemical and/or petrochemical products; and to market, distribute, and sell at wholesale, export, exchange, deal in, and dispose of such products and by-products which may be produced, developed, or made therefrom.

On August 10, 2022, the Board approved the change in corporate name of the Company to “Shell Pilipinas Corporation” and the amendment and broadening of the Corporation’s Secondary Purpose to include retail trade as it aims to grow its non-fuel retail segment that introduces the Company’s wider future forward approach towards energy transition that will reposition it beyond petroleum, shifting towards sustainable and cleaner energy solutions. The SEC approval was obtained on 15 March 2023.

During the Company’s special stockholders meeting on 21 November 2023, the stockholders approved the amendment in the Articles of Incorporation to (1) directly engage in the electric vehicle charging station business and to sell various services related to electric charging and (2) to sell technical services related to the company’s lubricants business to non-buyers of its lubricants products. This aligns with the Company’s approach towards energy transition in step with society, evolving beyond petroleum, towards sustainable and cleaner energy solutions for the Company, people, community and environment today and for the future.

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

The 2023 financial statements have been authorized for issue by the Company’s Board of Directors on 21 March 2024 upon endorsement by the Board Audit and Risk Oversight Committee on 19 March 2024.

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

For the years ended December 31

(Amounts in Thousands, Except Number of Shares and Unless Otherwise Specified)

**2. Operating segments**

The Company operates under the downstream oil and gas segment. The Company's integrated downstream operations span all aspects of the downstream product supply chain, importing and distributing refined products to its customers across the Philippines. The products the Company sell include gasoline, diesel, heating oil, aviation fuel, marine fuel, lubricants and bitumen. It also offers full vehicle servicing such as oil change and other car maintenance through Shell Oil Helix Oil Change+ and Helix Service Centers (HSC). Recognizing that its customers' needs go beyond fuel, the Company also has non-fuel offerings through Shell Select convenience stores and Deli2go as well as sustainable offers such as electric vehicle charging and battery swapping services.

**3. Cash**

The account as at 31 December 2023 and 2022 consists of cash in banks which are earning interest at the prevailing bank interest rates. The Company maintains cash deposits with universal and commercial banks in the Philippines.

	2023	2022
Universal bank	1,703,359	1,979,727
Commercial bank	93,454	977,436
	<u>1,796,813</u>	<u>2,957,163</u>

**4. Trade and other receivables**

	Note	2023	2022
Trade receivables			
Third parties		15,727,759	18,899,677
Related parties	25	152,909	234,717
Provision for impairment of trade receivables from third parties		(445,141)	(488,943)
		<u>15,435,527</u>	<u>18,645,451</u>
Other receivables			
Non-trade receivables from third party		259,503	349,934
Non-trade receivables from related parties	25	72,079	36,005
Miscellaneous		736,348	699,277
		<u>1,067,930</u>	<u>1,085,216</u>
Provision for impairment of other receivables		(39,886)	(39,886)
		<u>1,028,044</u>	<u>1,045,330</u>
		<u>16,463,571</u>	<u>19,690,781</u>

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

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

For the years ended December 31

(Amounts in Thousands, Except Number of Shares and Unless Otherwise Specified)

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**4. Trade and other receivables (continued)**

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

The Company holds collaterals for trade receivables from third parties as at 31 December 2023 valued at P5.7 billion (2022 – P5.7 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 P10.8 billion as at 31 December 2023 (2022 – P13.9 billion) (see Note 28.1.b). These balances relate to a number of independent customers with whom there is no recent history of default. The carrying amount of trade and other receivables at the reporting date approximate their fair value.

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 01 January 2022	358,991	39,886	398,877
Provisions	130,382	-	130,382
Write-off	(430)	-	(430)
At 31 December 2022	488,943	39,886	528,829
Provisions (Reversal)	(23,255)	-	(23,255)
Write-off	(20,547)	-	(20,547)
At 31 December 2023	445,141	39,886	485,027

For the year ended 31 December 2023, trade receivables written off directly to statement of income amounted to P33.1 million (2022 – P24.9 million and 2021 – P3.6 million) based on the Company’s assessment of recoverability.

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

For the years ended December 31

(Amounts in Thousands, Except Number of Shares and Unless Otherwise Specified)

**5. Inventories**

The costs of inventories carried at NRV as at December 31 are as follows:

	2023	2022
At cost:		
Petroleum products	11,471,032	13,944,051
Lubricants	1,181,620	1,834,569
Materials and supplies	180,495	180,238
	<u>12,833,147</u>	<u>15,958,858</u>
At NRV:		
Petroleum products	2,020,904	1,981,066
	<u>14,854,051</u>	<u>17,939,924</u>

The costs of inventories carried at NRV as at December 31 are as follows:

	2023	2022
Petroleum products	2,114,607	2,040,442

Details of allowance for inventory write-down and obsolescence as at 31 December 2023 and 2022 are as follow:

	Petroleum products	Lubricants	Materials and supplies	Total
At 01 January 2022	9,304	6,001	3,000	18,305
Provisions, net	50,072	(1,828)	-	48,244
At 31 December 2022	59,376	4,173	3,000	66,549
Provisions, net	34,327	1,551	446	36,324
As at 31 December 2023	<u>93,703</u>	<u>5,724</u>	<u>3,446</u>	<u>102,873</u>

The allowance for inventory resulting from the write-down of petroleum products to net realizable value amounted to P93.7 million as at 31 December 2023 (2022 – P59.4 million and 2021 – 9.3 million) and the allowance for obsolescence of lubricants, materials and supplies amounted to P9.2 million as at 31 December 2023 (2022 – P7.2 million and 2021 – P9.0 million).

Cost of inventories included as part of cost of sales amounted to P200.3 billion for the year ended 31 December 2023 (2022 - P232.5 billion and 2021 - P123.7) (see Note 21).

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

For the years ended December 31

(Amounts in Thousands, Except Number of Shares and Unless Otherwise Specified)

**6. Prepayments and other current assets**

	2023	2022
Prepaid corporate income taxes (a)	5,650,473	4,457,170
Creditable withholding tax (b)	2,042,098	852,577
Advance rentals (c)	1,076,109	659,555
Claims from government (d)	1,348,930	2,508,474
Input VAT net of output VAT (e)	12,942	612,872
Prepaid duties and taxes (f)	10,304	4,489
Others	164,165	48,349
	10,305,021	9,143,486

(a) Prepaid corporate income tax

These are claimed against income tax due, representing amounts that were withheld from income tax payments and carried over in the succeeding period for the same purpose.

(b) Creditable withholding tax

Creditable withholding tax represents unapplied certificates which can be used as a payment of income tax due in the succeeding years.

(c) Advance rentals

Advance rental represents the advance payment for leases more than 1 year which the Company enters.

(d) Claims from government

Claims from government agencies arising mainly from the payment of excise duties in which the Company has a right of exemption.

(e) 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.

(f) Prepaid duties and taxes

These are custom duties paid in advance for importation of products.

**SHELL PILIPINAS CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the years ended December 31

(Amounts in Thousands, Except Number of Shares and Unless Otherwise Specified)

**7. Property, plant and equipment**

	Notes	Leasehold improvements	Plant, machinery and equipment	Furniture and fixtures	Transportation	Assets under construction (AUC)	Total
<b>Cost</b>							
At 01 January 2022		25,398,186	31,453,666	2,785,409	89,441	2,390,244	62,116,946
Acquisitions		-	-	-	-	5,787,272	5,787,272
Disposals/retirement		(243,729)	(31,624)	(11,150)	-	-	(286,503)
Transfers		2,044,334	365,426	48,288	26,508	(2,484,556)	-
At 31 December 2022		27,198,791	31,787,468	2,822,547	115,949	5,692,960	67,617,715
Acquisitions		-	-	-	-	5,010,915	5,010,915
Disposals/retirement		(179,322)	(5,710,634)	-	-	-	(5,889,956)
Transfers		2,752,493	1,623,221	8,532	2,152	(4,386,398)	-
At 31 December 2023		29,771,962	27,700,055	2,831,079	118,101	6,317,477	66,738,674
<b>Accumulated depreciation, amortization, and impairment</b>							
At 1 January 2022		(11,952,741)	(24,187,197)	(2,470,820)	(86,800)	-	(38,697,558)
Depreciation and amortization	22	(900,045)	(760,231)	(122,559)	(1,033)	-	(1,783,868)
Disposals/retirement		114,848	8,125	3,438	-	-	126,411
At 31 December 2022		(12,737,938)	(24,939,303)	(2,589,941)	(87,833)	-	(40,355,015)
Depreciation and amortization	22	(1,089,170)	(843,654)	(156,643)	(2,215)	-	(2,091,682)
Disposals/retirement		125,841	5,684,234	-	-	-	5,810,075
Impairment reversal		78,326	387,617	531,065	-	-	997,008
At 31 December 2023		(13,622,941)	(19,711,106)	(2,215,519)	(90,048)	-	(35,639,614)
<b>Net book values</b>							
At 31 December 2022		14,460,853	6,848,165	232,606	28,116	5,692,960	27,262,700
At 31 December 2023		16,149,021	7,988,949	615,560	28,053	6,317,477	31,099,060

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31

(Amounts in Thousands, Except Number of Shares and Unless Otherwise Specified)

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#### **7. Property, plant and equipment (continued)**

Impairment losses

In 2020, there was a steep decline in crude oil prices as a consequence of COVID-19 and other factors impacting global supply and demand. Impairment of refinery assets was triggered by the depressed regional refining margin environment and the overall outlook on supply and demand in the region. Pursuant to which the management decided 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 is aimed to further strengthen with the Company's financial resilience amidst the significant changes and challenges in the global refining industry.

In 2021, as a result of the conversion of the refinery into the Shell Import Facility Tabangao (SHIFT), the company recognized additional impairment to certain assets that are not transferrable to SHIFT.

In 2023, after an evaluation of pathways for SHIFT as a competitive import facility, the Company has completed an impairment review exercise which resulted to a reversal of asset impairment previously booked.

In assessing whether an impairment is required, the carrying value of the refinery assets is compared with its recoverable amount. The recoverable amount is the assets fair value less costs of disposal (FVLCD). The key assumption in determining the FVLCD is the market recoverable value of the assets.

The fair value is the price that would be received on sale of the asset in an orderly transaction between market participants at the measurement date. The fair value is categorized under Level 2 of the fair value hierarchy.

Assets under construction represent cost of ongoing capital projects in marketing and supply chain businesses. There are no property, plant and equipment which are restricted or pledged as security for liabilities, as at December 31, 2023 and 2022.

#### **8. Leases**

The Company has lease contracts on various land, buildings, storage and pipelines and vessels used in operations. Leases of land and buildings generally have lease terms between 2 and 28 years, while others generally have a lease term between 1 and 7 years. There are several lease contracts that include extension and termination options, which are further discussed below.

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

For the years ended December 31

(Amounts in Thousands, Except Number of Shares and Unless Otherwise Specified)

**8. Leases (continued)**

a) Right to use assets

Right to use assets recognized and movement in the accounts for the year consist of:

	<b>Note</b>	<b>Land and Buildings</b>	<b>Asset Retirement Obligation (ARO)</b>	<b>Others</b>	<b>Total</b>
At 1 January 2022		15,161,493	1,245,850	1,557,146	17,964,489
Additions		6,446,478	-	-	6,446,478
Derecognition		(1,484,387)	-	-	(1,484,387)
Depreciation	22	(2,058,047)	(97,693)	(478,972)	(2,634,712)
Remeasurement		(31,440)	(229,962)	82,806	(178,596)
At 31 December 2022		18,034,097	918,195	1,160,980	20,113,272
Additions		4,937,520	697,765	878,465	6,513,750
Derecognition		(1,493,040)	-	-	(1,493,040)
Depreciation	22	(2,419,117)	(107,504)	(646,226)	(3,172,847)
Remeasurement		(1,029,880)	(95,179)	(243,145)	(1,368,204)
At 31 December 2023		18,029,580	1,413,277	1,150,074	20,592,931

Remeasurement of leases is due to changes in the contract term.

ARO is purely for Land and buildings.

Others represent leases on vessels, pipelines and other assets.

b) Lease liabilities

	<b>Notes</b>	<b>2023</b>	<b>2022</b>
At 1 January 2023		20,194,873	17,614,805
Additions		6,296,609	5,685,318
Accretion of interest	24	1,302,528	1,112,231
Payments		(4,398,793)	(2,964,273)
Derecognition		(1,156,961)	(1,304,438)
Remeasurement		(1,272,150)	51,230
		20,966,106	20,194,873
	<b>Notes</b>	<b>2023</b>	<b>2022</b>
Current Portion	14	2,700,020	2,068,541
Non-Current portion		18,266,086	18,126,332
		20,966,106	20,194,873

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

For the years ended December 31

(Amounts in Thousands, Except Number of Shares and Unless Otherwise Specified)

**8. Leases (continued)**

The statements of total comprehensive income show the following amounts relating to leases:

	Notes	2023	2022
Depreciation expense of right to use assets and ARO	22	(3,172,847)	(2,634,712)
Interest expense on lease liabilities	24	(1,302,528)	(1,112,231)
<b>Total expenses recognized in profit or loss</b>		<b>(4,475,375)</b>	<b>(3,746,943)</b>

The Company's total cash outflows on leases amounts to P4.4 billion (2022 – P3.0 billion). The Company also has non-cash additions to right to use assets and lease liabilities.

The Company has a lease contract for storage facility services that has not yet commenced as at 31 December 2023. The future lease payments for this non-cancellable lease contract will amount to P3.6 billion, effective beginning 2024 until 2038.

The Company has lease contracts that include extension and termination options. These options are negotiated by the management to provide flexibility, in managing the leased asset portfolio and align the business needs.

**9. Long-term receivables and rentals**

	2023	2022
Claims from government (a)	11,804,706	10,856,176
Provision for impairment (claims)	(100,749)	(100,749)
	11,703,957	10,755,427
Advance rentals	204,014	141,520
Customer grants (b)	94,682	100,308
	298,696	241,828
Other long-term receivables	315,540	365,880
Provision for impairment (other long-term receivables)	(10,568)	(57,796)
	304,972	308,084
	12,307,625	11,305,339

(a) Claims from government

Claims from government agencies amounting to P11.8 billion and P10.9 billion as at 31 December 2023 and 2022, respectively, represent the amount to be recovered from the government on various taxes paid. Further included in this P11.8 billion claims from government is P4.6 billion of excise duties and VAT paid under protest for certain Alkylate shipments (see Note 27(b)).

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**9. Long-term receivables and rentals (continued)**

(b) Customer grants

Customer grants consist of business development funds used to help customers expand their operations. The payments of the funds are secured by long-term sales contracts with the customers. The carrying amount of customer grant approximate their fair value (see Note 28.3).

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

	2023	2022
At 01 January	158,545	208,604
Write-off	(47,228)	(1,000)
Reversal	-	(49,059)
At 31 December	111,317	158,545

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 (see Note 28.3).

**10. Provision for income tax; deferred income tax assets**

Current Income Tax

The details of provision for income tax for the year ended 31 December 2023, 2022, and 2021 are as follows:

	2023	2022	2021
Current tax	83,123	342,383	237,037
Deferred tax	348,116	1,048,145	2,673,195
	431,239	1,390,528	2,910,232

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**10. Provision for income tax; deferred income tax assets (continued)**

Deferred income tax assets

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 net amounts at 31 December 2023 and 2022 are as follows:

	2023	2022
<b>Deferred income tax assets (liabilities)</b>		
<i>Recognized directly in profit or loss:</i>		
PFRS 16 lease liability accrual	1,514,606	1,142,287
Impairment of property, plant and equipment	1,062,958	1,297,376
Asset retirement obligation	928,520	1,012,556
Retirement benefit asset	(746,725)	(683,888)
Provision for doubtful debts	149,086	168,202
Provision for inventory losses	142,725	151,990
Unrealized foreign exchange gain	(90,015)	(61,314)
Prepaid duties and taxes	(89,697)	(558,542)
Share-based compensation	56,723	57,536
Unamortized past service cost, net	16,033	37,228
Provision for remediation costs	26,294	(3,524)
Mark to market gain/ (loss)	4,716	(23,784)
MCIT – recognition	-	738,784
NOLCO	-	42,834
	<b>2,975,224</b>	<b>3,317,741</b>
<i>Recognized directly in other comprehensive income:</i>		
Retirement benefit asset	(446,481)	(431,769)
Fair value reserve	121,797	151,541
	<b>(324,684)</b>	<b>(280,228)</b>
<b>Net deferred income tax</b>	<b>2,650,540</b>	<b>3,037,513</b>

Realization of the future benefits related to the deferred income tax assets is dependent on many factors, including the Company's ability to generate taxable income in the future. The Company's management has considered these factors in arriving at its conclusion that the deferred income tax assets as at 31 December 2023 and 2022 are fully realizable.

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**10. Provision for income tax; deferred income tax assets (continued)**

The balances of unused NOLCO with their corresponding years of expiration, are as follows:

Year Incurred	Expiry Year	NOLCO	MCIT
2020	2023	-	160,194
2020	2025	98,437	-
2021	2024	-	265,197
2021	2026	72,899	-
2022	2025	-	313,393
		171,336	738,784
Applied during the year		171,336	738,784
		-	-

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:

	2023	2022	2021
Income tax (benefit from income tax) at statutory rate	403,535	1,366,568	1,691,486
Income tax effect of:			
Non-deductible expense	57,982	30,691	29,459
Limitation on deductible interest expense	123	118	126
Interest income subject to final tax	(614)	(592)	(628)
Income subjected to 8% final tax	(1,890)	(8,950)	(11,693)
Prior year deferred tax adjustment ITH	(35,478)	-	-
Non-taxable income	(22,745)	(26,297)	(4,351)
Effects of change in income tax rates due to CREATE			
Current tax	-	-	(53,394)
Deferred tax	-	-	1,233,993
Provision for (benefit from) income tax before final taxes	400,913	1,361,538	2,884,998
Final taxes on interest and other charges	30,326	28,990	25,234
Provision for (benefit from) income tax	431,239	1,390,528	2,910,232

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**11. Financial assets**

	2023	2022
Derivative financial assets (a)	16,238	101,897
Financial assets at FVOCI (b)	977,828	816,858
	994,066	918,755
	2023	2022
Current Portion	16,238	101,897
Non-Current portion	977,828	816,858
	994,066	918,755

(a) Derivative financial assets

The Company enters into commodity forward contracts to hedge the commodity price risks arising from its petroleum products requirements. As at 31 December 2023, the notional principal amount of the outstanding commodity forward contracts assets amounted to P4.7 billion (2022 – P2.4 billion). As at 31 December 2023, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P16.2 million (2022 – P101.9 million).

During the year, the Company realized a gain of P210.8 million (2022 - loss of P974.1 million and 2021 - gain of P547.6 million) from mark-to-market settlement of derivatives which was recognized in other operating income, net in the statements of income (see Note 23).

For the year ended 31 December 2023, net fair value changes of the outstanding commodity forward contracts amounting to a loss of P114.0 million (2022 - gain of P88.0 million; 2021 - loss of P12.8 million) was recognized in other operating income, net in the statements of income (see Note 23).

(b) Financial assets at FVOCI

Represent proprietary club shares and equity securities which are carried at fair value (see Note 28.3). Details of the account as at 31 December 2023 and 2022 are as follows:

	2023	2022
Cost	26,800	26,800
Fair value adjustments recognized directly in OCI		
Balance at the beginning	790,058	605,818
Changes during the year	160,970	184,240
	951,028	790,058
Balance at the end	977,828	816,858

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**12. Investments in associates**

	2023	2022
Carrying amount of investment in associate	30,607	26,161

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

	Interest	Assets	Liabilities	Net Assets	Income (Note 23)	Share of profit
2023						
Bonifacio Gas Corporation	40%	212,690	154,943	57,747	220,768	88,307
Kamayán Realty Corporation	40%	24,687	5,916	18,771	7,361	2,944
2022						
Bonifacio Gas Corporation	40%	185,080	137,498	47,582	152,719	61,088
Kamayán Realty Corporation	40%	23,922	6,100	17,822	6,412	2,565
2021						
Bonifacio Gas Corporation	44%	261,208	208,914	52,294	77,067	33,632
Kamayán Realty Corporation	40%	34,536	10,420	24,116	6,677	2,671

Bonifacio Gas Corporation is an entity engaged in wholesale distribution of LPG and was established to operate a centralized gas distribution system within Bonifacio Global City.

Kamayán Realty Corporation is an entity engaged in leasing and selling of real properties in the Philippines. The Company received dividends in the amount of P86.5 million and P111.5 million on December 31, 2023 and 2022, respectively.

**13. Other assets, net**

	Note	2023	2022
Pension asset	26	4,772,823	4,553,157
Deferred input VAT (a)		53,913	86,960
Intangible assets (b)		1,194	1,194
		4,827,930	4,641,311

(a) Deferred input VAT

Deferred input VAT is estimated to be recovered more than 12 months from the reporting date. Hence, it is presented as a non-current asset as at 31 December 2023 and 2022.

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**13. Other assets (continued)**

(b) Intangible assets

Intangible asset consists of program software and others. The movements in the accounts for the years consist of:

	Note	2023	2022
Cost			
At 01 January and 31 December		1,007,623	1,007,623
Disposal		(158,631)	-
		848,992	1,007,623
Accumulated amortization			
At 01 January		(1,006,429)	(1,006,429)
Disposal		158,631	-
At 31 December		(847,798)	(1,006,429)
Net book value		1,194	1,194

**14. Trade and other payables**

	Note	2023	2022
Trade payables			
Third parties		7,870,300	10,148,439
Related parties	25	7,698,098	14,033,005
		15,568,398	24,181,444
Other payables			
Non-trade payables to related parties	25	306,140	239,045
Lease liabilities	8	2,700,020	2,068,541
Provision for ARO and remediation	17	1,480,264	1,536,846
Project-related costs (a)		1,476,765	1,885,819
Employee benefits		362,854	435,901
Rent and utilities		336,011	555,617
Advertising and promotions		238,260	498,032
Duties and taxes		129,095	228,559
Supply and distribution		56,996	4,228
Derivatives (b)		35,103	6,759
Others		851,492	1,285,257
		23,541,398	32,926,048

Trade payables are non-interest bearing and are normally settled within 30 to 60 days from date of each transaction.

a) Project-related costs and advances related to accrual of capital expenditure.

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**14. Trade and other payables (continued)**

- b) As at 31 December 2023, the notional principal amount of the outstanding commodity forward contract liabilities amounted to P3.9 billion (2022 – P0.8 billion). As at the same date, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P35.1 million (2022 – P6.8 million).

**15. Short-term loans**

As at 31 December 2023, unsecured short-term loan amounted to P24,290.0 million with tenure ranging from 4 to 90 days. As at 31 December 2022, unsecured short-term loan amounted to P17,827.0 million with tenure ranging from 5 to 60 days.

The loans are intended solely for working capital requirements and corporate expenses. The average interest rate on local borrowings for the year 31 December 2023 was 5.71% (2022 – 4.51% and 2021 – 2.25%). Total interest expense charged to operations for the year ended 31 December 2023 arising from short-term loans amounted to P1,456.2 million (2022 – P528.4 million and 2021 - P335.7 million) (see Note 24).

**16. Loans Payable**

Details of the loan agreements with financial institutions as at 31 December 2023 and 31 December 2022 follow:

2023	2022	Interest	Terms
-	9,000,000	2.88% as at 31 December 2022 effective until next re-pricing	Payable after sixty (60) months reckoned from the drawdown date on 08 March 2018. Principal is payable in lump sum at maturity date 08 March 2023. Interest is re-priced every three (3) months.
6,000,000	6,000,000	6.36% as at 31 December 2023 effective until next re-pricing	Unsecured. Payable after sixty (60) months reckoned from the drawdown date on 20 December 2021. Principal is payable in lump sum at maturity date 21 December 2026. Interest is repriced every three (3) months.
4,500,000	-	6.54% as at 31 December 2023 effective until next re-pricing	Unsecured. Payable after sixty (60) months reckoned from the drawdown date on 23 February 2023. Principal is payable in lump sum at maturity date 23 February 2028. Interest is re-priced every three (3) months.
4,500,000	-	6.38% as at 31 December 2023 effective until next re-pricing	Unsecured. Payable after sixty (60) months reckoned from the drawdown date on 23 February 2023. Principal is payable in lump sum at maturity date 23 February 2028. Interest is re-priced every three (3) months.
15,000,000	15,000,000		

## SHELL PILIPINAS CORPORATION NOTES TO THE FINANCIAL STATEMENTS

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### 16. Loans Payable (continued)

The P9.0 billion worth of maturing loan which is reflected as Current Portion of Long-Term Debt in the Balance Sheet as of 31 December 2022 has been replaced with a new Medium-Term Loan drawn in February 2023. The 5-year loan has been awarded to BPI and Metrobank for P4.5 billion each.

The average interest rate on local borrowings for the twelve-month period ended 31 December 2023 was 6.43% (2022 – 3.10% and 2021 – 1.77%). Total interest expense charged to operations for the twelve-month period ended 31 December 2023 arising from these loans amounted to P832.1 million (2022 – P325.4 million and 2021 - P152.4 million) (see Note 24). All loans in 2023 are unsecured. There are no borrowings related to acquisition, construction, or production of a qualifying asset in 2023 and 2022. The borrowings are intended solely for working capital requirements.

There are no collaterals pledged as security against these borrowings.

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

- Maintenance of the Company's legal status
- Ensure that at all times the loans rank at least *pari passu* with the claims of all other unsecured and unsubordinated creditors except those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.
- The Company shall not create nor 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. See Note 28.1.c for the maturity analysis of these loans.

### 17. Provisions

	2023	2022
Asset retirement obligation (ARO) (a)	3,647,094	3,288,274
Provision for remediation (b)	63,074	63,073
Provision for legal cases (c)	56,419	274,510
	<u>3,766,587</u>	<u>3,625,857</u>

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**17. Provisions (continued)**

(a) Asset retirement obligation

Movements in the provision for asset retirement obligation as follows:

	Note	2023	2022
At 01 January		4,825,121	5,354,531
Additions		587,036	-
Accretions	24	134,184	101,596
Remeasurements	23	41,017	197,131
Decommissioning		(460,000)	(828,137)
At 31 December		5,127,358	4,825,121

	Notes	2023	2022
Current Portion	14	1,480,264	1,536,846
Noncurrent portion		3,647,094	3,288,274
		5,127,358	4,825,120

Asset retirement obligation includes provision for noncurrent portion of decommissioning and demolition of Tabangao oil refinery assets amounting to P808.7 million (2022 – P722.3 million). Current portion of provision for decommissioning and demolition amounting to P837.3 million (2021 – P1,216.3 million) is recognized under trade and other payables.

The Company makes full provision for the future cost of decommissioning and demolition of oil refinery assets. The decommissioning provision represents the present value of decommissioning and demolition costs relating to refinery, which are expected to be incurred during the period up to 2026. Assumptions are based on the current economic environment and form a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend on future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. The discount rate used in the calculation of the provision as at 31 December 2023 was 5.91% (2022: 6.25%).

Other asset retirement obligation represents the future estimated dismantling costs of various assets used in mobility, depot and commercial operations. Average remaining life of the related assets is 6 years as at 31 December 2023 (2022 - 7 years). These are stated at present value at 31 December 2023 using a range of discount rates from 5.91% to 6.12% (2022 - 6.25% to 7.22%).

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**17 Provisions (continued)**

(b) Provision for remediation

Provision for remediation amounted to P63.1 million as at 31 December 2023 (2022 - P63.1 million). Provision for environmental liabilities is recorded where there is a constructive or legal obligation to remediate any known environmental damages arising in the ordinary course of business. The amount recorded is generally based on independent evaluation of environmental firms. The estimated amount of provision is recorded at net present value discounted as at 31 December 2023 at 5.91% to 6.12% (2022 - 6.25% to 7.22%).

(c) Provision for remediation

The account represents provisions arising from disputes/legal matters in the ordinary course of business.

	2023	2022
At 01 January	274,509	274,509
Reversals	(218,090)	-
At 31 December	56,419	274,509

In 2023, the Oil Price Stabilization Fund (OPSF) provision amounting to P218.1 million was reversed. This decision was based on a ruling made by the Supreme Court on July 14, 2008, declaring Ministry of Finance Circular No. 1-85 ("MOF 1-85") as ineffective.

**18 Share capital; Treasury shares**

The Company's stock information as of 2023 and 2022 are as follows:

	Number of shares	Amount
Authorized capital stock, common shares at P1 par value per share	2.5 billion	2,500,000
Issued shares	1,681,058,291	1,681,058
Treasury shares	(67,614,089)	(507,106)
Issued and outstanding shares	1,613,444,202	1,173,952

The Company conducted its IPO to list in the 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 overallotment option of up to 16,000,000 common shares, with an offer price of P67.0 (USD1.39) per share. The Company does not have any other share issuances subsequent to its initial public offering. As at 31 December 2023, the Company has 315 shareholders excluding treasury shares (2022 - 319), 279 of whom, hold at least 100 shares of the Company's common shares (2022 - 282).

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**19 Retained earnings**

On 06 October 2021, the Company applied with Securities of Exchange Commission (SEC) an equity restructuring to offset the 2020 deficit amounting to P4,304.1 million against its share premium. On 10 November 2021, the Company received the certificate of approval of the equity restructuring dated 05 November 2021. The Company's share premium after the equity restructuring amounted to P21,857.7 million in 2021.

At the Regular Meeting of the Board held on 10 August 2022, the Board approved the distribution of cash dividends to stockholders on record as of 25 August 2022 amounting to P1.6 billion pertaining to the audited 2021 Net Income after Tax, out of the unrestricted retained earnings available for dividend as of 30 June 2022.

As at 31 December 2023, cost of treasury shares, accumulated earnings of its associates, unrealized mark to market gains and fair value gain on retirement assets are not considered for dividend declaration as per SEC Rule 68, as amended and SEC Memorandum Circular No. 11.

No dividends were declared in 2023. Cash dividend declared and paid in 2022:

Declared	Date Paid	Per share	2022
10 August 2022	19 September 2022	1.00	1,613,444

**20 Earnings per Share**

	Notes	2023	2022	2021
Profit for the year		1,182,902	4,075,747	3,855,713
Weighted average number of shares		1,681,058,291	1,681,058,291	1,681,058,291
Treasury shares	18	(67,614,089)	(67,614,089)	(67,614,089)
		1,613,444,202	1,613,444,202	1,613,444,202
Earnings per share, basic and diluted		0.73	2.53	2.39

As at 31 December 2023, 2022 and 2021, the Company does not have any potentially dilutive shares of stocks.

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**21 Cost of Sales**

	Note	2023	2022	2021
Petroleum product costs	5	200,346,043	232,525,595	123,735,249
Duties and specific tax		30,379,451	30,917,175	28,837,719
Freight and wharfage		1,248,985	1,319,160	845,221
Logistics and transshipment		1,202,224	1,357,837	931,898
Salaries and other employee benefits		-	-	31,354
Depreciation and amortization		-	-	31,251
		233,176,703	266,119,767	154,412,692

**22 Selling, general and administrative expenses**

Selling expenses

	Note	2023	2022	2021
Outside services		3,590,980	2,878,235	2,779,851
Depreciation on right to use assets	8	3,101,945	2,562,250	2,299,726
Logistics, storage and handling		2,326,698	2,233,812	1,865,480
Depreciation and amortization	7	1,967,159	1,658,050	1,498,445
Compensation and employee benefits		1,759,645	1,812,552	1,616,680
Advertising and promotions		540,054	779,334	756,031
Repairs and maintenance		479,653	994,467	1,669,859
Communication and utilities		294,436	389,069	144,154
Property tax - building		183,894	218,705	58,479
Rentals		145,470	94,483	27,445
Travel and transportation		88,608	129,092	34,349
Local rates and taxes		25,047	21,052	31,752
Write-off/Impairment (reversal) of receivables	4	(14,064)	99,737	(34,560)
Insurance		3,951	15,410	13,045
Miscellaneous		289,219	312,240	352,044
		14,782,695	14,198,488	13,112,780

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**22 Selling, general and administrative expenses (continued)**

General and administrative expenses

	Note	2023	2022	2021
Outside services		674,871	865,003	709,879
Compensation and employee benefits		528,600	634,871	456,701
Communication and utilities		253,114	370,561	267,792
Local rates and taxes		249,412	98,945	127,76
Depreciation and amortization	7	124,523	125,818	124,226
Advertising and promotions		97,877	70,144	148,200
Depreciation on right to use assets	8	70,902	72,462	89,627
Rentals		32,734	29,126	23,363
Insurance		28,176	18,998	15,947
Travel and transportation		21,493	33,264	3,967
Write-off/Impairment (reversal) of receivables	4	2,678	-	(439)
Property tax - building		1,816	4,019	13,774
Repairs and maintenance		-	-	10,579
Miscellaneous		503,146	157,895	243,396
		<u>2,589,342</u>	<u>2,481,106</u>	<u>2,234,958</u>

**23 Other operating income (losses), net**

	Note	2023	2022	2021
Retailer fee, rental income and franchise commission		1,005,263	851,675	672,319
Royalties		275,805	222,425	143,806
Realized trading gain (losses), net	11	210,833	(974,069)	547,575
Unrealized mark-to-market gain (loss), net	11	(114,003)	88,039	(12,846)
Commissions		(95,162)	(79,944)	(53,296)
Share in profits from associates	12	90,979	105,190	16,374
Gain (loss) on disposal of property and equipment		(52,808)	(30,603)	41,588
Remeasurement of asset retirement obligation	17	(41,017)	(197,131)	(240,252)
Write-off of assets		-	(262)	(8,468)
Others, net		(6,076)	11,615	807,987
		<u>1,273,814</u>	<u>(3,065)</u>	<u>1,914,787</u>

Others include aviation concession fees and non-oil income.

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**24 Other income (charges)**

	Note	2023	2022	2021
<b>Finance expense</b>				
Interest on debts and borrowings	15,16	(2,288,458)	(853,816)	(488,054)
Interest expense on lease liability	8	(1,302,528)	(1,112,231)	(1,007,575)
Accretion expenses	17	(134,184)	(101,596)	(55,463)
		(3,725,170)	(2,067,643)	(1,551,092)
<b>Other income/charges</b>				
Reversal of provision for legal cases	17	218,090	-	-
Unrealized foreign exchange gain (loss), net		68,412	116,989	(308,468)
Realized foreign exchange gain (loss), net		15,155	(1,263,400)	(368,110)
Bank charges		(3,010)	(400)	(20,302)
Interest income		2,454	526	3,066
		301,101	(1,146,285)	(693,814)

Realized foreign exchange gain (loss), net, consist of settlements to its related parties such as Shell International Eastern Trading Company (SIETCO), Shell International Petroleum Co. (SIPC), Shell Brands International (SBI) and other related parties which was mainly transacted in USD.

**25 Related party disclosures**

In the normal course of business, the Company transacts with companies which are considered related parties under PAS 24, "Related Party Disclosures".

Related Party Transactions (RPT) with a contract value that equals or exceeds 5% of the Company's reported net assets of the previous year or aggregate RPT within a twelve-month period that breaches the materiality threshold of 10% of the Company's total assets, will be endorsed by the Related Party Transactions Committee to the Board of Directors for approval.

The transactions and outstanding balances of the Company with related parties as at and for the year ended 31 December 2023 are presented in the table below.

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**25 Related party disclosures (continued)**

**(a) Entities under common shareholdings**

	Note	Year	Transactions	Receivables (Payables)	Terms and conditions
Purchases of goods and services (i, vii, viii)	14		126,613,990	(7,998,843)	Payable balances are to be settled in cash and are due within 30 to 60 days from date of each transaction. These are unsecured, non-interest bearing and not covered by any guarantee.
Leases and Throughput fees (iii)			351,485	-	Payable balances are to be settled in cash and are due within 30 to 60 days from date of each transaction. These are unsecured, non-interest bearing and not covered by any guarantee.
Sales	4		331,038	152,909	Receivable balances are to be settled in cash and are due within 30 to 60 days from date of each transaction. These are unsecured, non-interest bearing and not covered by any security.
Royalty fee (iv)			868,696	-	Payable balances are to be settled in cash within 30 days from month end.
Admin billings (v)					
Charges to the Company (ii)	14		954,324	(5,395)	The non-trade balances are settled in cash and are due within 15 days from month end. These are unsecured, non-interest bearing and are not covered by any security.
Charges by the Company (ii)	4		750,329	72,079	
Contributions to the plan	26		22,633	-	Contributions to the plan and investing transactions of the plan are approved by the Retirement Plan Board of Trustees.

**(b) Key management personnel**

Category/ Transaction	Transactions	Balances	Terms
Current			
Salaries and other short-term employee benefits	109,402	-	The terms and arrangements of these non-current employee benefits are summarized in the related notes.
Non-Current			
Post-employment benefits	-	-	
Share-based compensation	28,515	-	

**(c) Entities with common director**

The Company has a long-term loan from Bank of the Philippine Islands (BPI) amounting to P10.5 billion as at 31 December 2023. The loan was drawn in 2021 and 2023 in which a director of the Bank holds office as a director of the Company.

The transactions and outstanding balances of the Company with related parties for the comparative figures as at and for the years ended 31 December 2022 and 2021 are presented in the table below. The terms and arrangements presented for 2023 also apply to the transactions and balances for 2022 and 2021.

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**25 Related party disclosures (continued)**

(a) Entities under common shareholdings

	Note	2022		2021	
		Transactions	Receivables (Payables)	Transactions	Receivables (payables)
Purchases of goods and services	14	160,126,060	(14,265,423)	88,111,868	(10,224,547)
Leases		304,063	-	329,416	-
Sales	4	351,714	234,717	321,274	117,327
Royalty fee (iv)		963,921	-	1,054,956	-
Admin billings (v)					
Charges to the Company	14	928,761	(6,627)	2,201,733	(419)
Charges by the Company	4	184,834	36,005	385,447	60,804
Contributions to the plan		16,182	-	58,696	-

(b) Parent company

	2022		2021	
	Transactions	Payable	Transactions	Payable
Dividends declared	890,860	-	-	-

(c) Key management personnel

	2022		2021	
	Transactions	Balances	Transactions	Balances
Current				
Salaries and other short-term employee benefits	93,467	-	69,121	-
Non-Current				
Post-employment benefits compensation	1,215	-	2,343	-
	10,443	-	6,629	-

i. The Company purchases petroleum products from Shell International Eastern Trading Co. (SIETCO), an entity under common shareholdings. The Company's purchases during the year pertain to petroleum products as the Company transitioned to full importation, while in 2020, purchases pertain to crude and other oil products. Cost of gross purchases for ended 31 December 2023 amounted to P118.6 billion (2022 – P153.4 billion and 2021 – P83.5 billion). As at 31 December 2023, balances payable to SIETCO amounted to P7.2 billion (2022 – P13.4 billion and 2021 – P8.8 billion).

ii. Under existing agreements with Shell International Petroleum Company (SIPC) of the United Kingdom and Shell Global Solutions International B.V. (SGS) of The Netherlands, entities under common shareholdings, SIPC and SGS provide management advisory, business support, and research and development and technical support services to the Company under certain terms and conditions. Cost of the services charged to operations amounted to P1.7 billion during the year ended 31 December 2023 (2022 – P0.4 billion and 2021 P1.0 billion). As at 31 December 2023, balances payable to SIPC amounted to P69.9 million (2022 – P23.5 million, 2021 – P46.7 million).

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **25 Related party disclosures (continued)**

iii. The Company leases land from Tabangao Realty, Inc. (TRI), for several depots and mobility sites. Lease term ranges from 3 to 50 years and is renewable, thereafter. Rent payments amounted to P255.5 million for the year ended 31 December 2023 (2022 – P304.1 million and 2021 – P251.3 million) and throughput fees amounted to P96.0 million for the year ended 31 December 2023. As at 31 December 2023, outstanding amounted to P42.3 million (outstanding payable of 2022 - payable P41.3 million and outstanding payable of 2021 – P7.2 million).

iv. The Company and Shell Brands International AG (SBI), an entity under common shareholdings, entered into Trademarks and Manifestation License Agreement pursuant to which SBI, the licensor, grants the Company, the licensee, a non-exclusive right to reproduce, use, apply and display the Shell trademark and other manifestation. In consideration, the Company shall pay a royalty fee, which shall be computed as certain percentage of business contribution of each class of business. Royalty rate varies from 0.7% to 6.8% depending on class of business, subject to a minimum royalty amount.

v. The Company receives billings from entities under common shareholdings for group-shared expenses related to IT maintenance, personnel and other administrative costs. On the other hand, the Company charges entities under common shareholdings for group-shared expenses related to personnel and other administrative costs and other services.

vi. The Company has five common members between its Board of Directors and Board of Trustees of Pilipinas Shell Foundation Inc. The Company has contributed towards donations and program recovery expenses amounting to P186.4 million (2022 – P20.4 million and 2021 – P155.1 million). The outstanding receivable balances as at 31 December 2023 is P3.0 million (2022 is Nil and 2021 – P47.0 million).

vii. The Company purchases lubricants products from The Shell Company of Thailand Limited, an entity under common shareholdings. Cost of gross purchases for ended 31 December 2023 amounted to P1.8 billion (2022 – P2.2 billion and 2021 – P1.5 billion). As at 31 December 2023, balances payable to The Shell Company of Thailand Limited amounted to P154.7 million (2022 – P154.1 million and 2021 – P96.0 million).

#### **26 Employee benefits**

##### Retirement plan

The Company has a multi-employer plan, namely, Shell Companies in the Philippines Multi-Employer Retirement Plan (Defined Benefit and Defined Contribution sections) for the benefit of its regular employees. The assets of the plan are maintained by a trustee bank. The plan provides for payment of benefits in lump sum, upon attainment of the normal retirement age of 60, or upon retirement/separation at an earlier age.

On August 24, 2015, the Company secured an approval from the BIR pertaining to the revised multi-employer benefit plan effective September 1, 2015.

**SHELL PILIPINAS CORPORATION**  
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**26 Employee benefits (continued)**

Retirement plan (continued)

Based on the latest actuarial valuation report prepared by the independent actuary for the year ended 31 December 2023 and 2022, the principal assumptions were:

	2023	2022
Discount rate	6.1%	7.1%
Future salary increases	Age 20-30: 13%	Age 20-30: 13%
	Age 31-40: 10%	Age 31-40: 10%
	Age 41-50: 7%	Age 41-50: 7%
	Age >50: 4%	Age >50: 4%

The Board of Trustees has set an investment strategy and approved a strategic asset allocation which aims to generate sufficient returns so that the fund maintains a low reliance on contributions from the Company. The Board of Trustees monitor the performance of the scheme investments on a regular basis.

There are 2 committees (Investment Committee, Risk & Audit Committee) set up to support the Board of Trustees and oversee the investment and risk/audit issues relating to the pension plan.

The amount of pension asset (obligation) recognized in the statement of financial position is determined as follows:

	2023 Plan Defined Benefit	2023 Plan Defined Contribution	2023 Total	2022 Plan Defined Benefit	2022 Plan Defined Contribution	2022 Total
Present value of defined benefit obligation	(3,265,371)	(91,587)	(3,356,958)	(2,836,443)	(66,709)	(2,903,152)
Fair value of plan assets	8,036,742	93,039	8,129,781	7,392,829	63,480	7,456,309
Pension asset (obligation)	4,771,371	1,452	4,772,823	4,556,386	(3,229)	4,553,157

The movement in the pension asset recognized in the statement of financial position as at 31 December are follows:

	2023 Plan Defined Benefit	2023 Plan Defined Contribution	2023 Total	2022 Plan Defined Benefit	2022 Plan Defined Contribution	2022 Total
01 January	4,556,386	(3,229)	4,553,157	4,518,739	(3,272)	4,515,467
Pension income (expense)	158,705	(20,520)	138,185	(31,584)	(16,337)	(47,921)
Actual contributions	-	22,633	22,633	-	16,182	16,182
Remeasurement gains (losses)	56,280	2,568	58,848	69,231	198	69,429
Balance at the period	4,771,371	1,452	4,772,823	4,556,386	(3,229)	4,553,157

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**26 Employee benefits (continued)**

Pension income (expense) recognized in the statements of income for year ended 31 December 2023 and 2022 is as follows.

	2023 Plan Defined Benefit	2023 Plan Defined Contribution	2023 Total	2022 Plan Defined Benefit	2022 Plan Defined Contribution	2022 Total
Current service cost	(164,798)	(20,291)	(185,089)	(255,616)	(16,182)	(271,798)
Net interest income (expense)	323,503	(229)	323,274	224,032	(155)	223,877
	158,705	(20,520)	138,185	(31,584)	(16,337)	(47,921)

Changes in the present value of the defined benefit obligation are as follows.

	2023 Plan Defined Benefit	2023 Plan Defined Contribution	2023 Total	2022 Plan Defined Benefit	2022 Plan Defined Contribution	2022 Total
01 January	2,836,443	66,709	2,903,152	3,977,498	59,458	4,036,956
Current service cost	164,798	20,291	185,089	255,616	16,182	271,798
Interest cost	197,733	5,381	203,114	192,963	3,409	196,372
Benefits paid	(279,930)	(2,165)	(282,095)	(387,778)	-	(387,778)
Remeasurement (gains) losses from:						
Changes in economic assumptions	350,418	-	350,418	(1,209,596)	(1,566)	(1,211,162)
Experience adjustments	(4,091)	1,371	(2,720)	7,740	(10,774)	(3,034)
Balance at the period	3,265,371	91,587	3,356,958	2,836,443	66,709	2,903,152

Changes in the fair value of the plan assets are as follows.

	2023 Plan Defined Benefit	2023 Plan Defined Contribution	2023 Total	2022 Plan Defined Benefit	2022 Plan Defined Contribution	2022 Total
01 January	7,392,829	63,480	7,456,309	8,496,237	56,186	8,552,423
Interest income	521,236	5,152	526,388	416,994	3,254	420,248
Contributions	-	22,633	22,633	-	16,182	16,182
Benefits paid	(279,930)	(2,165)	(282,095)	(387,778)	-	(387,778)
Return on plan assets	402,607	3,939	406,546	(1,132,624)	(12,142)	(1,144,766)
Balance at the period	8,036,742	93,039	8,129,781	7,392,829	63,480	7,456,309

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**26 Employee benefits (continued)**

The carrying value of the plan assets as at the year ended 31 December 2023 and 2022 are equivalent to the fair values presented above and are comprised mainly of investments in equity securities, which account for 58% of total plan assets in 2023 (2022: 62%). Plan assets are comprised of:

	2023 Plan Defined Benefit	2023 Plan Defined Contribution	2023 Total	2022 Plan Defined Benefit	2022 Plan Defined Contribution	2022 Total
Cash and cash equivalent	103,674	1,200	104,874	75,407	647	76,054
Investments in debt securities:						
Unit investment trust funds	4,646,041	53,786	4,699,827	4,599,818	39,498	4,639,316
Government bonds and securities	3,266,936	37,820	3,304,756	2,697,643	23,164	2,720,807
Unquoted equity instruments	20,091	233	20,324	19,961	171	20,132
Balance at the period	8,036,742	93,039	8,129,781	7,392,829	63,480	7,456,309

The defined benefit plan typically exposes the participating entities to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liability. A decrease in government bond yields will increase the defined benefit obligation although this will be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the participating entities. However, the Company believes that due to the long-term nature of the retirement liability, the mix of debt and equity securities holdings of the plan is an appropriate element of the long-term strategy to manage the plan efficiently.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

Expected contribution to the plan in 2024 is nil for defined benefit plan and P24.1 million for defined contribution plan.

The maturity profile of Defined Benefit Obligation on Defined Benefit Plan and Defined Contribution Plan for the years ended 31 December 2023 and 2022 is as follows:

	2023 Plan Defined Benefit	2023 Plan Defined Contribution	2023 Total	2022 Plan Defined Benefit	2022 Plan Defined Contribution	2022 Total
Following year	138,199	2,067	140,266	102,949	1,366	104,315
Between 2 to 3 years	279,869	6,786	286,655	342,166	5,315	347,481
Between 3 to 5 years	391,280	12,824	404,104	337,340	7,992	345,332
Over 5 years	1,770,919	44,604	1,815,523	1,562,087	41,820	1,603,907

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**26. Employee benefits (continued)**

The weighted average duration of the defined benefit obligation on defined benefit plan and defined contribution plan are 11.80 years and 18.87 years, respectively (2022: 11.58 years and 16.09 years)

Share-based compensation

Shell plc operates a Performance Share Plan (PSP) covering all of its subsidiaries' employees who are not members of the Executive Committee. PSP for conditional shares is awarded to eligible employees based on their sustained performance and value. Shares are finally delivered at the end of a three-year performance period, but delivery depends on the performance of the Shell group. A Monte Carlo option pricing model is used to estimate the fair value of the share-based compensation expense arising from the Plan. The model projects and averages the results for a range of potential outcomes for the vesting conditions, the principal assumptions for which are the share price volatility and dividend yields for Shell plc and four of its main competitors over the last three years and the last ten years.

Movements of the shares granted in respect of the Company for the year ended 31 December are:

	2023		2022	
	Shares	Weighted average fair value (in U.S. Dollar)	Shares	Weighted average fair value (in U.S. Dollar)
Shares granted as at 01 January	228,678	30.19	211,882	24.00
Grants during the year	72,100	23.61	85,680	23.11
Shares delivered during the year	(59,475)	39.12	(60,290)	43.46
Cancelled/forfeited during the year	(6,607)	-	(8,594)	-
Shares granted as at 31 December	234,696	30.97	228,678	30.19

The total share-based compensation recognized in the statements of income during the year amounted to P127.4 million (2022 – P195.0 million).

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**26. Employee benefits (continued)**

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions as follows:

	Impact on defined benefit obligation	
	2023	2022
Discount rate		
Increase by 0.50%	(166,534)	(144,942)
Decrease by 0.50%	180,096	156,935
Salary rate		
Increase by 0.50%	180,096	158,354
Decrease by 0.50%	(167,840)	(147,495)

The above sensitivity is based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension asset (liability). The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to prior years.

While the Company's management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in actuarial assumptions may materially affect the pension obligation and employee benefits.

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**27. Contingencies**

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

**Shell Pilipinas 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.

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### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **27 Contingencies (continued)**

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 P7.4 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.

## **SHELL PILIPINAS CORPORATION**

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#### **28 Contingencies (continued)**

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 totaling P5.7 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 P7.4 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 31 December 2023.

Management believes that provision should not be recognized as at 31 December 2023 and 31 December 2022 since it is the Company's assessment that liability arising is not probable because its factual and legal positions are strong. The Company continues to take appropriate legal action and remediation with respect to such case.

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**27 Contingencies (continued)**

*(b) Excise tax on Importations of Alkylate*

**Shell Pilipinas 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 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 9, the Company has excise duties and VAT paid under protest amounting to P4.6 billion for certain Alkylate shipments.

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**27. Contingencies (continued)**

**Status:**

On 02 May 2023, Shell Pilipinas Corporation received a copy of the Decision dated 27 April 2023 of the CTA Special Second (2nd) Division, which ruled that Alkylate is not subject to excise tax and granted SPC's Amended Petition for Review dated 05 October 2012. The CTA invalidated Document No. M-059-2012 dated 29 June 2012 issued by the Commissioner of Internal Revenue as well as the Letter dated 01 October 2012 of the Collector of Customs of the Port of Batangas which sought to impose taxes on SPC's previous alkylate importations. Thus, the CTA prohibited the government from collecting, in any manner, excise taxes and value-added tax on SPC's Alkylate importations.

Motions for Reconsideration were filed by the Collector of Customs on 8 May 2023 and the Bureau of Customs on 17 May 2023. SPC's consolidated opposition was filed on 1 June 2023.

On 10 July 2023, SPC received the Minute Resolution dated 22 June 2023 of the CTA stating that the Motions for Reconsideration, as well as the Consolidated Opposition, are now considered submitted for resolution.

On 24 October 2023, the CTA denied the Motions for Reconsideration.

Thereafter, the Commissioner of Internal Revenue filed with the CTA En Banc a Petition for Review dated 15 December 2023 on 19 December 2023. Meanwhile, the Bureau of Customs and Collector of Customs of the Port of Batangas were given until 02 January 2024 to file their Petition for Review with the CTA En Banc.

Claims from government includes P4.6 billion of excise duties and VAT paid under protest for certain Alkylate shipments. P1.8 billion of which, pertains to the payment made under protest in January 2022.

On 27 December 2023, SPC filed its Petition for Review for Refund of Excise Tax before the Commissioner of Internal Revenue and the CTA. The case has been docketed as CTA Case No. 11367.

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**27. Contingencies (continued)**

*(c) Republic of the Philippines rep. by Bureau of Customs vs. Shell Pilipinas 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 the payment of 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. The Bureau of Customs filed a Notice of Appeal.

SPC received the Appellant's Brief of the Republic on 21 February 2023. SPC filed its Appellee's Brief on 22 May 2023, within the extended deadline. On 29 June 2023, SPC received a copy of the Reply Brief of the Republic.

On 07 August 2023, SPC filed its Motion for Leave to File and to Admit Attached Rejoinder Brief of even date. The Court of Appeals, in the Resolution dated 07 September 2023, admitted the Rejoinder Brief and reiterated that the appeal is submitted for decision.

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**27. Contingencies (continued)**

***(d) Excise Tax Refund Case***

There are also tax cases filed by the Company for its claims from the government amounting to P2.2 billion as of 31 December 2023 in the CTA and SC. Management believes that the ultimate outcome of such cases will not have a material impact on the Company's financial statements.

***(e) Other Significant Case***

Case filed by the West Tower Condominium Corporation (WTCC)

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

**Matter Summary:**

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

**Status:**

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

On 26 September 2014, the Company asked the Court of Appeals to deny the motion for reconsideration filed by West Tower Condominium Corporation, et al. for lack of merit. In its resolution dated 11 December 2014, the Court of Appeals denied the motion for reconsideration filed by the West Tower Condominium Corporation, et al. West Tower Condominium Corporation, et al.'s filed with the Supreme Court the present petition dated 11 February 2015 seeking a review of the decision of the Court of Appeals. The Company has filed its Comment with Opposition dated 18 September 2015 asking the Supreme Court to dismiss the petition and to deny the application for a temporary restraining order. Awaiting Supreme Court's action. No change in status as of 31 December 2023.

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#### **28. Financial risk management**

##### 28.1 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.

Financial 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.

##### a) Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or the prices of petroleum 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 significant derivative contracts to manage foreign currency risks. Since foreign currency exposure is significantly concentrated on purchase of petroleum products, 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.

As at 31 December 2023, if the Philippine peso had weakened/strengthened by 5% (assessment threshold used by management) against the US dollar with all other variables held constant, equity and post-tax profit for the period would have been P79.9 million (2022 – P127.7 million) lower/higher, as a result of foreign exchange gains/losses on translation of US dollar-denominated receivables and payables as at 31 December 2023 and 2022.

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

## **SHELL PILIPINAS CORPORATION**

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#### **28. Financial risk management (continued)**

##### 28.1 Financial risk factors (continued)

###### a) Market risk (continued)

###### ii) Cash flow and fair value interest rate risk

Cash flow and fair value interest rate 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 only has short-term fixed interest-earning assets and interest-bearing liabilities.

The Company's interest-rate risk arises from its borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest-rate risk. As at 31 December 2023 and 2022, the Company's interest-rate risk arises from its borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest-rate risk. As at 31 December 2023 and 2022, the Company's loans payable carry floating rates based on a certain index plus applicable premium.

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

For the year ended 31 December 2023, if interest rates on Philippine peso-denominated borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been P295 million (2022 – P246 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 fuel oil, gasoline, diesel and other petroleum products in its operating activities. To minimize the Company's risk of potential losses due to volatility of international petroleum products prices, the Company may implement commodity hedging for petroleum products. The hedges are intended to protect petroleum products 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.

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**28. Financial risk management (continued)**

28.1 Financial risk factors (continued)

a) Market risks (continued)

iii) Commodity and other risks (continued)

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 equity through other comprehensive income financial assets are not considered material in the financial statements.

b) 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 3.

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.

Maximum exposure to credit risk. The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account any collateral and other credit enhancements:

	2023	2022
Cash and cash equivalents	1,796,813	2,957,163
Trade and other receivables*	10,758,161	13,941,213
Derivative financial assets	16,238	101,897
Financial assets at FVOCI	977,828	816,858
<b>Total credit risk exposure</b>	<b>13,549,040</b>	<b>17,817,131</b>

\*Net of credit enhancements amounting to P5.7 billion in 2023 and 2022

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**28. Financial risk management (continued)**

28.1 Financial risk factors (continued)

b) Credit risk (continued)

The aging analysis of financial assets follows:

	2023						ECL	Total
	Days Past Due					More than 90 Days		
	Current	1-30 Days	31-60 Days	61-90 Days				
Cash	1,796,813	-	-	-	-	-	-	1,796,813
Trade and other receivables*	9,218,423	854,567	358,116	87,304	239,715	485,027	-	11,243,152
Derivative financial assets	16,238	-	-	-	-	-	-	16,238
Financial assets at FVOCI	977,828	-	-	-	-	-	-	977,828
	12,009,302	854,567	358,116	87,304	239,715	485,027	-	14,034,031

\*Net of credit enhancements amounting to P5.7 billion

	2022						ECL	Total
	Days Past Due					More than 90 Days		
	Current	1-30 Days	31-60 Days	61-90 Days				
Cash	2,957,163	-	-	-	-	-	-	2,957,163
Trade and other receivables*	12,073,140	933,905	435,093	121,919	377,156	528,829	-	14,470,042
Derivative financial assets	101,897	-	-	-	-	-	-	101,897
Financial assets at FVOCI	816,858	-	-	-	-	-	-	816,858
	15,949,058	933,905	435,093	121,919	377,156	528,829	-	18,345,960

\*Net of credit enhancements amounting to P5.7 billion

*Credit risk under general and simplified approach*

	2023					Simplified Approach	Total
	General Approach				Stage 3		
	Stage 1	Stage 2					
Cash	1,796,813	-	-	-	-	-	1,796,813
Trade and other receivables*	10,758,125	-	-	-	485,027	-	11,243,152
Derivative financial assets	16,238	-	-	-	-	-	16,238
Financial assets at FVOCI	977,828	-	-	-	-	-	977,828
	13,549,004	-	-	-	485,027	-	14,034,031

\*Net of credit enhancements amounting to P5.7 billion

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**28. Financial risk management (continued)**

28.1 Financial risk factors (continued)

b) Credit risk (continued)

	2022				
	General Approach			Simplified Approach	Total
	Stage 1	Stage 2	Stage 3		
Cash and cash equivalents	2,957,163	-	-	-	2,957,163
Trade and other receivables*	13,941,213	-	-	528,829	14,470,042
Derivative financial assets	101,897	-	-	-	101,897
Financial assets at FVOCI	816,858	-	-	-	816,858
	17,817,131	-	-	528,829	18,345,960

\*Net of credit enhancements amounting to P5.7 billion

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

31 December 2023	Trade receivables			Total
	Current	31-60	Greater than 60	
Carrying Amount	15,838,949	359,621	750,028	16,948,598
Expected Credit Loss	60,548	1,506	422,973	485,027
Expected Credit loss rate	0.38%	0.42%	56.39%	2.86%

31 December 2022	Trade receivables			Total
	Current	31-60	Greater than 60	
Carrying Amount	18,818,736	440,354	960,520	20,219,610
Expected Credit Loss	62,123	5,261	461,445	528,829
Expected Credit loss rate	0.33%	1.19%	48.04%	2.62%

Where there is a legally enforceable right to offset under trading agreements and net settlement is regularly applied, the net asset or liability is recognized in the statement of financial position, otherwise assets and liabilities are presented at gross. As at 31 December 2023 and 2022, the Company has the following:

	Note	Gross amounts before offset	Amount offset	Net Amounts as presented	Credit Enhancement	Net Amount
2023						
Financial Assets:						
Receivables	4	16,463,571	-	16,463,571	5,705,411	10,758,160
2022						
Financial Assets:						
Receivables	4	19,690,781	-	19,690,781	5,749,567	13,941,214

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**28. Financial risk management (continued)**

28.1 Financial risk factors (continued)

c) 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.

The table below analyzes the Company’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Note	0-90 days	91-180 days	181 days - 1 year	Over 1 year	Total
2023						
Short-term borrowings-principal	15	24,290,000	-	-	-	24,290,000
Short-term borrowings-interest	24	1,456,226	-	-	-	1,456,226
Loans payable-principal	16	-	-	-	15,000,000	15,000,000
Loans payable-interest	24	832,126	-	-	-	832,126
Dividends payable		17,541	-	-	-	17,541
Accounts payable and accrued expenses*	14	18,376,432	716,226	2,212,152	2,186,047	23,490,857
Derivatives	14	35,103	-	-	-	35,103
		45,007,428	716,226	2,212,152	17,186,047	65,121,853

\*Excluding statutory payables amounting to P15.4 million

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**28. Financial risk management (continued)**

28.1 Financial risk factors (continued)

c) Liquidity risk (continued)

	Note	0-90 days	91-180 days	181 days - 1 year	Over 1 year	Total
2022						
Short-term borrowings-principal	15	17,827,000	-	-	-	17,827,000
Short-term borrowings-interest	24	512,756	-	-	-	512,756
Current portion of loans payable - principal	16	9,000,000	-	-	-	9,000,000
Current portion loans payable - interest	24	15,658	-	-	-	15,658
Loans payable-principal	16	-	-	-	6,000,000	6,000,000
Loans payable-interest	22	325,402	-	-	-	325,402
Dividends payable		17,764	-	-	-	17,764
Accounts payable and accrued expenses*	14	28,925,377	723,908	-	3,244,102	32,893,387
Derivatives	14	6,759	-	-	-	6,759
		56,630,716	723,908	-	9,244,102	66,598,726

\*Excluding statutory payables amounting to P25.9 million

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 P42.2 billion (2022 – P46.7 billion), which are subject to annual review.

The Company's future minimum rental and other commitments related to leases as at 31 December 2023 and 31 December 2022 is as below:

	2023	2022
Within one year	3,111,804	2,484,771
More than one year but not more than five years	9,679,339	8,977,765
Over five years	15,429,779	16,032,469

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**28. Financial risk management (continued)**

28.2 Capital management

The Company manages its business to deliver strong cash flows to fund capital expenditures and growth based on cautious assumptions relating to petroleum products 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 statement of financial position less other reserves plus net debt.

i) Cash flow from operating activities

Cash flow from operating activities is considered a measure that reflects the Company’s ability to generate funding from operations for its investing and financing activities and is representative of the realization of value for shareholders from the Company’s operations. The statement of cash flows shows the components of cash flow. Management uses this analysis to decide whether to obtain additional borrowings or additional capital infusion to manage its capital requirements.

ii) Gearing ratio

The gearing ratio is a measure of the Company’s financial leverage reflecting the degree to which the operations of the Company are financed by debt. The amount of debt that the Company will commit depends on cash inflow from operations, divestment proceeds and cash outflow in the form of capital investment, dividend payments and share repurchases. The Company aims to maintain an efficient statement of financial position to be able to finance investment and growth while strengthening the ability to pay dividends. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings less cash.

The Company has 5-year strategy and considers whether the present gearing level is commercially acceptable based on the ability of the Company to operate on a standalone basis. Gearing target is set after appropriate advice has been taken from Tax, Treasury and Legal advisors.

The gearing ratios at 31 December 2023 and 2022 are as follows:

	Note	2023	2022
Total loans and borrowings	15, 16	39,290,000	32,827,000
Less: Cash	3	1,796,813	2,957,163
Net debt		37,493,187	29,869,837
Total equity (excluding other reserves)		29,246,424	28,019,386
Total capital		66,739,611	57,889,223
Gearing ratio		56%	52%

The Company is not subject to externally imposed capital requirement.

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**28. Financial risk management (continued)**

28.3 Fair value estimation

The table below presents the carrying amounts of the Company's financial assets and financial liabilities, which approximates its fair values, as at 31 December 2023 and 2022:

	Note	2023	2022
<b>Financial assets</b>			
Loans and receivables			
Cash	3	1,796,813	2,957,163
Receivables	4	16,463,571	19,690,781
Derivatives	11	16,238	101,897
Financial assets as FVOCI	11	977,828	816,858
<b>Total financial assets</b>		<b>19,254,450</b>	<b>23,566,699</b>
<b>Other financial liabilities</b>			
Accounts payable and accrued expenses	14	23,506,295	32,919,289
Dividends payable	29	17,541	17,764
Derivatives	14	35,103	6,759
Cash security deposits		182,179	179,355
Short-term borrowings	15	24,290,000	17,827,000
Current portion of loans payable	16	-	9,000,000
Loans payable	16	15,000,000	6,000,000
Lease liabilities	8	20,966,106	20,194,873
<b>Total financial liabilities</b>		<b>83,997,224</b>	<b>86,145,040</b>

Receivables in the table above exclude claims from the government and miscellaneous receivables 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:

i) Current financial assets and liabilities

Due to the short-term nature of the accounts, the fair value of cash, 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.

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**28. Financial risk management (continued)**

28.3 Fair value estimation (continued)

iii) Financial assets and liabilities carried at fair value

The Company's equity securities classified as FVOCI 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 or variable 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 repricing based on market conditions.

**29 Changes in liability arising from financing activities**

	01 January 2023	Cash flows	Accrued and paid during the year	Other	31 December 2023
Short term loans (Note 15)	17,827,000	6,463,000	-	-	24,290,000
Long term loans (Note 16)					
Current	9,000,000	(9,000,000)	-	-	-
Long-term debt	6,000,000	9,000,000	-	-	15,000,000
Dividend payable	17,764	(223)	-	-	17,541
Accrued interest payable	78,233	(2,176,205)	2,288,458	-	190,486
Lease liabilities (Note 8)	20,194,873	(4,398,793)	1,302,528	3,867,498	20,966,106
<b>Total liabilities from financing activities</b>	<b>53,117,870</b>	<b>(112,221)</b>	<b>3,590,986</b>	<b>3,867,498</b>	<b>60,464,133</b>

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**29. Changes in liability arising from financing activities (continued)**

	01 January 2022	Cash flows	Accrued and paid during the year	Other	31 December 2022
Short term loans (Note 15)	8,220,000	9,607,000	-	-	17,827,000
Long term loans (Note 16)					
Current	-	-	-	9,000,000	9,000,000
Long-term debt	15,000,000	-	-	(9,000,000)	6,000,000
Dividend payable	16,836	(1,612,516)	-	1,613,444	17,764
Accrued interest payable	81,886	(857,469)	853,816	-	78,233
Lease liabilities (Note 8)	17,614,805	(2,964,273)	1,112,231	4,432,110	20,194,873
Total liabilities from financing activities	40,933,527	4,172,742	1,966,047	6,045,554	53,117,870

Others include the effect of reclassification of non-current portion of interest-bearing loans to current due to the passage of time, additions to lease liabilities in which portion of it is not yet paid, dividends declared during the year, and interest accrued but not paid during the year.

**30. Supplementary Information Required Under Revenue Regulations No. 15-2010**

The following information required by Revenue Regulations No. 15-2010 is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

a) Output value-added tax (VAT)

Output VAT declared and the revenues upon which the same was based as at 31 December 2023 consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT		
Sale of goods	244,442,394	29,333,087
Sale to services	681,301	81,756
Sale of government	806,531	96,784
Others	978,475	117,417
	246,908,701	29,629,044
Zero rated		
Sale of goods	11,576,814	-
Exempt		
Sale of goods	406,191	-
Total	258,891,706	29,629,044

Zero-rated sale of goods pertains to direct export sales transactions with PEZA-registered activities and international vessels pursuant to Section 106 (A) (2) of National Internal Revenue Code.

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**30. Supplementary Information Required Under Revenue Regulations No. 15-2010 (continued)**

a) Output value-added tax (VAT) (continued)

VAT exempt sales pertain to transactions with exempt entities which are exempt pursuant to Section 109 of National Internal Revenue Code.

b) Input VAT

Movements in input VAT for the year ended 31 December 2023 follow:

Add: Current year's domestic purchases/payments for:

Importation of goods for resale	18,019,913
Domestic goods for resale	8,847,837
Services lodged under other accounts	1,844,674
Services rendered by non-residents	140,979
Capital goods subject to amortization	37,987
<b>Total input VAT</b>	<b>28,891,390</b>

c) Importations

The total landed cost of imports and the amount of custom duties and tariff fees accrued and paid for the year ended 31 December 2023 follow:

Landed cost of imports	126,250,182
Customs duties and tariff fees paid	23,915,752

d) Documentary Stamp tax

Documentary stamp taxes in relation to the Company's borrowing transactions were expensed and settled by the local bank. The related balances amounting to P257.0 million were reimbursed by the Company as part of bank service fee.

e) Excise taxes

Excise taxes relate to purchase of petroleum and mineral products by the Company. These taxes are normally paid in advance by the Company and charged to cost of sales upon sale of goods. Total amount paid and charged to operations for the year ended 31 December 2023 are as follow:

	Paid	Accrual	Balance
Local Petroleum products	233,339	-	233,339
Imported Petroleum products	860,757	-	860,757
	<b>1,094,096</b>	<b>-</b>	<b>1,094,096</b>

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**30. Supplementary Information Required Under Revenue Regulations No. 15-2010 (continued)**

f) All other local and national taxes

All other local and national taxes accrued and paid for the year ended 31 December 2023 consist of:

Real property tax	246,579
Municipal taxes / Mayor's permit	14,203
Community tax	11
	260,793

The above local and national taxes are lodged under miscellaneous account in selling, general and administrative expense.

g) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended 31 December 2023 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	420,636	-	420,636
Expanded withholding tax	1,159,427	174,552	1,333,979
Fringe benefit tax	53,194	-	53,194
Final withholding tax	145,814	7,462	153,276
	1,779,071	182,014	1,961,085

Other than tax cases mentioned in Note 27, there has been no tax assessments for the year 2023.

**31. Summary of significant accounting policies**

31.1 Basis of preparation

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

The accompanying financial statements have been prepared on a historical cost basis, except for equity instruments designated at fair value through OCI, derivative assets and pension 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.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.1 Basis of preparation (continued)

###### Changes in Accounting Policies and Disclosures:

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards effective in 2023. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

###### New Standards, Interpretations and Amendments

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Company.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments have had an impact on the Company’s disclosures of accounting policies, but not on the measurement and recognition of any items in the Company’s financial statements.

The amendments to the Practice Statement provide non-mandatory guidance.

- Amendments to PAS 8, Definition of Accounting Estimates

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

## SHELL PILIPINAS CORPORATION NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31

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### 31. Summary of significant accounting policies (continued)

#### 31.1 Basis of preparation (continued)

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

The amendment was applied on the recognition of deferred income tax asset on lease liabilities and deferred income tax liability on right to use assets in 2023.

- Amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*

The amendments introduce a mandatory exception in PAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

The amendments also clarify that PAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as ‘Pillar Two legislation’ and ‘Pillar Two income taxes’, respectively.

The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, apply immediately and retrospectively upon adoption of the amendments in June 2023.

Meanwhile, the disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023.

#### Standards Issued But Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.1 Basis of preparation (continued)

Standards Issued But Not Yet Effective (continued)

*Effective beginning on or after January 1, 2024*

- Amendments to PAS 1, Classification of Liabilities as Current or Non-current
- Amendments to PFRS 16, Lease Liability in a Sale and Leaseback
- Amendments to PAS 7 and PFRS 7, Disclosures: Supplier Finance Arrangements

*Effective beginning on or after January 1, 2025*

- PFRS 17, Insurance Contracts
- Amendments to PAS 21, Lack of exchangeability

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"

##### 31.2 Cash

Cash consists of deposits held at call with banks. It is carried in the statement of financial position at face amount or nominal amount. Cash in banks earns interest at the respective bank deposit rates.

##### 31.3 Financial Instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes a financial instrument in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

*Financial assets*

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.3 Financial Instruments - initial recognition and subsequent measurement (continued)

###### *Financial assets (continued)*

###### Initial recognition and measurement (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.3 Financial Instruments - initial recognition and subsequent measurement (continued)

###### *Financial assets (continued)*

###### Subsequent measurement (continued)

###### i. Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its equity investments under this category as the Company does not consider these investments for trading.

###### ii. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

The Company uses derivatives in the management of foreign exchange risk and commodity price risk arising from operational activities. A derivative financial instrument is initially recognized at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, that are not already required to be recognized at fair value, and that are not closely related to the host contract in terms of economic characteristics and risks, are separated from their host contract and recognized at fair value; associated gains and losses are recognized in the statement of income.

**SHELL PILIPINAS CORPORATION**  
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**31. Summary of significant accounting policies (continued)**

31.3 Financial Instruments - initial recognition and subsequent measurement (continued)

*Financial assets (continued)*

Subsequent measurement (continued)

iii. Financial assets at fair value through profit or loss

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognized in the statement of income in the period when changes arise.

*Financial liabilities*

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, dividends payable and derivative financial instruments.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of income.

This category generally applies to interest-bearing loans and borrowings, accounts payable and accrued expenses.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### **31.4 Receivables**

Trade receivables arising from regular sales with average credit term of 30 to 60 days and other current receivables are initially recorded at fair value and subsequently measured at amortized cost, less provision for impairment. Fair value approximates invoice amount due to short-term nature of the financial assets. Other long-term receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Duty drawback and other claims pertain to claims from the government agencies arising mainly from the payment of excise duties in which the Company has a right of exemption. The Company calculates the claimable amount based on the delivered goods in liters to exempt entities multiplied by excise deposit rate, then recognizes the amount in other receivables with a current (Note 6) and non-current portion (Note 9). These claims might be subjected to various legal proceedings based on its compliance to the regulatory requirements in filing for claim refund.

Claims from the government accounted under long-term receivable (Note 9) mainly arises from excise duties and VAT paid under protest for certain Alkylate shipments. The payments under protest was made pursuant to Section 1106 of the Customs Modernization and Tariff Act (CMTA). The provision states that the Company has to pay the amount being demanded prior to its right to appeal. The payments made gives the entity a right to receive future economic benefits, either in the form of a cash refund or by using the payment to settle the tax liability.

##### **31.5 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is the purchase cost determined using the first-in first-out (FIFO) method for petroleum products, materials and supplies. Crude and product costs under cost of sales includes invoice cost, duties, excise taxes, refinery production overhead, freight and pipeline costs and excludes the borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business and estimated cost necessary to make the sale. Provision for inventory losses is provided, when necessary, based on management's review of inventory movement and condition of inventory item. Inventory losses, if any, is charged as part of cost of sales in the Company's statement of income.

The amount of any reversal of inventory write-down, arising from an increase in net realizable value, is presented under crude and products costs in the period in which the reversal occurred.

Petroleum products are derecognized when sold, and materials and supplies are derecognized when consumed. The carrying amount of these inventories is charged to cost of sales in the statement of income, in the period in which the related revenue is recognized.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### **31.6 Prepayments and other current assets**

Prepaid expenses are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepaid expenses expire and are recognized as expense either with the passage of time or through use or consumption.

Advance excise tax payments related to inventories are recognized initially as prepayment and charged to operations when products are sold.

Input VAT claims is stated at face value less provision for impairment, if any. Provision for unrecoverable input VAT, if any, is maintained by the Company at a level considered adequate to provide for potential uncollectible portion of the claim. The Company, on a continuing basis, reviews the status of the claim designed to identify those that may require provision for impairment losses. A provision for impairment of unrecoverable input VAT is established when there is objective evidence that the Company will not be able to recover the claims. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of income. As at 31 December 2023 and 2022, the Company has no provision for impairment of input VAT (see Note 6).

The Company pays excise duties in advance and files for a refund with the local tax bureau as the Company claims exemption on imported petroleum products that were subsequently sold to international carriers or exempt entities or agencies. The refund of claim requires judgement based on the Company's assessment of collection or recoverability through creditable tax certificates from the government.

##### **31.7 Current and deferred income taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

Net realizable value is the estimated selling price in the ordinary course of business and estimated cost necessary to make the sale. Provision for inventory losses is provided, when necessary, based on management's review of inventory movement and condition of inventory item. Inventory losses, if any, is charged as part of cost of sales in the Company's statement of income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

## **SHELL PILIPINAS CORPORATION**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.7 Current and deferred income taxes (continued)

Deferred income tax on Asset Retirement Obligation considers any temporary differences on a net basis. In this approach, the net carrying value of the asset and liability is zero on initial recognition and the non-deductible asset and the tax-deductible liability are regarded as being economically the same as a tax-deductible asset that is acquired on deferred terms. Deferred tax is recognized on subsequent temporary differences that arise when the net asset or liability changes from zero.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (MCIT over RCIT), to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

Deferred tax assets and liabilities are derecognized when relevant temporary differences have been realized and settled, respectively. The Company reassesses at each statement of financial position date the need to recognize a previously unrecognized deferred income tax asset.

##### 31.8 Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and amortization and accumulated impairment losses. Historical cost includes its acquisition cost or purchase price and expenditure that is directly attributable to the acquisition of the items necessary to bring the asset to its working condition and location for its intended use. Costs of assets under construction are accumulated in the accounts until these projects are completed upon which they are charged to appropriate property accounts.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Asset retirement obligation (ARO) represents the net present value of obligations associated with the retirement of property and equipment that resulted from acquisition, construction or development and the normal operation of property and equipment. ARO is recognized as part of the cost of the related property and equipment in the period when a legal or constructive obligation is established provided that best estimate can be made. ARO is derecognized when the related asset has been retired or disposed of.

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**31. Summary of significant accounting policies (continued)**

31.8 Property, plant and equipment (continued)

Depreciation on property and equipment is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful lives (in years), as follows:

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Leasehold improvements	5 to 40 or term of lease, whichever is shorter
Furniture and fixtures	5 to 20
Machinery, plant and equipment	3 to 30
Transportation	5 to 25

Depreciation of property and equipment begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

Assets under construction are not subject to depreciation until these are put into operation.

Major renovations are depreciated over the remaining useful life of the related asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Property and equipment are derecognized upon disposal or when no future economic benefits are expected from its use or disposal and related gains and losses on disposals are determined by comparing proceeds with the carrying amount of assets. The cost and related accumulated depreciation of assets sold are removed from the accounts and any resulting gain or loss is credited or charged to other operating income (expense) in the statement of income.

Fully depreciated property and equipment are maintained in the accounts until these are no longer in use.

31.9 Intangible assets - computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of five years from the time the software has been ready for its intended use in operations.

Costs associated with maintaining computer software programs are recognized as an expense as incurred in the statement of income.

Intangible assets are derecognized upon disposal or when no future economic benefits are expected from its use or disposal and related gains and losses on disposals are determined by comparing proceeds with the carrying amount of assets. The cost and related accumulated amortization of intangible assets disposed are removed from the accounts and any resulting gain or loss is credited or charged to other operating income (expense) in the statement of income. The Company's intangible asset is classified under other assets account in the statement of financial position (see Note 13).

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.10 Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease as in PFRS 16.

##### a) Lessee

###### Classification and measurement

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right to use asset and a lease liability at the lease commencement date. The right to use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The Company recognizes asset retirement obligation relating to lease land and buildings which would need to be restored to previous state and condition.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company's uses its incremental borrowing rate as the discount rate.

The Company determines the incremental borrowing rate representing the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right to use asset in a similar economic environment. The incremental borrowing rate applied to each lease was determined taking into account the risk-free rate, adjusted for factors such as the credit rating of the Company and the terms and conditions of the lease.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.10 Leases (continued)

###### a) Lessee (continued)

Classification and measurement (continued)

Lease payments included in the measurement of the lease liability comprise the following:

1. Fixed payments, including in-substance fixed payments;
2. Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
3. Amounts expected to be payable under a residual value guarantee; and
4. The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Right to use assets and lease liabilities are presented separately in the statement of financial position. Expenses related to leases are presented under selling and administrative expense or finance income/expenses in 2023 and 2022. Payments related to leases are presented under Cash flow from financing activities.

#### Subsequent measurement

The right to use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right to use asset reflects that the Company will exercise a purchase option. In that case the right to use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right to use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The right to use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right to use asset reflects that the Company will exercise a purchase option. In that case the right to use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right to use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.10 Leases (continued)

###### a) Lessee (continued)

###### Subsequent measurement (continued)

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. For remeasurements to lease liabilities, a corresponding adjustment is made to the carrying amount of the right to use asset or is recorded in profit or loss if the carrying amount of the right to use asset has been reduced to zero.

###### Short-term leases and leases of low-value assets

The Company has elected not to recognize right to use assets and lease liabilities for leases of low-value assets and where the lease term is less than or equal to 12 months (short-term leases). The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

##### 31.11 Impairment of non-financial assets

Property and equipment and other non-current assets (investments in other entities, intangibles, and claims from government agencies lodged under receivables and long-term receivables) that have definite useful life are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less cost of disposal and value in use. Value in use requires entities to make estimates of future cash flows to be derived from the particular asset, and discount them using a pretax market rate that reflects current assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The Company recognizes provision for impairment of input VAT and prepaid corporate income tax based on the Company's assessment of collection or recoverability through creditable tax certificates from the government. This assessment requires judgment regarding the ability of the government to settle or approve the application for claims/creditable tax certificates of the Company.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in other operating income (expense) in the statement of income.

## **SHELL PILIPINAS CORPORATION**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.11 Impairment of non-financial assets (continued)

Property and equipment and other non-current assets (investments in other entities, intangibles, and claims from government agencies lodged under receivables and long-term receivables) that have definite useful life are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less cost of disposal and value in use. Value in use requires entities to make estimates of future cash flows to be derived from the particular asset, and discount them using a pretax market rate that reflects current assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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##### 31.12 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are not recognized for future operating losses.

An onerous contract provision is recognised when the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable cost under a contract is the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract. Before an onerous provision is recognised the Company first recognises any impairment loss that has occurred on assets dedicated to that contract.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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#### **31. Summary of significant accounting policies (continued)**

##### 31.12 Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as part of other operating expense in the statement of income.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized from the statement of financial position.

##### 31.13 Contingencies

Contingent assets and liabilities are not recognized in the financial statements. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent asset are disclosed when an inflow of economic benefits is probable. When the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

##### 31.14 Foreign currency transactions and translations

###### i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine peso, which is the functional and presentation currency of the Company.

###### ii) Transactions and balances

Foreign currency transactions are translated into Philippine peso using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income (see Note 24).

##### 31.15 Revenue and expense recognition

###### I) Revenue from contracts with customers:

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

**SHELL PILIPINAS CORPORATION**  
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**31. Summary of significant accounting policies (continued)**

31.15 Revenue and expense recognition (continued)

I) Revenue from contracts with customers (continued):

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

i) Sale of goods

Revenue from sales of petroleum products is recognized at the price which the Company is expected to be entitled to, after deducting sales taxes, excise duties and similar levies.

Sales of oil and gas products are recognized when the control of the products have been transferred, which is when the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits from the products, which generally coincides with the actual delivery of goods. Delivery does not occur unless the products have been shipped out of the Company's premises or received by the customer depending on shipping arrangements.

Sales comprise the fair value of the consideration received or receivable from the sale of oil and gas products in the ordinary course of the Company's operations. Sales is shown net of value-added tax. Discounts and rebates are recognized and measured based on approved contracts and agreements with customers.

The Company identifies the promised products and services within contracts in scope of PFRS 15 and determines which of those goods and services are separate performance obligations. The Company will allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices. PFRS 15 has been applied for recognizing the net sales.

The Company is required exercising considerable judgement taking into account all the relevant facts and circumstances when applying the criteria to its contracts with customers.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.15 Revenue and expense recognition (continued)

##### D) Revenue from contracts with customers (continued):

##### i) Sale of goods (continued)

##### a. Variable consideration

Some contracts for the sale of goods provide customers with volume rebates that give rise to variable consideration. The Company estimates the variable consideration at contract inception and constrained until it is highly probable that significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Under PFRS 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Company applies the most likely method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold and recognizes a refund liability for the expected future rebates.

##### b. Loyalty programme

The Company has loyalty points programme, which allows customers to accumulate points that can be redeemed for free products. The loyalty points give rise to separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognized as a contract liability until the points are redeemed. Revenue is recognized upon redemption of products by the customer. When estimating the stand-alone selling price of the loyalty points, the Company considers the likelihood that the customer will redeem the points. The Company updates its estimates at every balance sheet date and any adjustments to the contract liability balance are charged against revenue.

##### c. Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

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**31. Summary of significant accounting policies (continued)**

31.15 Revenue and expense recognition (continued)

I) Revenue from contracts with customers (continued):

i) Sale of goods (continued)

d. Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract. Contract liability is recognized under trade and other payables and under provisions and other liabilities.

	2023	2022
Performance obligations satisfied	569,773	443,439

	31 December 2023	31 December 2022
Contract liabilities included in trade and other payables and in provisions and other liabilities	405,965	387,602

Performance obligations satisfied in 2023 and 2022 amounting to P569.8 million and P443.4 million, respectively, came from the prior year contract liabilities amounting to P406.0 million in 2022 and P387.6 million in 2022, respectively. There are no significant changes in contract liability arising from change in measure of progress, change in estimate of transaction price or contract modification.

ii) Other operating income

Other operating income, such as retailer and franchise commission, is recognized on an accrual basis in accordance with the substance of the relevant agreements.

iii) Finance income

Finance income, such as foreign exchange gains and interest income, is recognized as earned and presented at gross after operating profit. Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it determined that such income will accrue to the Company.

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### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.15 Revenue and expense recognition (continued)

i) Revenue from contracts with customers (continued):

iv) Other non-operating income

Other non-operating income, also referred to as incidental or peripheral income (one time), are recognized for earnings that do not occur on a regular basis or is derived from activities not related to the Company's core operations.

v) Dividend income

Dividend income is recognized when the Company's right to receive the payment is established. The Company's dividend income is presented as part of other non-operating income in the statement of income. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow into the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

##### 31.16 Employee benefits

i) Pension obligation

The Company maintains a pension scheme, which is funded through payments to trustee-administered fund. The Company maintains a defined benefit pension plan and defined contribution plan.

Defined benefit plan is defined as an amount of pension benefit that an employee will receive upon retirement, dependent on certain factors such as age, years of credited service, and compensation. The Company makes contributions to the retirement benefit fund to maintain the plan in an actuarially sound condition. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31

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#### **31. Summary of significant accounting policies (continued)**

##### 31.16 Employee benefits (continued)

##### i) Pension obligation (continued)

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and

The date that the Company recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset. The Company recognizes the following changes in the net defined benefit obligation under cost of sales, administration expenses and selling and distribution expenses in statement of income (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation.

The Company has a defined contribution plan that covers all regular employees under which it pays fixed contributions based on the employees' monthly salaries. The Company, however, is covered under R.A. 7641, otherwise known as "The Philippine Retirement Law", which provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641.

Accordingly, the Company accounts for their retirement obligation under the higher of the defined benefit obligation related to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during

## **SHELL PILIPINAS CORPORATION**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.16 Employee benefits (continued)

###### i) Pension obligation (continued)

the period as a result of contributions and benefit payments. Net interest expense (income) and other expenses (income) related to the defined benefit plan are recognized in our profit or loss. The defined contribution liability, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

###### ii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after statement of financial position date are discounted to present value.

###### iii) Bonus plans

The Company recognizes a liability and an expense for performance-related bonuses, based on a formula that takes into consideration the Company and employee's performance. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

###### iv) Performance-share plans

Shell plc operates a Performance Share Plan (PSP) covering all of its subsidiaries' employees. PSP for conditional shares are awarded to eligible employees based on their sustained performance and value. The extent to which shares are finally delivered at the end of a three-year performance period, or not, depends upon the performance of the Shell group.

The fair value of shares, determined using a Monte Carlo pricing model, is credited as 'other reserve' in equity and is charged to profit or loss over the vesting period. The fair value of share-based compensation for equity-settled plans granted to employees under the Shell plc schemes is recognized as an intra-group payable to parent company when charged-out. The charge-out is based on the entitled personnel that were employed by the Company at the time of awarding.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **31. Summary of significant accounting policies (continued)**

##### 31.17 Operating segments

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments (see Note 2).

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the general manager who makes strategic decisions.

#### **32. Critical accounting estimates, assumptions and judgements**

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### 32.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

###### i) Provision for impairment of receivables

The provision for impairment of receivables is based on the Company's assessment of the collectability of payments from its debtors. This assessment requires judgment regarding the ability of the debtors to pay the amounts owed to the Company and the outcome of any disputes. The amounts and timing of recorded provision for impairment of receivables for any period would differ if the Company made different assumptions or utilized different estimates. Hence, management considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding impairment of receivables. The Company's policy in estimating provision for impairment of receivables is presented in Note 31.4. The carrying amount of receivables and other information are disclosed in Note 4.

The Company's assessment on the recoverability of the claims from the government (Note 9) arising from the payments under protest is based on the strength of the legal standing related to the case, the basis of laws which support the subject of litigation, the evidence presented in court and the strength of such evidence. The Management believes that the Company's position in eventually recovering the amount paid under protest is supported by the facts and the applicable law and jurisprudence that should justify a favorable decision as well as the recovery of amounts paid.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31

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#### **32. Critical accounting estimates, assumptions and judgments (continued)**

##### 32.1 Critical accounting estimates and assumptions (continued)

###### i) Provision for impairment of receivables (continued)

The Company computes probability of default rates for third party trade receivable, based on historical loss experience adjusted for current and forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. For inter-group trade receivables and lease receivables, the Company uses internal credit rating to determine the probability of default. Internal credit ratings are based on methodologies adopted by independent credit rating agencies, therefore the internal ratings already consider forward looking information.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

###### ii) Provision for inventory net realizable value

The Company provides allowance for inventories whenever the net realizable value of inventories become lower than cost due to damage, physical deterioration, obsolescence, market driven price changes in price levels or other causes (i.e., pre-termination of contracts).

Assessment of inventory losses on a regular basis is also performed based on historical information and past experience. The provision account is reviewed on a quarter basis to reflect the estimated net recoverable value in the financial statements. The carrying amount of inventories and other information are disclosed in Note 5.

###### iii) Provision for asset retirement obligation and environmental liabilities and remediation

Estimates of the ARO recognized are based on current legal and constructive requirements, technology and price levels. Since actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of the obligation is regularly reviewed and adjusted to take account of such changes. The implicit rate (based on management's market assessment of the time value of money and risks specific to the obligation) used in discounting the cash flows is reviewed at least annually.

The discount rate used to determine the present value of the obligation as at 31 December 2023 is 5.91% to 6.12% and 6.25% to 7.22% as at 31 December 2022. The amount is recognized as accretion cost or income in the statement of income.

The Company has set total outstanding provision of P63.1 million (2022 - P63.1 million) to cover the required environmental remediation covering specific assets, based on external evaluation and study, and total outstanding provision of P3.6 billion (2022 – P3.3 billion) for ARO (see note 17).

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### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **32. Critical accounting estimates, assumptions and judgments (continued)**

##### 32.1 Critical accounting estimates and assumptions (continued)

##### iii) Provision for asset retirement obligation and environmental liabilities and remediation (continued)

Further, it is reasonably possible based on existing knowledge that outcome within the next financial year that are different from assumptions could require an adjustment to the carrying amount of the provision for ARO and environmental liabilities and remediation. However, management does not foresee any changes in terms of business operations and its circumstances that would cause a significant change in the initial estimates used. Additional information is presented in Note 17.

##### iv) Pension benefit obligation and employee benefits

The determination of the Company's pension benefit obligation and employee benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, as described in Note 26, include among others, discount rates, and salary increase rates.

##### v) Incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Company estimates the IBR using observable inputs like the risk-free rate and adjust it for factors such as the credit rating of the Company and the terms and conditions of the lease.

##### vi) Fair value measurement of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation, and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 28 for further disclosures.

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31

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#### **32. Critical accounting estimates, assumptions and judgments (continued)**

##### 32.2 Critical judgements in applying the Company's accounting policies

###### i) Impairment of assets

Assets (see Notes 7 and 13) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. On a regular basis, management determines if there are triggering events or impairment indicators based on current circumstances. An impairment loss is recognized whenever evidence exists that the carrying value is not recoverable.

The recognized impairment loss and/or reversal thereof are disclosed in Note 7.

###### ii) Taxes

A certain degree of judgment is required in determining the provision for income taxes, as there are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Company recognizes liabilities for tax audit issues when it is probable. The liabilities are based on estimates whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Further, recognition of deferred income tax assets depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied. The Company reviews its deferred tax assets at each statement of financial position date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management believes that deferred tax assets are fully recoverable at the statement of financial position date (see Note 10).

The Company pays excise duties in advance and files for a refund with the local tax bureau as the Company claims exemption on own produced and imported petroleum products that were subsequently sold to international carriers or exempt entities or agencies. The refund of claim requires judgement based on the Company's assessment of collection or recoverability through creditable tax certificates from the government (see Note 4 and 9).

The Company recognizes provision for impairment of input VAT and prepaid corporate income tax based on the Company's assessment of collection or recoverability through creditable tax certificates from the government. This assessment requires judgment regarding the ability of the government to settle or approve the application for claims/creditable tax certificates of the Company. Management believes that its input VAT and specific tax claims are fully recoverable as at statement of financial position date (see Note 6).

## **SHELL PILIPINAS CORPORATION**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **32. Critical accounting estimates, assumptions and judgments (continued)**

32.2 Critical judgements in applying the Company's accounting policies (continued)

iii) Assessing provision and contingencies

The Company is currently involved in various legal proceedings including a number of tax cases (see Note 27). Estimates of the probable costs for the resolution of these claims, if any, have been developed in consultation with internal and external counsels handling the Company's defense in these matters and are based upon the probability of potential results. The internal legal counsel mainly considers the strength of the legal standing related on the case, the basis of laws which support the subject of litigation, the evidences presented in the court, strength of such evidence, and weakness of the opposing team's evidence. The Company engages management specialist to perform deeper assessment and assistance in formulating a more appropriate strategy to proceed with the case. The Company's management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates, in the effectiveness of its strategies relating to these proceedings or the actual outcome of the proceedings (see Notes 17 and 27).

iv) Determining lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

#### **33. Other matters**

##### *Reclassification of Accounts*

Certain accounts were reclassified to conform with the current year financial statements presentation.

**Reconciliation of Retained Earnings for Dividend Declaration**

For the reporting period ended December 31, 2023

**Shell Pilipinas Corporation**41st Floor, The Finance Centre, 26th Street corner 9th Avenue, Bonifacio Global City, Brgy. Fort  
Bonifacio, Taguig City, Metro Manila 1635 Philippines

<b>Unappropriated Retained Earnings, beginning of reporting period</b>	3,788,190
<b>Add: <u>Category A: Items that are directly credited to Unappropriated Retained Earnings</u></b>	
Reversal of Retained Earnings Appropriation/s	-
Effect of restatements or prior-period adjustments	-
Treasury Shares	(507,106)
Deferred tax assets net, beginning	(4,903,869)
Others	-
	<u>(5,410,975)</u>
<b>Less: <u>Category B: Items that are directly debited to Unappropriated Retained Earnings</u></b>	
Dividend declaration during the reporting period	-
Retained Earnings appropriated during the reporting period	-
Effect of restatements or prior-period adjustments	-
Others	-
	<u>-</u>
<b>Unappropriated Retained Earnings, as adjusted</b>	<b>(1,622,785)</b>
<b>Add: Net income actually earned/realized during the period</b>	<b>1,182,902</b>
<b>Less: <u>Category C.1: Unrealized income recognized in the profit or loss during the reporting period (net of tax)</u></b>	
Equity in net income of associate/ joint venture, net of dividends declared	-
Unrealized foreign exchange gain, except those attributable to cash and cash equivalents	(68,410)
Unrealized fair value adjustments (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	-
Unrealized fair value gain of Investment Property	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	-
Sub-total	<u>(68,410)</u>
<b>Add: <u>Category C.2: Unrealized income recognized in the profit or loss in prior reporting periods but realized in the current reporting period (net of tax)</u></b>	
Realized foreign exchange gain, except those attributable to Cash and cash equivalents	-
Realized fair value adjustments (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	-

Realized fair value gain of Investment Property	-
Other realized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	-
Subtotal	-
<b>Add: Category C.3: Unrealized income recognized in the profit or loss in prior periods but reversed in the current reporting period (net of tax)</b>	
Reversal of previously recorded foreign exchange gain, except those attributable to cash and cash equivalents	-
Reversal of previously recorded fair value adjustment (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	-
Reversal of other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS, previously recorded	-
Sub-total	-
<b>Adjusted Net Income/Loss</b>	<b>(508,293)</b>
<b>Add: Category D: Non-actual losses recognized in profit or loss during the reporting period (net of tax)</b>	
Depreciation on revaluation increment (after tax)	-
Sub-total	-
<b>Add/Less: Category E: Adjustments related to relief granted by the SEC and BSP (see Footnote 3)</b>	
Amortization of the effect of reporting relief	-
Total amount of reporting relief granted during the year	-
Others	-
Sub-total	-
<b>Add/Less: Category F: Other items that should be excluded from the determination of the amount of available for dividends distribution</b>	
Net movement of treasury shares (except for reacquisition of redeemable shares)	-
Net movement of deferred tax assets not considered in the Reconciling items under the previous categories	-
Net movement in deferred tax asset and deferred tax liabilities related to same transaction, e.g., set up of right of use of asset and lease liabilities, set-up of asset and asset retirement obligations and set-up concession asset and concession payable	753,924
Adjustment due to deviation from PFRS/GAAP - gain (loss)	-
Others	-
Sub-total	753,924
<b>Total retained Earnings, end of the reporting period available for dividends</b>	<b>245,631</b>

**SCHEDULE II**  
**SHELL PILIPINAS CORPORATION**  
**COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**  
**PURSUANT TO THE REVISED SRC RULE 68, AS AMENDED**  
**As at 31 December 2023**

	Formula	2023	2022
Current Ratio	Total Current Assets divided by Total Current Liabilities		
	Current assets	43,436	0.91
	Divide by: Current Liabilities	47,849	0.83
	Current Ratio	0.91	
Acid test ratio	Quick Assets (Total Current Assets less Inventories and Other Current Assets) divided by Current Liabilities		
	Current assets	43,436	
	Less: Inventories	14,854	0.38
	Other Current Assets	10,321	0.38
	Quick Assets	18,261	
	Divide by: Current Liabilities	47,849	
Acid Test Ratio	0.38		
Solvency ratio	Net Income after Tax (Net Income and Non-Cash Items) Divided by Total Liabilities		
	Net Income	1,183	
	Add: Non-cash Items	7,954	10.67%
	Net Income after Tax	9,137	11.00%
	Divide by: Total Liabilities	85,641	
	Solvency Ratio	10.67%	
Debt to Equity	Net Debt (Short-term and Long-Term Borrowings less Cash) divided by Stockholder's Equity (Exclusive of Other Reserves)		
	Short-term loans	24,290	
	Add: Loans Payable	15,000	1.28
	Less: Cash	1,797	1.07
	Net Debt	37,493	
	Divide by: Equity, net of Other Reserves	29,246	
	Debt to Equity	1.28	

**SCHEDULE II**  
**SHELL PILIPINAS CORPORATION**  
**COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**  
**PURSUANT TO THE REVISED SRC RULE 68, AS AMENDED (Continued)**  
**As at 31 December 2023**

	Formula	2023	2022	
Debt Ratio	Net Debt (Short-term and Long-Term Borrowings less Cash) divided by Total Assets			
	Short-term loans	24,290		
	Add: Loans Payable	15,000		
	Less: Cash	1,797		
	Net Debt	37,493	0.32	0.26
	Divide by: Total Assets	115,922		
	Debt Ratio	0.32		
Return on Equity	Net Income Divided by Stockholder's Equity (Exclusive of Other Reserves)			
	Net Income	1,183	4.04%	14.55%
	Divide by: Equity, net of Other Reserves	29,246		
	Return on Equity	4.04%		
Asset to Equity Ratio	Total Assets divided by Stockholder's Equity (Exclusive of Other Reserves)			
	Total Assets	115,922	3.96	4.18
	Divide by: Equity, net of Other Reserves	29,246		
	Asset to Equity Ratio	3.96		
Interest rate coverage ratio	Earnings before interest expense and taxes divided by Interest Expense			
	Earnings before interest expense and taxes	3,902	1.71	7.40
	Divide by: Total Interest in Borrowings	2,288		
	Interest Rate Coverage Ratio	1.71		
Return on Assets	Net Income divided by Total Assets			
	Net Income	1,183	1.02%	3.48%
	Divide by: Total Assets	115,922		
	Return on Assets	1.02%		

**SCHEDULE A**  
**SHELL PILIPINAS CORPORATION**  
**FINANCIAL ASSETS**  
**As at 31 December 2023**

(All amounts in thousands Philippine Peso)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Equity through OCI				
Alabang Country Club, Inc.	2	28,000	28,000	-
Atlas Consolidated Mining and Development	3,000,000	10,770	10,770	-
Canlubang Golf & Country Club, Inc.	2	7,000	7,000	-
Club Filipino de Cebu, Inc.	24	700	700	-
Manila Golf & Country Club, Inc.	6	720,000	720,000	-
Manila Polo Club, Inc.	2	90,000	90,000	-
Manila Southwoods Golf & Country Club	1	4,000	4,000	-
Negros Occidental Golf & Country Club	1	20	20	-
Pantranco South Express Inc.	5,232,000	3,738	3,738	-
Puerto Azul Beach & Country Club, Inc.	1	250	250	-
Sta. Elena Golf Club	2	32,000	32,000	-
The Royal Northwoods Golf Club & Country	1	1,000	1,000	-
Valley Golf Club, Inc.	1	5,000	5,000	-
Wack Wack Golf & Country Club	1	75,000	75,000	-
Club Filipino	1	350	350	-
Total Equity through OCI financial assets		977,828	977,828	
Cash			1,796,813	
Receivables			16,463,571	
Derivatives			16,238	
Total financial assets			19,254,450	

**SCHEDULE B**  
**SHELL PILIPINAS CORPORATION**  
**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED**  
**PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**As at 31 December 2023**

(All amounts in thousands Philippine Peso)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non Current	Balance at end of period
Rizal Commercial Banking Corporation	3,346	40,446	(41,576)	-	3,470	(1,254)	2,216
The Insular Life Assurance Co Ltd	352	1,840	(1,908)	-	283	0.6	284

The Company's receivables from directors, officers, employees, and principal stockholders are limited to receivables subject to usual terms for ordinary expense advances and items arising in the ordinary course of business.

**SCHEDULE C**

**SHELL PILIPINAS CORPORATION**

**AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING  
THE CONSOLIDATION OF FINANCIAL STATEMENTS**

**As at 31 December 2023**

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non Current	Balance at end of period
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**SCHEDULE D**  
**SHELL PILIPINAS CORPORATION**  
**LONG TERM DEBT**  
**As at 31 December 2023**

(All amounts in thousand Philippine Peso)

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term debt" in related statement of financial position	Amount shown under caption "Loans payable, net of current portion" in related statement of financial position
Bank loan	15,000,000	-	15,000,000

**SCHEDULE E**  
**SHELL PILIPINAS CORPORATION**  
**INDEBTEDNESS TO RELATED PARTIES**  
**(LONG-TERM LOANS FROM RELATED COMPANIES)**  
**As at 31 December 2023**

Name of related party	Balance at beginning of period	Balance at end of period
N/A	N/A	N/A

**SCHEDULE F**  
**SHELL PILIPINAS CORPORATION**  
**GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**As at 31 December 2023**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
N/A	N/A	N/A	N/A	N/A

**SCHEDULE G**  
**SHELL PILIPINAS CORPORATION**  
**CAPITAL STOCK**  
**As at 31 December 2023**

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as shown under related statement of financial position caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common stocks	2,500,000,000	1,613,444,202	-	890,860,233	401,837	722,182,132

**SCHEDULE H**  
**SHELL PILIPINAS CORPORATION**  
**RELATIONSHIP MAP**  
**As at 31 December 2023**

