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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Pilipinas Shell Petroleum 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 Pilipinas Shell Petroleum Corporation (the Company), which comprise the statements of financial position as at December 31, 2020 and 2019, 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, 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2020 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.

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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.

***Adequacy of provision for legal cases and recoverability of claims from government***

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. We focused on this area because the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

In addition, the Company has claims from certain government agencies relating to excise duties paid under protest for Alkylate shipments. 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 relevant disclosures on these matters are included in Notes 4, 7 and 28 to the financial statements.

*Audit response*

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 assessment of recoverability of the claims. 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 have also evaluated the tax position of the Company by considering the tax laws, rulings, and jurisprudence. In addition, we traced selected claims from 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.

MAR 26 2021

***Valuation of inventories***

The Company's inventories substantially comprise of finished petroleum products. As of December 31, 2020, total inventories amounting to ₱10.02 billion represents 12% of total assets of ₱86.55 billion. We considered this as a key audit matter because the prices of petroleum products are highly volatile due to various factors such as global trends in demand and other economic factors and the determination of the net realizable value requires management to make an estimate of the inventories' selling price in the ordinary course of business. The high price volatility may give rise to a circumstance where the cost of the Company's inventories is significantly higher than its net realizable value.

The disclosures in relation to inventories are included in Note 5 to the financial statements.

*Audit response*

We obtained an understanding of the Company's inventory valuation process and related controls. We obtained and reviewed management's calculation of the inventories' net realizable values. We tested the net realizable value of selected inventories by obtaining the prevailing market prices and historical selling costs, and compared this against the cost of inventories.

***Valuation of pension assets***

The Company has retirement plans for its regular employees with a net pension asset position of ₱6.58 billion, which represents about 8% of total assets of the Company as of December 31, 2020. The related pension assets include a significant unquoted equity investment, measured at fair value based on a valuation performed by an external appraiser. The valuation performed by the external appraiser depended on certain assumptions, including rental rates, characteristics of the underlying properties as well as listings of comparable properties by reference to historical market data. Thus, we considered the valuation of the said pension plan asset as a key audit matter.

The disclosures in relation to pension assets are included in Note 25 to the financial statements.

*Audit response*

We evaluated the competence, capabilities and objectivity of the external appraiser. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of the investment. We assessed the methodology adopted by reference to common valuation models, and evaluated key inputs used in the valuation, specifically rental rates stated in the lease contracts and fair market value of real estate properties by reference to historical market data. We also reviewed the disclosures relating to the Company's pension plan assets.

***Impairment of oil refinery and related assets***

The Company's decision to convert the Tabangao refinery into a full import facility and the adverse effects of the highly volatile global oil prices are significant indicators that the recoverable amount of the oil refinery and related assets, consisting of items of property, plant and equipment and right to use assets, may be lower than the carrying amount. We considered this as a key audit matter because of the significance of the amount of oil refinery and related assets that are impaired due to the conversion of the refinery.

The carrying values and disclosures about the Company's oil refinery and related assets and impairment losses as of and for the year ended December 31, 2020 are included in Notes 8, 9, 11 and 23 to the financial statements.



*Audit response*

We obtained an understanding of the nature and composition of the oil refinery and related assets that were identified to have impairment indicators brought about by the conversion of the refinery. We traced the listing of these assets, the categories and the corresponding net book values to the Company's asset register. We involved our internal specialist in reviewing the supporting document used in the determination of the assets' fair value less cost to sell, which represents the recoverable amount of the oil refinery and related assets. We also reviewed the Company's disclosures related to the impairment of these assets, including determining the recoverable amount of such assets.

**Other Information**

Management is responsible for the other information. The other information comprises 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, 2020, 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, 2020 are expected to be made available to us after the date of this auditor's report.

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, related safeguards.

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.

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**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 34 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 Pilipinas Shell Petroleum 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 Jose Pepito E. Zabat III.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
Accreditation No. 85501-SEC (Group A)
Valid to cover audit of 2020 to 2024
financial statements of SEC covered institutions
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-060-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534388, January 4, 2021, Makati City

March 25, 2021

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1226 Makati City
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October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

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

The Board of Directors and the Stockholders
Pilipinas Shell Petroleum 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 Pilipinas Shell Petroleum Corporation (the Company) as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated March 25, 2021. 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 (PFRS) 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 PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
Accreditation No. 85501-SEC (Group A)
Valid to cover audit of 2020 to 2024
financial statements of SEC covered institutions
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-060-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534388, January 4, 2021, Makati City

March 25, 2021

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October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

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

The Board of Directors and the Stockholders
Pilipinas Shell Petroleum 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 Pilipinas Shell Petroleum Corporation as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, included in this Form 17-A and have issued our report thereon dated March 25, 2021. 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 Financial Statements and 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.

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MAR 26 2021
EXCISE LT REGULATORY DIVISION

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
Accreditation No. 85501-SEC (Group A)
Valid to cover audit of 2020 to 2024
financial statements of SEC covered institutions
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-060-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534388, January 4, 2021, Makati City

March 25, 2021

**SECURITIES AND EXCHANGE COMMISSION**
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City, 1307

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

The management of **Pilipinas Shell Petroleum Corporation** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year ended **31 December 2020**, 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.

Note: The Chairman of the Board is presently holding office at Singapore. Due to health risks brought about by the pandemic, consularization of the document is not recommended at this time. The consularized version or the notarized version when he arrives at the Philippines, as applicable, will be submitted to the SEC at the earliest opportunity.

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

Signed this 25th day of March 2021

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Pilipinas Shell Petroleum Corporation
41st Floor, The Finance Center
26th Street corner 9th Avenue
Bonifacio Global City
1635 Taguig City, Philippines

Tel. +632 3499 4001
Website http://www.pilipinas.shell.com.ph

**Cesar G. Romero**
*President and Chief Executive Officer*

**Reynaldo P. Abilo**
*Chief Financial Officer*

Signed this 25th day of March 2021

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26th Street corner 9th Avenue
Bonifacio Global City
1635 Taguig City, Philippines

Tel. +632 3499 4001
Website http://www.pilipinas.shell.com.ph

**SUBSCRIBED AND SWORN** to before me this MAR 25 2021 in Taguig City, affiant/s exhibiting to me the following Community Tax Certificate and/or Competent Evidence of Identification:

| Name | Competent Evidence of Identification | | |
|---|---|---|---|
| | Passport Number | Date of Issue | Place of Issue |
| **CESAR G. ROMERO** | P4197953A | 29th August 2017 | DFA MANILA |
| **REYNALDO P. ABILO** | P3936087A | 5th August 2017 | DFA CALASIAO |

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

VINCENT C. JUAN
NOTARY PUBLIC
ROII NO. 61889
TAGUIG CITY, PHILIPPINES

**ATTY. VINCENT C. JUAN**
NOTARY PUBLIC FOR & IN TAGUIG CITY
UNTIL DEC. 31 2021/ APPOINTMENT NO. 51 (2020-2021)
PTR NO. A-5113227; TAGUIG CITY; 20 JANUARY 2021
ROLL NO. 61889 / IBP NO. 110511, EASTERN MINDANAO-DAVAO DE NORTE CHAPTER
MCLE COMPLIANCE NO. VI-0029070 / 18 OCTOBER 2019
41ST FLOOR, THE FINANCE CENTER, 26TH STREET CORNER 9TH AVENUE, BGC, TAGUIG CITY

Doc No. 344;
Page No. 69;
Book No. II;
Series of 2021.

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# COVER SHEET
for
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 4 | 8 | 2 | 9 | | | | | | |

**COMPANY NAME**

PILIPINAS SHELL PETROLEUM
CORPORATION

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

41ST FLOOR, THE FINANCE CENTER
26TH STREET CORNER 9TH AVENUE,
BONIFACIO GLOBAL CITY, BRGY.
FORT BONIFACIO, TAGUIG CITY,
METRO MANILA, 1635

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AFS | SEC | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| https://pilipinas.shell.com.ph | (632) 3 4994001 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 321 | 05/11 | 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 | Rey.Abilo@shell.com | (632) 3 4994001 | N/A |

**CONTACT PERSON's ADDRESS**

41st Floor, The Finance Center, 26th Street corner 9th 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.*

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**Pilipinas Shell Petroleum Corporation**

**Financial Statements**
**For the years ended December 31, 2020 and 2019**

**Pilipinas Shell Petroleum Corporation**

**CONTENTS**

**PILIPINAS SHELL PETROLEUM CORPORATION**
**STATEMENTS OF FINANCIAL POSITION**
As at December 31, 2020
(All amounts in thousands Philippine peso, except par value per share)

| | Note | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 3 | 6,290,505 | 4,778,877 |
| Trade and other receivables, net | 4 | 11,732,615 | 15,767,566 |
| Inventories, net | 5 | 10,016,402 | 25,422,717 |
| Prepayments and other current assets | 6 | 1,863,121 | 1,500,241 |
| **Total Current Assets** | | **29,902,643** | **47,469,401** |
| **Noncurrent Assets** | | | |
| Long term receivables, rentals and investments, net | 7 | 5,605,240 | 4,622,849 |
| Property, plant and equipment, net | 8 | 23,134,977 | 30,925,797 |
| Right to use assets, net | 9 | 14,507,495 | 12,649,096 |
| Deferred tax assets, net | 10 | 6,102,753 | - |
| Other assets, net | 11 | 7,297,081 | 7,252,325 |
| **Total Noncurrent Assets** | | **56,647,546** | **55,450,067** |
| **TOTAL ASSETS** | | **86,550,189** | **102,919,468** |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | 20,377,235 | 29,684,153 |
| Short term loans | 13 | 13,000,000 | 9,752,000 |
| Dividends payable | | 17,074 | 17,054 |
| **Total Current Liabilities** | | **33,394,309** | **39,453,207** |
| **Noncurrent Liabilities** | | | |
| Long-term debt | 14 | 9,000,000 | 9,000,000 |
| Lease liabilities | 9 | 13,018,762 | 10,477,414 |
| Deferred tax liabilities, net | 10 | - | 1,000,115 |
| Provisions and other liabilities | 15 | 7,505,247 | 3,160,418 |
| **Total Noncurrent Liabilities** | | **29,524,009** | **23,637,947** |
| **Equity** | | | |
| Share capital - P1 par value | 16 | 1,681,058 | 1,681,058 |
| Share premium | | 26,161,736 | 26,161,736 |
| Treasury shares | 16 | (507,106) | (507,106) |
| Retained earnings (accumulated loss) | 17 | (4,304,059) | 11,937,980 |
| Other reserves | 11, 25 | 600,242 | 554,646 |
| **Total Equity** | | **23,631,871** | **39,828,314** |
| **TOTAL LIABILITIES AND EQUITY** | | **86,550,189** | **102,919,468** |

*See accompanying Notes to Financial Statements.*

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**PILIPINAS SHELL PETROLEUM CORPORATION**
**STATEMENTS OF INCOME**
For the year ended December 31, 2020
(All amounts in thousands Philippine peso, except earnings per share)

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **NET SALES** | | | | |
| Sale of goods | 30.21 | 162,022,652 | 224,288,584 | 223,817,699 |
| Sales discounts and rebates | | (5,070,809) | (5,885,630) | (4,949,023) |
| | | **156,951,843** | **218,402,954** | **218,868,676** |
| **COSTS AND EXPENSES (INCOME)** | | | | |
| Cost of sales | 19 | 153,291,201 | 194,952,649 | 196,573,873 |
| Selling expenses | 20 | 11,206,025 | 12,132,582 | 11,644,884 |
| General and administrative expenses | 20 | 2,516,753 | 2,316,041 | 2,741,716 |
| Impairment losses | 23 | 11,124,473 | - | - |
| Other operating income, net | 21 | (177,773) | (388,440) | (583,862) |
| | | **177,960,679** | **209,012,832** | **210,376,611** |
| **INCOME (LOSS) FROM OPERATIONS** | | **(21,008,836)** | **9,390,122** | **8,492,065** |
| **OTHER INCOME (CHARGES)** | | | | |
| Finance income | 22 | 280,077 | 511,707 | 45,117 |
| Finance expense | 22 | (2,299,443) | (1,880,632) | (1,245,034) |
| | | (2,019,366) | (1,368,925) | (1,199,917) |
| **INCOME (LOSS) BEFORE INCOME TAX** | | (23,028,202) | 8,021,197 | 7,292,148 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | 10 | (6,845,529) | 2,400,042 | 2,215,822 |
| **NET INCOME (LOSS)** | | (16,182,673) | 5,621,155 | 5,076,326 |
| **EARNINGS PER SHARE - BASIC AND DILUTED** | 18 | (10.03) | 3.48 | 3.15 |

*See accompanying Notes to Financial Statements.*

**PILIPINAS SHELL PETROLEUM CORPORATION**
**STATEMENTS OF COMPREHENSIVE INCOME**
For the year ended December 31, 2020
(All amounts in thousands Philippine peso)

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **NET INCOME (LOSS)** | | (16,182,673) | 5,621,155 | 5,076,326 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| *Items not to be reclassified to income or loss in subsequent periods:* | | | | |
| Remeasurement gain (loss) on retirement benefits, net of tax | 25 | (59,366) | 140,291 | 1,592 |
| Increase (decrease) in fair value of equity through OCI financial assets, net of tax | 11 | (2,860) | 57,263 | 93,298 |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS)** | | (62,226) | 197,554 | 94,890 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | (16,244,899) | 5,818,709 | 5,171,216 |

*See accompanying Notes to Financial Statements.*

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# PILIPINAS SHELL PETROLEUM CORPORATION
## STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018
(All amounts in thousands Philippine peso)

| | Share Capital (Note 16) | Share premium (Note 16) | Treasury shares (Note 16) | Retained Earnings (Note 17) | Other Reserves Share-based Reserve (Note 25) | Other Reserves Fair value Reserve (Note11) | Total |
|---|---|---|---|---|---|---|---|
| **At January 1, 2018** | **1,681,058** | **26,161,736** | **(507,106)** | **14,339,453** | **138,200** | **322,047** | **42,135,388** |
| Income for the year | - | - | - | 5,076,326 | - | - | 5,076,326 |
| Impact of adoption of PFRS 9 | - | - | - | (49,370) | - | - | (49,370) |
| Increase in fair value of equity through OCI (net of tax amounting to P74,562) | - | - | - | - | - | 93,298 | 93,298 |
| Remeasurement gain on retirement benefits (net of tax amounting to P682) | - | - | - | 1,592 | - | - | 1,592 |
| Total comprehensive income | - | - | - | 5,028,548 | - | 93,298 | 5,121,846 |
| ***Transactions with owners*** | | | | | | | |
| Share-based compensation | - | - | - | - | 7,680 | - | 7,680 |
| Cash dividends | - | - | - | (8,293,103) | - | - | (8,293,103) |
| Total transactions with owners for the year | - | - | - | (8,293,103) | 7,680 | - | (8,285,423) |
| **Balances at December 31, 2018** | **1,681,058** | **26,161,736** | **(507,106)** | **11,074,898** | **145,880** | **415,345** | **38,971,811** |

| | Share Capital (Note 16) | Share premium | Treasury shares (Note 16) | Retained Earnings (Note 17) | Other Reserves Share-based Reserve (Note 25) | Other Reserves Fair value Reserve (Note11) | Total |
|---|---|---|---|---|---|---|---|
| **Balances at January 1, 2019** | **1,681,058** | **26,161,736** | **(507,106)** | **11,074,898** | **145,880** | **415,345** | **38,971,811** |
| Income for the year | - | - | - | 5,621,155 | - | - | 5,621,155 |
| PFRS 16 deferred tax transition adjustment | - | - | - | (58,031) | - | - | (58,031) |
| Increase in fair value of equity through OCI (net of tax amounting to P10,137) | - | - | - | - | - | 57,263 | 57,263 |
| Remeasurement gain on retirement benefits (net of tax amounting to P60,124) | - | - | - | 140,291 | - | - | 140,291 |
| Total comprehensive income | - | - | - | 5,703,415 | - | 57,263 | 5,760,678 |
| ***Transactions with owners*** | | | | | | | |
| Share-based compensation | - | - | - | - | (63,842) | - | (63,842) |
| Cash dividends | - | - | - | (4,840,333) | - | - | (4,840,333) |
| Total transactions with owners for the year | - | - | - | (4,840,333) | (63,842) | - | (4,904,175) |
| **Balances at December 31, 2019** | **1,681,058** | **26,161,736** | **(507,106)** | **11,937,980** | **82,038** | **472,608** | **39,828,314** |

| | Share capital (Note 16) | Share premium | Treasury shares (Note 16) | Retained Earnings (Note 17) | Other Reserves Share-based Reserve (Note 25) | Other Reserves Fair value Reserve (Note11) | Total |
|---|---|---|---|---|---|---|---|
| **Balances at January 1, 2020** | **1,681,058** | **26,161,736** | **(507,106)** | **11,937,980** | **82,038** | **472,608** | **39,828,314** |
| Loss for the year | - | - | - | (16,182,673) | - | - | (16,182,673) |
| Increase in fair value of equity through OCI (net of tax amounting to P289) | - | - | - | - | - | (2,860) | (2,860) |
| Remeasurement loss on retirement benefits (net of tax amounting to P25,445) | - | - | - | (59,366) | - | - | (59,366) |
| Total comprehensive income (loss) | - | - | - | (16,242,039) | - | (2,860) | (16,244,899) |
| ***Transactions with owners*** | | | | | | | |
| Share-based compensation | - | - | - | - | 48,456 | - | 48,456 |
| Total transactions with owners for the year | - | - | - | - | 48,456 | - | 48,456 |
| **Balances at December 31, 2020** | **1,681,058** | **26,161,736** | **(507,106)** | **(4,304,059)** | **130,494** | **469,748** | **23,631,871** |

*See accompanying Notes to Financial Statements.*

## PILIPINAS SHELL PETROLEUM CORPORATION
### STATEMENTS OF CASH FLOWS
**For the year ended December 31, 2020**
(All amounts in thousands Philippine peso)

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (loss) before income tax | | (23,028,202) | 8,021,197 | 7,292,148 |
| *Adjustments for:* | | | | |
| Depreciation and amortization expense | 8, 9, 11 | 4,241,241 | 4,361,760 | 1,957,576 |
| Amortization of prepaid lease payments | | 204,308 | 1,569,461 | 1,675,750 |
| Interest and finance charges | 22 | 2,227,886 | 1,803,128 | 634,114 |
| Pension income | 25 | (94,632) | (246,038) | (106,509) |
| Accretion expense | 22 | 63,342 | 67,804 | 110,388 |
| Share-based compensation | 25 | 131,002 | 123,287 | 129,648 |
| Loss (gain) on disposal of property and equipment | 21 | 55,618 | 9,797 | (36,230) |
| Write-off of assets | | 769 | 165,977 | - |
| Interest income | 22 | (5,710) | (1,564) | (5,551) |
| Unrealized mark to market (gain) loss, net | 21 | (18,209) | (33,859) | 258,264 |
| Impairment of assets | 23 | 11,124,473 | - | - |
| Unrealized foreign exchange gain, net | 22 | (46,203) | (83,432) | (39,566) |
| Share in profit of associates | 21 | (80,485) | (10,405) | (54,197) |
| Reversals of provisions for ARO and remediation | 15 | (65,723) | (5,064) | (12,750) |
| Provision (reversal of) for legal case, net | 15, 21 | 1,267 | 34,197 | (20,956) |
| Operating income before working capital changes | | (5,289,258) | 15,776,246 | 11,782,129 |
| Net increase in inventories, trade and other receivables, prepayments and other assets | | 17,698,507 | (10,255,155) | (229,607) |
| Net increase in trade and other payables and provisions and other liabilities | | (6,331,037) | 1,471,438 | 3,148,828 |
| Cash generated from operations | | 6,078,212 | 6,992,529 | 14,701,350 |
| Income tax paid | | - | - | 482,649 |
| Pension contributions paid | 25 | 132,691 | 95,374 | 75,127 |
| Net cash flows from operating activities | | 5,945,521 | 6,897,155 | 14,143,574 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to property and equipment | | (4,038,582) | (4,728,020) | (3,942,808) |
| Increase in long term receivables and rentals,net | | - | (233,418) | (533,184) |
| Dividend received | | 69,833 | 54,716 | 44,882 |
| Proceeds from sale of property, plant and equipment | | 1,496 | 1,887 | 134,046 |
| Interest received | 22 | 5,710 | 1,564 | 5,551 |
| Net cash flows used in investing activities | | (3,961,543) | (4,903,271) | (4,291,513) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Net proceeds from (settlements of) short-term borrowings | | 3,248,000 | 6,491,000 | (796,000) |
| Repayment of long term loan | | - | - | (11,000,000) |
| Drawdown of long term loan | | - | - | 9,000,000 |
| Cash dividends paid | | - | (4,838,901) | (8,293,103) |
| Interest and finance charges paid | | (678,616) | (887,941) | (630,779) |
| Principal elements of lease payments | | (3,041,721) | (2,434,304) | - |
| Net cash flows used in financing activities | | (472,337) | (1,670,146) | (11,719,882) |
| **NET INCREASE (DECREASE) IN CASH** | | 1,511,641 | 323,738 | (1,867,821) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | | (13) | 15 | 159,684 |
| **CASH AT BEGINNING OF YEAR** | 3 | 4,778,877 | 4,455,124 | 6,163,261 |
| **CASH AT END OF YEAR** | **3** | 6,290,505 | 4,778,877 | 4,455,124 |

*See accompanying Notes to Financial Statements.*

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## 1. Corporate information

Pilipinas Shell Petroleum Corporation (the "Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on 09 January 1959 primarily to engage in the refining and marketing of petroleum products. On 05 December 2008, the SEC approved the extension of the corporate term of the Company for another fifty (50) years from 09 January 2009 to 08 January 2059.

Prior to its initial public offering ("IPO"), the Company is 68% owned by Shell Overseas Investments BV ("SOIBV"), a corporation registered under the laws of the Netherlands and 32% owned by Filipino and other foreign shareholders. The ultimate parent of the Company is Royal Dutch Shell plc. ("RDS"), incorporated in the United Kingdom. The Company conducted its IPO to list in 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. After the IPO, SOIBV owns 55% of the total outstanding shares of the Company. The Company used the net proceeds from the Primary Offer to fund capital expenditure, working capital and general corporate expenses. Net proceeds amounted to P1.36 billion (USD 0.03 billion). The IPO proceeds have been fully utilized as at 31 December 2017.

On 20 February 2019, the President of the Philippines signed into law the Republic Act No. 11232 or the Revised Corporation Code of the Philippines (Revised Code). The Revised Code expressly repeals Batas Pambansa Blg. 68 or the Corporation Code of the Philippines. Section 11 of the Revised Code states that a corporation shall have perpetual existence unless the articles of incorporation provides otherwise. Corporations with certificates of incorporation issued prior to the effectivity of this Revised Code, and which continue to exist, shall have perpetual existence, unless the corporation, upon vote of its stockholders representing a majority of its outstanding capital stock, notifies the SEC that it elects to retain its specific corporate term pursuant to its articles of incorporation: Provided, that any change in the corporate term under this section is without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of this Revised Code. The Revised Code took effect on 23 February 2019.

Certain operations of the Company is registered with the Board of Investments (BOI) and entitled to Income Tax Holiday (ITH) provided under Republic Act 8479, otherwise known as the Downstream Oil Deregulation Act of 1998 (see Note 29). The same has been surrendered on 6 August 2020 pursuant to the Company's decision to convert its Refinery to world-class import terminal.

The Company's principal place of business, was previously located at Shell House, 156 Valero Street, Salcedo Village, Makati City.

## 1. Corporate information (continued)

Starting 2019, 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. During the Annual Stockholders' Meeting of the Corporation on 03 May 2018, the stockholders of the Corporation have approved the amendment of its Articles of Incorporation to change its Principal Office. The Company has obtained the requisite endorsement of the Department of Energy and approval of the Securities and Exchange Commission on 25 September 2018 and 25 January 2019, respectively.

The Company owns an oil refinery in Tabangao, Batangas (operated until 13 August 2020) and various oil depots and installations all over the Philippines. The Company has 606 regular employees as at 31 December 2020 (31 December 2019 -681).

The COVID-19 pandemic has disrupted business operations across the globe with impositions of lockdowns nationwide causing restrictions in mobility. Pilipinas Shell puts top priority on the health and safety of its people, customers and the community, along with the safe operations of all its businesses.

The Company continued to serve its customers and front liners through its retail stations and the unhampered delivery of products to its commercial customers despite mobility restrictions implemented by the government starting March 2020. All sites follow and implement strict safety and health protocols. Partnerships with delivery companies were leveraged on to deliver products to selected parts of the country. Various tactics were also initiated to reach the customers and provide key products and services needed during the pandemic. Furthermore, the Company continues to benefit from its integrated supply chain and the support from the Shell Group to respond to the drastic changes in demand brought about by the COVID-19 pandemic.

The Company on 13 August 2020, after completing an in-depth and comprehensive study, announced its decision to cease the refinery operations and convert the facility into a world-class import terminal. The Company had to make this difficult decision to minimize the impact of depressed regional refining margins and its exposure to volatile crude prices. This decision will help optimize the Company's asset portfolio and enhance its cost and supply chain competitiveness.

The Company incurred a cumulative loss amounting to P4.3 billion as at 31 December 2020 and reported a cumulative profit amounting to P11.9 billion as at 31 December 2019, which resulted total equity amounting to P23.6 and P39.8 billion as at 31 December 2020 and 31 December 2019, respectively. The Company's current liabilities exceeded its current assets by P3.5 billion as at 31 December 2020 while the Company is in net current asset position of P8.0 billion as at 31 December 2019.

## 1. Corporate information (continued)

Earnings in 2020 are not reflective of the performance of the Company's core business due to one-off items on impairment and provisions related to refinery conversion. The Company's cash flow from operations remained strong for the financial year 2019 (P6.9 billion) and 2020 (P5.9 billion). The cash balance at the beginning of 2020 was at P4.8 billion which supported the operations during the COVID-19 pandemic. The Company's strong cash flow from operations in 2020 was due to strong performance from marketing businesses and various strategies employed by the Company. The Company continues to satisfy its loan covenants and has over P60 billion untapped credit lines.

After considering the Company's financial position and principal risks as at 31 December 2020, the financial statements have been prepared under the going concern assumption, based on a detailed review by the management on the Company's cash-flow forecasts in comparison with committed facilities. The Company has delivered on its recovery plans that will help improve earnings, including cash generating strategies and cost control measures. The Company expects demand to increase and strong recovery in earnings in 2021 as the economy revives post the pandemic.Furthermore, the conversion of the refinery to an import terminal significantly reduces the Company's operating and capital expenditure and its exposure to volatile crude oil prices and refining margins. To further build financial resiliency, the Company implemented a cash governance framework as early as the first quarter of 2020 and cash preservation initiatives that include reduction in operating expenses and capital expenditures.

The financial statements have been authorized for issue by the Company's Board of Directors on 25 March 2021 upon endorsement by the Board Audit and Risk Oversight Committee on 23 March 2021.

## 2. Operating segments

The Company solely operates under the downstream oil and gas segment. The Company's integrated downstream operations span all aspects of the downstream product supply chain, from importing crude oil and its refining, to importing and distributing refined products to its customers across the Philippines. The products it sells include gasoline, diesel, heating oil, aviation fuel, marine fuel, lubricants and bitumen.

## 3. Cash

The account as at 31 December 2020 and 2019 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. Universal and commercial banks represent the largest single group, resource-wise, of financial institutions in the country.

| | 2020 | 2019 |
|---|---|---|
| Universal bank | 5,417,473 | 3,640,929 |
| Commercial bank | 873,032 | 1,137,948 |
| | 6,290,505 | 4,778,877 |

## 4. Trade and other receivables, net

| | Note | 2020 | 2019 |
|---|---|---|---|
| Trade receivables | | | |
| Third parties | | 8,175,941 | 11,246,826 |
| Related parties | 24 | 911,107 | 1,318,369 |
| Provision for impairment of trade receivables from third parties | | (336,472) | (252,621) |
| | | 8,750,576 | 12,312,574 |
| Non-trade receivables from related parties | 24 | 79,910 | 277,129 |
| Other receivables | | | |
| Creditable withholding tax | | 449,425 | 623,092 |
| Duty drawback and other claims | | 1,993,225 | 1,387,271 |
| Non-trade receivables from third party | | 275,774 | 359,578 |
| Miscellaneous | | 223,591 | 856,311 |
| Provision for impairment of other receivables | | (39,886) | (48,389) |
| | | 2,902,129 | 3,177,863 |
| | | 11,732,615 | 15,767,566 |

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

The gross carrying amounts of the Company's trade, non-trade and other receivables are denominated in the following currencies:

| | 2020 | 2019 |
|---|---|---|
| Philippine peso | 11,389,632 | 14,479,011 |
| US dollar | 702,741 | 1,568,114 |
| Other currencies | 16,600 | 21,450 |
| | 12,108,973 | 16,068,575 |

The Company holds collaterals for trade receivables from third parties as at 31 December 2020 valued at P4.2 billion (31 December 2019 - P1.2 billion) consisting of cash securities, letters of credit or bank guarantees and Real Estate Mortgages (REM). These securities can be applied once the related customer defaults on settlement of the Company's receivables based on agreed credit terms. The maximum exposure of the Company is P4.6 billion as at 31 December 2020 (2019 - P11.4 billion) (see Note 31.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 approximated their fair value.

## 4. Trade and other receivables, net (continued)

a) Past due receivables but not impaired

The aging of past due but not impaired trade receivables from third parties as at December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Less than 30 days | 186,812 | 244,736 |
| 31 - 60 days | 141,528 | 134,933 |
| 61 - 90 days | 62,412 | 58,307 |
| Greater than 90 days | 255,030 | 157,481 |
| | 645,782 | 595,457 |

These balances relate to a number of independent customers with whom there is no recent history of default.

(b) Impaired receivables

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 2019 | 185,107 | 35,590 | 220,697 |
| Provisions | 83,487 | 12,799 | 96,286 |
| Write-off | (15,973) | - | (15,973) |
| At 31 December 2019 | 252,621 | 48,389 | 301,010 |
| Provisions (reversals) | 92,546 | - | 92,546 |
| Write-off | (8,695) | (8,503) | (17,198) |
| At 31 December 2020 | 336,472 | 39,886 | 376,358 |

For the year ended 31 December 2020, trade receivables written off directly to statement of income amounted to P33.9 million (2019 - P15.8 million and 2018 - P8.2 million) based on the Company's assessment of recoverability.

(c) Neither past due nor impaired

The credit quality of trade receivables from third parties that are neither past due nor impaired that are fully recoverable has been assessed by reference to historical information about counterparty default rates:

## 4. Trade and other receivables, net (continued)

| Trade receivables (counterparties with internal credit rating) | 2020 | 2019 |
|---|---|---|
| A | 775,563 | 1,141,113 |
| B | 1,050,128 | 1,915,455 |
| C | 2,052,863 | 5,582,695 |
| D | 3,315,133 | 1,759,485 |
| Total trade receivables | 7,193,687 | 10,398,748 |

A - Customers with strong financial performance and with low probability of default.

B - Customers with good financial strength but with some elements of risk in one or more financial or non-financial inputs.

C - Customers with low credit risk and balance is secured with post-dated checks and other collateral.

D - Customers with a medium risk of default, however, concerned group of customers have been historically able to faithfully settle their balances. The receivables are deemed performing hence impairment provision is not necessary.

Trade and non-trade receivables from related parties are within the due date. The remaining balances within trade and other receivables do not contain past due and impaired amounts.

There are no receivables that are either past due or impaired that have been renegotiated as of 31 December 2020 and 2019.

## 5. Inventories, net

| | 2020 | 2019 |
|---|---|---|
| Crude oil and finished products | 9,854,709 | 25,170,506 |
| Materials and supplies | 161,693 | 252,211 |
| | 10,016,402 | 25,422,717 |

Pursuant to the cessation of refining operations, the Company has sold the remaining crude oil in the refinery during the year 2020. As at 31 December 2020, the Company does not hold crude oil stock.

## 5. Inventories, net (continued)

Details of allowance for inventory write-down and obsolescence as at 31 December 2020 and 2019 are as follow:

| | Crude oil and finished products | Materials and supplies | Total |
|---|---|---|---|
| At 01 January 2019 | 152,656 | - | 152,656 |
| Provisions, net | 10,994 | - | 10,994 |
| At 31 December 2019 | 163,650 | - | 163,650 |
| Write-off | (582,275) | - | (582,275) |
| Provisions, net | 487,594 | 106,000 | 593,594 |
| As at 31 December 2020 | 68,969 | 106,000 | 174,969 |

The allowance for inventory resulting from the write-down of crude and finished products to net realizable value amounted to P51.6 million as at 31 December 2020 (2019 - P136.3 million and 2018 - 124.5 million) and the allowance for obsolescence of finished products amounted to P17.3 million as at 31 December 2020 (2019 - P27.4 million and 2018 - P28.2 million). The crude oil stock was written-off by P582.3 million (2019 - Nil).

Of the total amount of inventories, the inventories with a cost of P243.9 million as at 31 December 2020 (2019 - P4,283.6 million) are carried at net realizable value, this being lower than cost which approximates the inventories fair value less cost to sell.

Cost of inventories included as part of cost of sales amounted to P113.3 billion for the year ended 31 December 2020 (2019 - P158.3 billion and 2018 - P169.8 billion) (see Note 19).

## 6. Prepayments and other current assets

| | 2020 | 2019 |
|---|---|---|
| Input VAT net of output VAT (a) | 5,676 | 192,587 |
| Prepaid specific tax (b) | 37,037 | 756,806 |
| Prepaid corporate income taxes (c) | 1,469,116 | 226,863 |
| Advance rentals | 251,651 | 153,997 |
| Derivative financial assets (d) | 20,392 | 3,715 |
| Prepaid duties and taxes | 3,887 | 5,438 |
| Others | 75,362 | 160,835 |
| | 1,863,121 | 1,500,241 |

## 6. Prepayments and other current assets (continued)

(a) 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.

(b) Prepaid specific tax

These are excise tax deposits made to the Bureau of Internal Revenue (BIR) and utilized upon removal of taxable products from the refinery.

(c) 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.

(d) Derivative financial assets

The Company enters into commodity forward contracts to hedge the commodity price risks arising from its crude oil and other oil products requirements. As at 31 December 2020, the notional principal amount of the outstanding commodity forward contracts amounted to P1.2 billion (2019 - P0.5 billion). As at 31 December 2020, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P20.4 million (2019 - P3.7 million).

During the year, the Company realized a loss of P461.9 million (2019 - loss of P35.4 million and 2018 - gain of P169.6 million ) from mark-to-market settlement of derivatives which was recognized in other operating income, net in the statements of income (see Note 21).

For the year ended 31 December 2020, net fair value changes of the outstanding commodity forward contracts amounting to a gain of P18.2 million (2019 - gain of P33.9 million; 2018 - loss of P258.3 million) was recognized in other operating income, net in the statements of income (see Note 21).

## 7. Long-term receivables, rentals and investments, net

| | 2020 | 2019 |
|---|---|---|
| Advance rentals | 137,253 | 135,798 |
| Customer grants (b) | 61,469 | 36,783 |
| Investments in associates (c) | 41,184 | 30,532 |
| | 239,906 | 203,113 |
| Long term receivables (a) | 5,635,067 | 4,828,278 |
| Provision for impairment of long-term receivables | (269,733) | (408,542) |
| | 5,365,334 | 4,419,736 |
| | 5,605,240 | 4,622,849 |

## 7. Long-term receivables, rentals and investments, net (continued)

(a) Long-term receivables

Long-term receivables include claims from government agencies amounting to P5.5 billion and P4.7 billion as at 31 December 2020 and 2019, respectively, representing the amount to be recovered from the government on various taxes paid. Further included in this P5.5 billion claims from government is P1.1 billion of excise duties and VAT paid under protest for certain Alkylate shipments (see Note 28(b)).

As at 31 December 2020, allowance for impairment amounted to P269.7 million (31 December 2019 - P408.5 million).

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

| | 2020 | 2019 |
|---|---|---|
| At 01 January | 408,542 | 408,992 |
| Reversal | - | (450) |
| Write-off | (138,809) | - |
| At 31 December | 269,733 | 408,542 |

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The carrying amount of long-term receivables approximate their fair value (see Note 31.3).

(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 31.3)

## 7. Long-term receivables, rentals and investments, net (continued)

(c) Investments in associates

| | 2020 | 2019 |
|---|---|---|
| Cost | 23,073 | 23,073 |

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

| | Interest | Assets | Liabilities | Net Assets | Income | Share of profit |
|---|---|---|---|---|---|---|
| 2020 | | | | | | |
| Bonifacio Gas Corporation | 44% | 219,902 | 144,055 | 75,847 | 72,341 | 31,570 |
| Kamayan Realty Corporation | 40% | 26,786 | 6,574 | 20,212 | 5,952 | 2,381 |
| 2019 | | | | | | |
| Bonifacio Gas Corporation | 44% | 337,796 | 283,555 | 54,241 | 165,815 | 72,362 |
| Kamayan Realty Corporation | 40% | 23,116 | 5,783 | 17,333 | 6,126 | 2,450 |
| 2018 | | | | | | |
| Bonifacio Gas Corporation | 44% | 275,151 | 104,946 | 170,205 | 124,066 | 54,589 |
| Kamayan Realty Corporation | 40% | 21,808 | 4,757 | 17,051 | 5,856 | 2,342 |

Bonifacio Gas Corporation is an entity engaged in wholesale distribution of LPG and was established to operate a centralized gas distribution system within Bonifacio Global City. Kamayan Realty Corporation is an entity engaged in leasing and selling of real properties in the Philippines.

There are no contingent liabilities relating to the Company's interest in the associates.

## 8. Property, plant and equipment

Property, plant and equipment as at 31 December 2020 and 2019 and the movements in the accounts for the year consist of:

| | Notes | Leasehold improvements | Plant, Machinery and equipment | Furniture and fixtures | Transportation | Asset retirement obligation | Assets under construction (AUC) | Total |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| At 01 January 2019 | | 20,921,887 | 34,102,681 | 1,903,412 | 158,062 | 1,538,097 | 4,744,511 | 63,368,650 |
| Acquisitions | | - | - | - | - | - | 5,438,636 | 5,438,636 |
| Disposals/write-off | | (241,275) | (204,205) | - | (46,314) | - | (27,026) | (518,820) |
| Transfers | 11, 9 | 1,863,388 | 1,189,880 | 573,684 | - | (1,538,097) | (3,680,088) | (1,591,233) |
| At 31 December 2019 | | 22,544,000 | 35,088,356 | 2,477,096 | 111,748 | - | 6,476,033 | 66,697,233 |
| Acquisitions | | - | - | - | - | - | 2,932,467 | 2,932,467 |
| Disposals/write-off | | (303,788) | (197,014) | (3,163) | (14,277) | - | - | (518,242) |
| Impairment | 23 | - | - | - | - | - | (2,513,842) | (2,513,842) |
| Transfers | | 1,744,283 | 1,930,376 | 322,709 | 1,694 | - | (3,999,062) | - |
| At 31 December 2020 | | 23,984,495 | 36,821,718 | 2,796,642 | 99,165 | - | 2,895,596 | 66,597,616 |
| Accumulated depreciation and amortization | | | | | | | | |
| At 01 January 2019 | | (10,435,892) | (22,705,728) | (882,048) | (149,725) | (1,066,542) | - | (35,239,935) |
| Depreciation and amortization | 19, 20 | (723,105) | (1,135,073) | (79,555) | (4,194) | - | - | (1,941,927) |
| Disposals | 9 | 164,602 | 132,968 | - | 46,314 | 1,066,542 | - | 1,410,426 |
| At 31 December 2019 | | (10,994,395) | (23,707,833) | (961,603) | (107,605) | - | - | (35,771,436) |
| Depreciation and amortization | 19, 20 | (790,503) | (978,560) | (153,563) | (2,313) | - | - | (1,924,939) |
| Impairment | 23 | (62,751) | (4,958,592) | (1,207,930) | - | - | - | (6,229,273) |
| Disposals/write-off | | 266,276 | 179,293 | 3,163 | 14,277 | - | - | 463,009 |
| At 31 December 2020 | | (11,581,373) | (29,465,692) | (2,319,933) | (95,641) | - | - | (43,462,639) |
| Net book values | | | | | | | | |
| At 31 December 2019 | | 11,549,605 | 11,380,523 | 1,515,493 | 4,143 | - | 6,476,033 | 30,925,797 |
| At 31 December 2020 | | 12,403,122 | 7,356,026 | 476,709 | 3,524 | - | 2,895,596 | 23,134,977 |

## 8. Property, plant and equipment (continued)

Assets under construction represent cost of ongoing capital projects in retail, commercial and refinery business.

## 9. 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 50 years, while others generally have a lease terms between 2 and 5 years. The Company's obligation under its leases are secured by the lessor's title to the leased assets. There are several lease contracts that include extension and termination options, which are further discussed below:

There are no leases with lease terms of less than or equal to 12 months and low value assets for the year 2020.

a) Right to use assets

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

| | **Land and Buildings** | **Others*** | **ARO** | **Total** |
|---|---|---|---|---|
| At 1 January 2019 | 11,933,168 | 1,678,595 | - | 13,611,763 |
| Additions | 638,310 | 292,585 | 52,001 | 982,896 |
| Derecognition | - | - | (2,725) | (2,725) |
| Depreciation | (1,541,231) | (812,436) | (60,726) | (2,414,393) |
| Transfer from property, plant and equipment (Note 8) | - | - | 471,555 | 471,555 |
| At 31 December 2019 | 11,030,247 | 1,158,744 | 460,105 | 12,649,096 |
| Additions | 3,431,861 | 1,626,317 | 2,426,458 | 7,484,636 |
| Derecognition | (107,174) | (542,059) | (1,881) | (651,114) |
| Depreciation | (1,928,106) | (268,862) | (115,999) | (2,312,967) |
| Remeasurement | (274,481) | (112,087) | - | (386,568) |
| Impairment (Note 23) | - | - | (2,275,588) | (2,275,588) |
| At 31 December 2020 | 12,152,347 | 1,862,053 | 493,095 | 14,507,495 |

*Represents leases on vessels, pipelines and other assets.

## 9. Leases (continued)

b) Lease liabilities

Lease liabilities recognized and movement in the accounts for the year consist of:

| | 2020 | 2019 |
|---|---|---|
| Current Portion (Note 12) | 1,458,590 | 1,581,846 |
| Non-Current portion | 13,018,762 | 10,477,414 |
| | 14,477,352 | 12,059,260 |

| | 2020 | 2019 |
|---|---|---|
| Depreciation expense of right to use assets (Note 20) | (2,312,967) | (2,414,393) |
| Interest expense on lease liabilities (Note 22) | (1,339,438) | (921,319) |
| Total expenses recognized in profit or loss | (3,652,405) | (3,335,712) |

The Company's total cash outflows on leases amounts to P3.0 billion (2019 - P2.4 billion). The Company also has non cash additions to right to use assets and lease liabilities. There are no impact on future cash flows for leases that are yet to be commenced.

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. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

## 10. Provision for income tax; deferred tax assets (liabilities)

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

| | 2020 | 2019 |
|---|---|---|
| Deferred income tax assets (liabilities) | | |
| Asset retirement obligation | 1,157,304 | 420,811 |
| PFRS 16 Lease Liability accrual | 733,256 | 394,807 |
| Unamortized past service cost, net | 121,532 | 174,590 |
| Provision for doubtful debts | 189,458 | 208,495 |
| Provision for remediation costs | 81,719 | 88,266 |
| Provision for inventory losses | 244,099 | 66,018 |
| Share-based compensation | 36,658 | 22,122 |
| Mark to market gain | (5,984) | (521) |
| Retirement benefit asset | (1,948,131) | (1,905,376) |
| Prepaid duties and taxes | (707,732) | (595,203) |
| Unrealized foreign exchange gain | (131,021) | (117,160) |
| Other provisions | 1,709,912 | 243,036 |
| Impairment of property, plant and equipment | 2,557,570 | - |
| NOLCO | 1,850,522 | - |
| MCIT - Recognition | 213,591 | - |
| Net deferred income tax | 6,102,753 | (1,000,115) |

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

| | 2020 | 2019 |
|---|---|---|
| At 01 January | (1,000,115) | (693,574) |
| Credited/(charged) to profit and loss | 6,863,543 | (236,279) |
| Credited to other comprehensive income | 25,734 | (70,262) |
| MCIT | 213,591 | - |
| At 31 December | 6,102,753 | (1,000,115) |

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

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 2020 and 2019 are fully realizable.

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

NOLCO balances as on 31 December 2020

As of December 31, 2020, the Company has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

| Year Incurred | Availment Period | Amount | NOLCO Applied Previous Years | NOLCO Expired | NOLCO Applied Current Year | NOLCO Unapplied |
|---|---|---|---|---|---|---|
| 2020 | 2021-2025 | 6,168,406 | - | - | - | 6,168,406 |

MCIT balances as on 31 December 2020

| Year Incurred | Availment Period | Amount | MCIT Applied Previous Years | MCIT Expired | MCIT Applied Current Year | MCIT Unapplied |
|---|---|---|---|---|---|---|
| 2020 | 2021-2023 | 213,591 | - | - | - | 213,591 |

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

The Company availed the ITH benefit to arrive at the income tax liability as of 31 December 2019. During the year, the Company has surrendered its ITH grant on 6 August 2020 pursuant to the Company's decision to convert its Refinery into world-class import terminal.

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

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

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

The details of provision for income tax for the year ended 31 December 2020 , 2019, and 2018 are as follows:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current tax | 231,605 | 2,221,794 | 2,285,799 |
| Deferred tax | (7,077,134) | 178,248 | (69,977) |
| | (6,845,529) | 2,400,042 | 2,215,822 |

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:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Income tax at statutory rate of 30.0% | (6,908,461) | 2,406,359 | 2,187,644 |
| Income tax effect of: | | | |
| Adjustment to current tax from prior years | - | - | 55,843 |
| Non-deductible expense | 72,832 | 92,713 | 48,490 |
| Limitation on deductible interest expense | 522 | 84 | 61 |
| Interest income subject to final tax | (1,583) | (243) | (183) |
| Income subjected to 8% final tax | (2,703) | (9,117) | (7,367) |
| Non-taxable income | (24,150) | (109,799) | (53,781) |
| Movement of deferred tax | - | - | (39,806) |
| Provision for income tax before final taxes | (6,863,543) | 2,379,997 | 2,190,901 |
| Final taxes on interest and other charges | 18,014 | 20,045 | 24,921 |
| Provision for income tax at effective tax rate | (6,845,529) | 2,400,042 | 2,215,822 |

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

Ratification by Congress of the "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE" Bill

On February 3, 2021, the House of Representatives and the Senate have ratified the Bicameral Committee's version of the proposed CREATE bill, reconciling the conflicting provisions of Senate Bill No. 1357 and House Bill No. 4157.

The said act aims to:
• Improve the equity and efficiency of the corporate tax system by lowering the rate, widening the tax base, and reducing tax distortions and leakages;
• Develop, subject to the provisions of this Act, a more responsive and globally-competitive tax incentives regime that is performance-based, targeted, time-bound, and transparent;
• Provide support to businesses in their recovery from unforeseen events such as an outbreak of communicable diseases or a global pandemic and strengthen the nation's capability for similar circumstances in the future; and
• Create a more equitable tax incentive system that will allow for inclusive growth and generation of jobs and opportunities in all the regions of the country and ensure access and ease in the grant of these incentives especially for applicants in least developed areas.

The ratified version of the bill will be submitted to the President for his approval and upon receipt of the bill, the President may do any of the following:
• Sign the enrolled bill without vetoing any line or item therein;
• Sign the enrolled bill with line or item veto which veto may be overridden by Congress; or
• Inaction within 30 days from receipt which would result to the automatic approval of the enrolled bill as it is.

Once the ratified bill is signed into law, it is set to take effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation.

The provisions of the bill that will have an impact to the Company are the reduction of RCIT rate starting 01 July 2020 from 30% to 25% and the reduction of MCIT rate from 01 July 2020 to 30 June 2023 from 2% to 1%.

If enacted into law, the 25% RCIT rate and 1% MCIT rate will be applied to the net taxable income and gross income that will decrease the provision for income tax of the Company.

## 11. Other assets, net

| | Note | 2020 | 2019 |
|---|---|---|---|
| Pension asset | 25 | 6,584,298 | 6,441,783 |
| Equity through OCI (a) | | 580,958 | 584,107 |
| Deferred input VAT (b) | | 130,464 | 123,013 |
| Intangible assets (c) | | 1,361 | 103,422 |
| | | 7,297,081 | 7,252,325 |

(a) Equity through OCI

Equity through Other Comprehensive Income (Equity through OCI) financial assets mainly represent equity securities and proprietary club shares which are carried at fair value in 2020 (see Note 31.3). Details of the account as at 31 December 2020 and for 2019 are as follow:

| | 2020 | 2019 |
|---|---|---|
| Cost | | |
| As at 01 January | 26,800 | 26,800 |
| As at 31 December | 26,800 | 26,800 |
| Fair value adjustments recognized directly in OCI | | |
| Balance at the beginning | 557,307 | 489,907 |
| Changes during the year | (3,149) | 67,400 |
| | 554,158 | 557,307 |
| Balance at the end | 580,958 | 584,107 |
| Non Current portion | 580,958 | 584,107 |

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

(b) Deferred input VAT

Deferred input VAT will be recovered more than 12 months from the reporting date. Hence, the same is presented as non-current asset as at 31 December 2020 and 2019.

## 11. Other assets, net (continued)

(c) Intangible assets

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

| | Note | 2020 | 2019 |
|---|---|---|---|
| Cost | | | |
| At 01 January | | 1,003,459 | 950,323 |
| Reclassifications from AUC | 8 | - | 53,136 |
| Additions | | 7,044 | - |
| Disposal | | (2,880) | - |
| At 31 December | | 1,007,623 | 1,003,459 |
| Accumulated amortization | | | |
| At 01 January | | (900,037) | (894,597) |
| Amortization for the year | 19, 20 | (3,335) | (5,440) |
| Impairment of Intangible assets | | (105,770) | - |
| Disposal | | 2,880 | - |
| At 31 December | | (1,006,262) | (900,037) |
| Net book value | | 1,361 | 103,422 |

## 12. Trade and other payables

| | Note | 2020 | 2019 |
|---|---|---|---|
| Trade payables | | | |
| Third parties | | 7,152,253 | 6,595,947 |
| Related parties | 24 | 6,592,795 | 15,800,160 |
| | | 13,745,048 | 22,396,107 |
| Non-trade payables from related parties | 24 | 402,446 | 473,463 |
| Lease liabilities | 9 | 1,458,590 | 1,581,846 |
| Project-related costs and advances | | 1,364,371 | 2,593,866 |
| Provision for remediation (b) | | 805,867 | 179,184 |
| Rent and utilities | | 436,207 | 305,242 |
| Advertising and promotions | | 326,700 | 340,556 |
| Employee benefits | | 287,381 | 450,909 |
| Duties and taxes | | 271,762 | 158,180 |
| Supply and distribution | | 48,084 | 218,860 |
| Derivatives (a) | | 447 | 1,979 |
| Others (c) | | 1,230,332 | 983,961 |
| | | 20,377,235 | 29,684,153 |

(a) As at 31 December 2020, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P0.45 million (2019 - P2.0 million).

(b) Provision for remediation and demolition include the current portion of asset retirement obligation of P647.6 million towards decommissioning and restoration for Tabangao refinery and others P10.7 million (31 December 2019 - nil and P12.3 million) and various other accruals.

(c) Others include the provisions related to accrual of interest on short term borrowings amounting to P227.9 million (2019 - P7.2 million) and IT related cost P0.26 million (31 December 2019 - P0.48 million) and various other accruals.

### 13. Short-term loans

As at 31 December 2020, unsecured short-term loan amounted to P13,000.0 million with tenure ranging from 211 to 360 days. The loans are intended solely for working capital requirements and corporate expenses.

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

The average interest rate on local borrowings for the year 31 December 2020 was 3.68% (2019 - 4.81% and 2018 - 3.60%). Total interest expense charged to operations for the year ended 31 December 2020 arising from short-term loans amounted to P636.6 million (2019 - P397.6 million and 2018 - P234.1 million) (see Note 22).

### 14. Long-term debt

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

| 2020 | 2019 | Interest | Terms |
|---|---|---|---|
| 9,000,000 | 9,000,000 | 1.70% as at 31st December 2020 effective until next re-pricing | Payable after sixty (60) months reckoned from the drawdown date on 08 March 2018. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months. |
| 9,000,000 | 9,000,000 | | |

Total interest expense charged to operations for the year ended 31 December 2020 arising from these loans amounted to P251.9 million (2019 - P475.5 million and 2018 - P400.0 million) (see Note 22).

There are no borrowings related to acquisition, construction or production of a qualifying asset in 2020 and 2019. The borrowings are intended solely for general corporate expenses.

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.

## 14. Long-term debt (continued)

- 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 also Note 31.1.c for the maturity analysis of these loans.

## 15. Provisions and other liabilities

| | 2020 | 2019 |
|---|---|---|
| Asset retirement obligation (ARO) (a) | 3,674,244 | 1,832,255 |
| Cash security deposits | 290,472 | 280,058 |
| Provision for legal cases (b) | 274,510 | 273,242 |
| Provision for remediation (c) | 65,345 | 65,345 |
| Other liabilities (d) | 3,200,676 | 709,518 |
| | 7,505,247 | 3,160,418 |

(a) Asset retirement obligation

Movements in the provision for asset retirement obligation as follows:

| | Note | 2020 | 2019 |
|---|---|---|---|
| At 01 January | | 1,832,255 | 1,738,315 |
| Additions | 9 | 1,844,370 | 52,001 |
| Accretions | 22 | 63,342 | 66,792 |
| Reversals | | (65,723) | (5,064) |
| Transferred to short term | | - | (19,789) |
| At 31 December | | 3,674,244 | 1,832,255 |

## 15. Provisions and other liabilities (continued)

Asset retirement obligation includes provision for decommissioning and demolition of Tabangao oil refinery assets amounting to P1,627.4 million (2019 - Nil). Current portion of provision for decommissioning and demolition amounting to P647.6 million is recognized under trade and other payables (see Note 12).

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 2025. 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 2020 was 2.99% (2019: nil).

The Company believes there are no reasonably possible changes in any of the above key assumptions that would cause a material change in liability provided. Related impairment losses amounting to P2.28 billion is recognised under impairment losses (see Note 23).

Other asset retirement obligation represents the future estimated dismantling costs of various assets used in retail, depot and commercial operations. Average remaining life of the related assets is 7 years as at 31 December 2020 (2019 - 7 years). These are stated at present value at 31 December 2020 using a range of discount rates from 3.36 % to 3.49% (2019 - 3.8% to 4.0 %).

(b) Provision for legal cases

The account represents provisions arising from disputes/legal matters in the ordinary course of business. The Company has recorded provisions for tax and legal items relating to the regular operations of the Company. Movements in the provision for legal case as follows:

| | 2020 | 2019 |
|---|---|---|
| At 01 January | 273,243 | 239,046 |
| Provisions | 1,267 | 34,197 |
| At 31 December | 274,510 | 273,243 |

(c) Provision for remediation

Movements in the provision for remediation as follows:

| | Note | 2020 | 2019 |
|---|---|---|---|
| At 01 January | | 65,345 | 69,977 |
| Accretion | 22 | - | 1,012 |
| Transferred to short term | | - | (5,644) |
| At 31 December | | 65,345 | 65,345 |

## 15. Provisions and other liabilities (continued)

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 2020 at 3.36 % to 3.49% (2019 - 3.8% to 4.0 %).

(d) Other liabilities

In 2020, provisions for contracts that have become onerous due to cessation of refining operations amounting to P4.81 billion (2019 - nil). Current portion of onerous provisions amounting to P2.26 billion (2019 - nil) is recognized under trade and other payables (see note 12).

Other liabilities also include provisions for payments to be made to customers, employees and business partners have also been considered.

## 16. Share capital; Treasury shares

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

| | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount |
| Authorized capital stock, common shares at P1 par value per share | 2.5 billion | 2,500,000 | 2.5 billion | 2,500,000 | 2.5 billion | 2,500,000 |
| Issued shares | 1,681,058,291 | 1,681,058 | 1,681,058,291 | 1,681,058 | 1,681,058,291 | 1,681,058 |
| Treasury shares | (67,614,089) | (507,106) | (67,614,089) | (507,106) | (67,614,089) | (507,106) |
| Issued and outstanding shares | 1,613,444,202 | 1,173,952 | 1,613,444,202 | 1,173,952 | 1,613,444,202 | 1,173,952 |

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

## 17. Retained earnings (accumulated loss)

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Unappropriated retained earnings (loss), unadjusted | (6,775,853) | 9,406,819 | 8,625,997 |
| Remeasurement gain on retirement benefits, net of tax closed to retained earnings | 2,529,825 | 2,589,192 | 2,448,901 |
| PFRS 16 Deferred tax | (58,031) | (58,031) | - |
| Unappropriated retained earnings (loss), adjusted | (4,304,059) | 11,937,980 | 11,074,898 |

## 17. Retained earnings (continued)

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

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

Cash dividends declared in 2019 and 2018:

| Declared | Date Paid | Per share | 2019 | 2018 |
|---|---|---|---|---|
| 14 March 2018 | 19 April 2018 | 5.14 | - | 8,293,103 |
| 5 April 2019 | 30 April 2019 | 3.00 | 4,840,333 | - |
| | | | 4,840,333 | 8,293,103 |

As at 31 December 2020, 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.

## 18. Earnings per Share

Computation of earnings per share (EPS) for the years ended 31 December are as follows:

| | Notes | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Earnings available to stockholders: | | | | |
| Profit (Loss) for the year | | (16,182,673) | 5,621,155 | 5,076,326 |
| Weighted average number of Shares | | 1,681,058,291 | 1,681,058,291 | 1,681,058,291 |
| Treasury shares | 16 | (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 | | (10.03) | 3.48 | 3.15 |

As at 31 December 2020, 2019 and 2018, the Company does not have any potentially dilutive shares of stocks.

## 19. Cost of Sales

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Crude and product costs | 5 | 113,288,033 | 158,313,494 | 169,840,584 |
| Duties and specific tax | | 31,130,557 | 30,938,353 | 20,095,032 |
| Manufacturing expenses | | 5,956,264 | 1,811,037 | 1,947,346 |
| Logistics and transshipment | | 1,119,965 | 1,629,007 | 2,205,995 |
| Freight and wharfage | | 683,981 | 952,448 | 1,130,441 |
| Salaries and other employee benefits | | 671,990 | 666,155 | 698,636 |
| Depreciation and amortization | 8, 11 | 440,411 | 642,155 | 655,839 |
| | | 153,291,201 | 194,952,649 | 196,573,873 |

The more significant components of manufacturing expenses consist of repairs made to manufacturing units, professional services, onerous provisions and other costs.

## 20. Selling, general and administrative expenses

The components of selling, general and administrative expenses for the years ended 31 December are as follows:

| | Selling expenses | | | General and administrative expenses | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Outside services | 2,601,071 | 2,157,712 | 2,128,350 | 608,128 | 640,946 | 666,366 |
| Depreciation on right to use assets | 2,207,791 | 2,342,758 | - | 105,176 | 71,635 | - |
| Logistics, storage and handling | 1,732,820 | 2,154,523 | 2,535,168 | - | - | - |
| Depreciation and amortization (Notes 8 and 11) | 1,365,367 | 1,281,582 | 1,295,370 | 122,496 | 23,630 | 6,367 |
| Compensation and employee benefits | 1,210,312 | 1,139,354 | 1,209,833 | 707,998 | 536,639 | 580,252 |
| Repairs and maintenance | 602,242 | 1,379,314 | 1,252,856 | - | 17,882 | 26,947 |
| Advertising and promotions | 545,223 | 757,128 | 935,623 | 144,619 | 164,425 | 131,066 |
| Rentals | 134,291 | 162,636 | 1,630,311 | 25,859 | 28,654 | 457,322 |
| Communication and utilities | 115,666 | 113,591 | 79,345 | 361,947 | 388,362 | 350,843 |
| Write-off/Impairment (reversal) of receivables (Notes 4 and 7) | 108,266 | 95,792 | (41,935) | 949 | - | (30) |
| Travel and transportation | 20,557 | 155,882 | 245,105 | 15,256 | 45,680 | 54,917 |
| Insurance | 4,071 | - | - | 63,214 | 59,872 | 61,262 |
| Miscellaneous | 558,348 | 392,310 | 374,858 | 361,111 | 338,316 | 406,404 |
| | 11,206,025 | 12,132,582 | 11,644,884 | 2,516,753 | 2,316,041 | 2,741,716 |

## 21. Other operating (income)/expense

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Retailer fee, rental income and franchise commission | | (493,935) | (661,775) | (559,134) |
| Realized trading loss/(gain), net | 6 | 461,916 | 35,397 | (169,606) |
| Royalties | | (119,136) | (162,858) | (145,529) |
| Loss (gain) on disposal of property and equipment | | 55,619 | 9,797 | (36,230) |
| Environmental service cost | | 51,680 | 143,308 | 31,546 |
| Commissions | | 20,631 | 61,020 | 58,672 |
| Unrealized mark-to-market (gain) loss, net | 6 | (18,209) | (33,859) | 258,264 |
| Provision for legal cases | 15 | 1,267 | 34,197 | - |
| Write-off of assets | | 769 | 163,252 | - |
| Others, net* | | (138,375) | 23,081 | (21,845) |
| | | (177,773) | (388,440) | (583,862) |

*Others include share of profits from associates and others.

## 22. Finance income/(expense)

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Finance Income | | | | |
| Unrealized foreign exchange gain, net | | 46,203 | 83,432 | 39,566 |
| Realized foreign exchange gain, net | | 228,164 | 426,711 | - |
| Interest income | 3 | 5,710 | 1,564 | 5,551 |
| | | 280,077 | 511,707 | 45,117 |
| Finance expense | | | | |
| Interest on debts and borrowings | 13, 14 | (888,448) | (881,809) | (634,114) |
| Interest expense on lease liability | 9 | (1,339,438) | (921,319) | - |
| Realized foreign exchange loss, net | | - | - | (493,183) |
| Accretion expenses | 15 | (63,342) | (67,804) | (110,388) |
| Bank Charges | | (8,215) | (9,700) | (7,349) |
| | | (2,299,443) | (1,880,632) | (1,245,034) |

## 23. Impairment Losses

| | Notes | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Property plant and equipment - oil refinery assets | 8, 11 | 8,848,885 | - | - |
| Right to use assets - ARO | 9, 12, 15 | 2,275,588 | - | - |
| | | 11,124,473 | - | - |

## 23. Impairment Losses (continued)

During the year, 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 will further strengthen the Company’s financial resilience amidst the significant changes and challenges in the global refining industry.

In assessing whether an impairment is required, the carrying value of the oil 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 Management has identified the fair value of the assets amounting to P360.18 million based on current market estimates.

The fair value is included at 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.

## 24. 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 2020 are presented in the table below.

## 24. Related party disclosures (continued)

### (a) Entities under common shareholdings

| | Note | Transactions | Receivables (Payables) | Terms and conditions |
|---|---|---|---|---|
| Purchases of goods and services (i) | 12 | 66,262,630 | (6,737,260) | 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 (iii) | 9 | 328,547 | (3,181) | 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 | 9,897,396 | 911,107 | 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) | | 1,210,088 | - | Payable balances are to be settled in cash within 30days from month end. |
| Admin billings (v) | | | | |
| Charges to the Company | 12 | 1,582,304 | (203,773) | 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 | 4 | 482,911 | 79,910 | |
| Contributions to the plan | 25 | 132,691 | - | Contributions to the plan and investing transactions of the plan are approved by the Retirement Plan Board of Trustees. |

### (b) Parent company

| | Note | Transactions | Payable | Terms |
|---|---|---|---|---|
| Dividends declared | 17 | | - | Dividends are usually paid in cash within 12 months from reporting date. |

### (c) Key management personnel

| Category/ Transaction | Note | Transactions | Balances | Terms |
|---|---|---|---|---|
| Current | | | | |
| Salaries and other short-term employee benefits | | 90,063,551 | - | |
| Non-Current | | | | The terms and arrangements of these non-current employee benefits are summarized in the related notes. |
| Post-employment benefits | 25 | 6,103,792 | - | |
| Share-based compensation | | 28,396,303 | - | |

## 24. Related party disclosures (continued)

(d) Entities with common director

The Company has a long-term loan from Bank of Philippines (BPI) amounting to P9.0 billion as at 31st December 2020 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 2019 and 2018 are presented in the table below. The terms and arrangements presented for 2020 also apply to the transactions and balances for 2019 and 2018.

(a) Entities under common shareholdings

| | Note | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | Transactions | Receivables (Payables) | Transactions | Receivables (payables) |
| Purchases of goods and services | 12 | 130,038,302 | (16,100,004) | 131,847,894 | (12,098,377) |
| Leases | 4, 12 | 388,772 | - | 233,761 | (13,964) |
| Sales | 4 | 6,012,660 | 1,318,369 | 6,677,749 | 685,969 |
| Royalty fee (iv) | | 1,209,786 | - | 1,313,515 | - |
| Admin billings (v) | | | | | |
| Charges to the Company | 12 | 2,055,591 | (173,619) | 807,704 | (35,131) |
| Charges by the Company | 4 | 812,328 | 277,129 | 666,118 | 171,325 |
| Pension | 25 | | - | - | - |
| Contributions to the plan | | 95,374 | - | 75,127 | - |

(b) Parent company

| | Note | 2019 Transactions | 2019 Payable | 2018 Transactions | 2018 Payable |
|---|---|---|---|---|---|
| Dividends declared | 16 | 2,672,581 | - | 4,579,022 | - |

(c) Key management personnel

| | Note | 2019 Transactions | 2019 Balances | 2018 Transactions | 2018 Balances |
|---|---|---|---|---|---|
| Current | | | | | |
| Salaries and other short-term employee benefits | | 123,243,110 | - | 132,277 | - |
| Non-Current | 25 | | | | |
| Post-employment benefits | | 6,502,540 | - | 7,220 | - |
| Share-based compensation | | 29,346,310 | - | 29,640 | - |

## 24. Related party disclosures (continued)

i. The Company purchases crude and other oil products from Shell International Eastern Trading Co. (SIETCO), an entity under common shareholdings. The Company's crude purchases are being processed through its refinery in Batangas. Cost of gross purchases for year ended December 2020 amounted to P63.53 billion (2019 - P125.7 billion and 2018 - P124.9 billion). As at 31 December 2020, balances payable to SIETCO amounted to P6.16 billion (2019 - P15.3 billion and 2018 - P11 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. These agreements shall remain in full force until terminated by either party by giving the other party not less than 12 months prior written notice to that effect. Cost of the services charged to operations amounted to P1.14 billion during the year ended 31 December 2020 (2019 - P1.39 billion and 2018 - P1.2 billion). As at 31 December 2020, balances payable to SIPC amounted to P16.4 million (2019 - P10.3 million and 2018 - P35 million).

iii. The Company leases land from Tabangao Realty, Inc. (TRI), for several depots and retail sites located around the country. Lease term ranges from 3 to 50 years and is renewable, thereafter. Rent expense charged to operations amounted to P328.5 million for the year ended 31 December 2020 (2019 - P388.8 million and 2018 - P233.8 million). As at 31 December 2020, outstanding payable amounted to P3.2 million (outstanding payable of 2019 - nil and outstanding payable of 2018 - P14.0 million).

iv. On 01 January 2020, 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 0.77% to 9.57% depending on class of business, subject to a minimum royalty amount. This agreement can be terminated by either party without any penalty.

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 six common members between its Board of Directors and Board of Trust of Pilipinas Shell Foundation Inc. The Company has contributed towards donations and program recovery expenses amounting to P111.45 million (2019 - P43.58 million). The outstanding payable balances as at 31 December 2020 is P54.21 million (2019 - P20.05 million).

## 25. Employee benefits

Retirement plan

The Company has two separate and distinct retirement plans for the benefit of its regular employees. The assets of the plans are maintained by a trustee bank. The plans provided for payment of benefits in lump sum, upon attainment of the normal retirement age of 60, or upon retirement/separation at an earlier age.

The Company submitted an application to the BIR on 02 July 2012 for a revised retirement benefit plan with defined benefit for existing members and a new defined contribution provision for prospective members. This revised plan was approved by the BIR on 24 August 2015 and became effective on 01 September 2015.

Under the amended plan, the normal retirement eligibility at age 60 and Early Retirement Eligibility at age 50 were changed from 15 to 10 years of service. Alongside with this slightly improved benefit vesting schedule for early retirees and leavers, the life pension option was removed. Starting 01 September 2015, all new employees will be entitled to a new plan under a defined contribution arrangement with a 10% sponsor contribution. As at 31 December 2020 and 2019, the number of employees entitled to the defined contribution plan were 154 and 130, respectively.

Under the defined contribution plan, the employer then provides an additional contribution to the fund of 10% of the employees' monthly salary. Although the plan has a defined contribution format, the Company regularly monitors compliance with Republic Act (R.A.) 7641. As at 31 December 2020 and 2019, the Company is in compliance with the requirements of R.A.7641.

Based on the latest actuarial valuation report prepared by the independent actuary for the year ended 31 December 2020 and 2019, the principal assumptions were:

| | 2020 | 2019 |
|---|---|---|
| Discount rate | 3.70% | 5.00% |
| | Age 20-30: 17% | Age 20-30: 18% |
| | Age 31-40: 10% | Age 31-40: 10% |
| | Age 41-50: 7% | Age 41-50: 7% |
| Future salary increases | Age >50: 4% | Age >50: 5% |

Assumptions regarding future mortality experience are set based on published statistics and experience in each territory. The average age in years of a pensioner is 70 and the expected future service years is 16.

The overall investment policy and strategy of the retirement plan is based on the Board of Trustees' suitability assessment, as provided by its investment advisors, in compliance with Bangko Sentral ng Pilipinas requirements. The Company does not perform an asset-liability matching study. However, the retirement plan has a Risk and Audit Committee that performs quarterly review of risks relevant to running the retirement fund.

## 25. Employee benefits (continued)

The same committee prepares review highlights for presentation to the retirement plan Board of Trustees. Responsibility for governance of the retirement plan lies with the Board of Trustees.

The details of the pension expense and pension asset (obligation) for the year ended 31 December 2020 and 2019 are as follow:

| | 2020 Defined Benefit | 2020 Defined Contribution | 2020 Total | 2019 Defined Benefit | 2019 Defined Contribution | 2019 Total |
|---|---|---|---|---|---|---|
| Pension benefit expense (income) | (108,743) | 14,111 | (94,632) | (254,116) | 8,078 | (246,038) |
| Pension asset (obligation) | 6,590,133 | (5,838) | 6,584,295 | 6,444,687 | (2,904) | 6,441,783 |

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

| | 2020 Defined Benefit | 2020 Defined Contribution | 2020 Total | 2019 Defined Benefit | 2019 Defined Contribution | 2019 Total |
|---|---|---|---|---|---|---|
| Present value of defined benefit obligation | (4,292,508) | (46,370) | (4,338,878) | (4,090,264) | (27,880) | (4,118,144) |
| Fair value of plan assets | 10,882,641 | 40,532 | 10,923,173 | 10,534,951 | 24,976 | 10,559,927 |
| Pension asset (obligation) | 6,590,133 | (5,838) | 6,584,295 | 6,444,687 | (2,904) | 6,441,783 |

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

| | 2020 Defined Benefit | 2020 Defined Contribution | 2020 Total | 2019 Defined Benefit | 2019 Defined Contribution | 2019 Total |
|---|---|---|---|---|---|---|
| 01 January | 6,444,687 | (2,904) | 6,441,783 | 5,901,136 | (1,180) | 5,899,956 |
| Pension income (expense) | 108,743 | (14,111) | 94,632 | 254,116 | (8,078) | 246,038 |
| Actual contributions | 118,725 | 13,966 | 132,691 | 86,485 | 8,889 | 95,374 |
| Remeasurement gains (losses) | (82,022) | (2,789) | (84,811) | 202,950 | (2,535) | 200,415 |
| Balance at the period | 6,590,133 | (5,838) | 6,584,295 | 6,444,687 | (2,904) | 6,441,783 |

## 25. Employee benefits (continued)

Pension expense recognized in the statements of income for year ended 31 December is as follows (Note 20):

| | 2020 Defined Benefit | 2020 Defined Contribution | 2020 Total | 2019 Defined Benefit | 2019 Defined Contribution | 2019 Total |
|---|---|---|---|---|---|---|
| Current service cost | 235,628 | 13,966 | 249,594 | 180,637 | 8,323 | 188,960 |
| Net interest income | (363,631) | 145 | (363,486) | (434,753) | (245) | (434,998) |
| Settlement loss | 19,260 | - | 19,260 | - | - | - |
| | (108,743) | 14,111 | (94,632) | (254,116) | 8,078 | (246,038) |

Changes in the present value of the defined benefit obligation are as follow:

| | 2020 Defined Benefit | 2020 Defined Contribution | 2020 Total | 2019 Defined Benefit | 2019 Defined Contribution | 2019 Total |
|---|---|---|---|---|---|---|
| 01 January | 4,090,264 | 27,880 | 4,118,144 | 3,143,321 | 15,700 | 3,159,021 |
| Current service cost | 235,628 | 13,966 | 249,594 | 180,637 | 8,323 | 188,960 |
| Interest cost | 179,286 | 1,680 | 180,966 | 224,856 | 1,143 | 225,999 |
| Benefits paid | (367,119) | (3,220) | (370,339) | (436,215) | - | (436,215) |
| Transfer of employees from/to entities under common control | - | - | - | - | 151 | 151 |
| Demographic adjustments | - | - | - | 2,963 | 6 | 2,969 |
| Remeasurement (gains) losses from: | | | | | | |
| Changes in economic assumptions | 289,640 | 1,542 | 291,182 | 793,557 | 1,197 | 794,754 |
| Experience adjustments | (32,436) | 4,522 | (27,914) | 181,145 | 1,360 | 182,505 |
| Settlements | (102,755) | - | (102,755) | - | - | - |
| Balance at the period | 4,292,508 | 46,370 | 4,338,878 | 4,090,264 | 27,880 | 4,118,144 |

Changes in the fair value of the plan assets follow:

| | 2020 Defined Benefit | 2020 Defined Contribution | 2020 Total | 2019 Defined Benefit | 2019 Defined Contribution | 2019 Total |
|---|---|---|---|---|---|---|
| 01 January | 10,534,951 | 24,976 | 10,559,927 | 9,044,457 | 14,520 | 9,058,977 |
| Interest income | 542,917 | 1,535 | 544,452 | 659,609 | 1,387 | 660,996 |
| Contributions | 118,725 | 13,966 | 132,691 | 86,485 | 8,889 | 95,374 |
| Benefits paid | (367,119) | (3,220) | (370,339) | (436,214) | - | (436,214) |
| Transfer of employees from/to entities under common control | - | - | - | - | 151 | 151 |
| Settlements | (122,015) | - | (122,015) | - | - | - |
| Return on plan assets | 175,182 | 3,278 | 178,460 | 1,180,614 | 29 | 1,180,643 |
| Balance at the period | 10,882,641 | 40,535 | 10,923,176 | 10,534,951 | 24,976 | 10,559,927 |

## 25. Employee benefits (continued)

The carrying value of the plan assets as at the year ended 31 December 2020 and 2019 are equivalent to the fair values presented above and are comprised mainly of investments in equity securities, which account for 67% of total plan assets in 2020 (2019: 66%). Plan assets are comprised of:

| | 2020 Defined Benefit | 2020 Defined Contribution | 2020 Total | 2019 Defined Benefit | 2019 Defined Contribution | 2019 Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalent | 1,036,490 | 40,535 | 1,077,025 | 91,183 | 24,976 | 116,159 |
| Investments in debt securities: | | | | | | |
| Government bonds and securities | 1,778,293 | - | 1,778,293 | 1,877,769 | - | 1,877,769 |
| Corporate bonds | 33,862 | - | 33,862 | 61,177 | - | 61,177 |
| Unquoted equity instruments | 4,938,368 | - | 4,938,368 | 5,324,821 | - | 5,324,821 |
| Unit investment trust funds | 3,095,628 | - | 3,095,628 | 3,180,001 | - | 3,180,001 |
| Balance at the period | 10,882,641 | 40,535 | 10,923,176 | 10,534,951 | 24,976 | 10,559,927 |

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 risks. 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. 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. The largest proportion of assets is invested in unit investment trust funds.

Expected contribution to the plan in 2021 is P106.5 million for defined benefit plan and P15.9 million for defined contribution plan.

The expected undiscounted maturity benefit payments for the next 10 years as at 31 December are the following:

## 25. Employee benefits (continued)

| | 2020 Defined Benefit | 2020 Defined Contribution | 2020 Total | 2019 Defined Benefit | 2019 Defined Contribution | 2019 Total |
|---|---|---|---|---|---|---|
| Following year | 90,913 | 438 | 91,351 | 149,668 | 136 | 149,804 |
| Between 2 to 3 years | 376,504 | 2,472 | 378,976 | 445,316 | 1,302 | 446,618 |
| Between 3 to 5 years | 532,342 | 5,532 | 537,874 | 715,653 | 3,481 | 719,134 |
| Over 5 years | 1,348,479 | 26,844 | 1,375,323 | 1,741,440 | 20,746 | 1,762,186 |

Share-based compensation:

RDS operates a Performance Share Plan (PSP) covering all of its subsidiaries' employees who are not members of the Executive Committee. PSP for conditional shares are 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 RDS 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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Shares | Weighted average fair value (in U.S. Dollar) | Shares | Weighted average fair value (in U.S. Dollar) |
| Shares granted as at 01 January | 193,041 | 28.10 | 190,728 | 27.84 |
| Grants during the year | 69,725 | 21.00 | 68,700 | 25.40 |
| Shares delivered during the year | (61,976) | 20.40 | (60,627) | 31.06 |
| Cancelled/forfeited during the year | (8,445) | - | (5,760) | - |
| Shares granted as at 31 December | 192,345 | 23.17 | 193,041 | 28.10 |

The total share-based compensation recognized in the statements of income during the year amounted to P131.0 million (2019 - P123.3 million).

## 26. Lease, commitments and other arrangements

The Company's future minimum rental and other commitments related to leases as at 31 December 2020 and 31 December 2019 is as below:

| | 2020 | 2019 |
|---|---|---|
| Within one year | 2,408,240 | 2,443,973 |
| More than one year but not more than five years | 7,136,031 | 5,297,468 |
| Over five years | 9,928,032 | 10,029,288 |

## 27. Foreign currency denominated assets and liabilities

The Company's foreign currency assets and liabilities as at 31 December are as follows:

| Currency | Assets | Liabilities | Net foreign currency assets (liabilities) | Exchange Rate | Peso equivalent |
|---|---|---|---|---|---|
| 2020 | | | | | |
| US dollar | 33,324 | 145,627 | (112,303) | 48.02 | (5,392,790) |
| UK pound | 43 | 199 | (156) | 65.63 | (10,238) |
| Euro | 1,353 | 1,581 | (228) | 59.07 | (13,468) |
| Singapore dollar | - | 95 | (95) | 36.34 | (3,452) |
| Malaysian ringgit | 33 | | 33 | 11.96 | 395 |
| Australian dollar | - | 335 | (335) | 37.02 | (12,402) |
| Japanese yen | - | 224,742 | (224,742) | 0.47 | (105,629) |
| Chinese yuan | - | 18 | (18) | 7.34 | (132) |
| New Zealand dollar | - | 9 | (9) | 34.68 | (312) |
| | | | | | (5,538,028) |

## 27. Foreign currency denominated assets and liabilities (continued)

| Currency | Assets | Liabilities | Net foreign currency assets (liabilities) | Exchange Rate | Peso equivalent |
|---|---|---|---|---|---|
| 2019 | | | | | |
| US dollar | 53,672 | 332,320 | (278,648) | 50.65 | (14,113,521) |
| UK pound | 43 | 841 | (798) | 66.52 | (53,083) |
| Euro | 1,127 | 3,217 | (2,090) | 56.79 | (118,691) |
| Singapore dollar | - | 883 | (883) | 37.63 | (33,227) |
| Malaysian ringgit | 1,500 | 136 | 1,364 | 12.37 | 16,873 |
| Australian dollar | - | 440 | (440) | 35.48 | (15,611) |
| Japanese yen | - | 317,841 | (317,841) | 0.47 | (149,385) |
| Chinese yuan | - | 18 | (18) | 7.27 | (131) |
| New Zealand dollar | - | 176 | (176) | 34.05 | (5,993) |
| Indian rupee | - | 2,243 | (2,243) | 0.71 | (1,593) |
| Polish zloy | - | 135 | (135) | 13.34 | (1,801) |
| Pakistani rupee | - | 3,760 | (3,760) | 0.33 | (1,241) |
| | | | | | (14,477,404) |

| Currency | Assets | Liabilities | Net foreign currency assets (liabilities) | Exchange Rate | Peso equivalent |
|---|---|---|---|---|---|
| 2018 | | | | | |
| US dollar | (15,028) | 248,015 | (263,043) | 52.72 | (13,867,627) |
| UK pound | 43 | 342 | (299) | 66.73 | (19,952) |
| Euro | 855 | 1,513 | (658) | 60.31 | (39,684) |
| Singapore dollar | - | 323 | (323) | 38.47 | (12,426) |
| Australian dollar | - | 35 | (35) | 37.07 | (1,297) |
| Japanese yen | - | 356,895 | (356,895) | 0.48 | (171,310) |
| Chinese yuan | - | 108 | (108) | 7.68 | (829) |
| New Zealand dollar | - | 60 | (60) | 35.32 | (2,119) |
| | | | | | (14,115,244) |

## 28. Contingencies

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

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

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

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

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

## 28. 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 P7.35 billion and pay the excise tax and VAT on all incoming CCG and LCCG shipments.

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

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

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

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

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

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

### 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 P5.72 billion.

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

**Status:**
The Supreme Court consolidated the said petitions and the parties have filed their respective Comments. The Government and the Company filed their Reply on 22 January 2018 and 06 June 2018, respectively. On 6 March 2020, the Office of the Solicitor General filed a Motion for Early Resolution. The Company subsequently filed a motion for leave to file an opposition on 23 March 2020. Awaiting action by the Supreme Court. No change in status as of January 2021.

Management believes that provision should not be recognized as at 31 December 2020 and 31 December 2019 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.

## 28. Contingencies (continued)

***(b) Excise tax on Importations of Alkylate***

**Pilipinas Shell Petroleum Corporation vs. Commissioner of Internal Revenue et al.**
CTA Case No. 8535, Court of Tax Appeals, 2nd Division
Filed 24 August 2012

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

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

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

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

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

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

As disclosed in Note 7, the Company has excise duties and VAT paid under protest amounting to P1.1 billion for certain Alkylate shipments.

## 28. Contingencies (continued)

**Status:**

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

In the consolidated jurisdictional cases before the Supreme Court, the Office of the Solicitor General (OSG) filed a Motion to Lift TRO and for Immediate Resolution of the Consolidated Cases on 23 October 2020. PSPC filed its Comment/Opposition on 27 November 2020.

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

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

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

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

**Status:**
During the scheduled hearing on 19 November 2020, the Judge ruled upon defendant PSPC Formal Offer of Evidence dated 30 January 2020 and admitted in toto the evidence offered. Both parties manifested their intent to file a Memorandum. PSPC filed the Memorandum on 21 December 2020. Case is currently submitted for resolution.

## 28. Contingencies (continued)

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

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

(e) Other significant case

Case filed by the West Tower Condominium Corporation (WTCC)

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

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

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

On 26 September 2014, the Company asked the Court of Appeals to deny the motion for reconsideration filed by West Tower Condominium Corporation, et al. for lack of merit. In its resolution dated 11 December 2014, the Court of Appeals denied the motion for reconsideration filed by the West Tower Condominium Corporation, et al. West Tower Condominium Corporation, et al.'s filed with the Supreme Court the present petition dated 11 February 2015 seeking a review of the decision of the Court of Appeals. The Company has filed its Comment with Opposition dated 18 September 2015 asking the Supreme Court to dismiss the petition and to deny the application for a temporary restraining order. Awaiting Supreme Court's action. No change in status as of January 2021.

## 29. Deregulation Law

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

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

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

## 30. Summary of significant accounting policies

### 30.1. Basis of preparation

Basis of Preparation:

The accompanying financial statements have been prepared on a historical cost basis, except for equity through OCI, derivatives and retirement assets that are measured at fair value. The financial statements are presented in Philippine peso, the functional and presentation currency of the Company. All amounts are rounded off to the nearest thousand peso unit unless otherwise indicated.

Statement of Compliance:

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

Changes in Accounting Policies and Disclosures:

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to previously issued PAS and PFRS which were adopted as at 01 January 2020.

• Amendments to PFRS 3, Business Combinations, Definition of a Business

• Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material

• Conceptual Framework for Financial Reporting issued on March 29, 2018

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

30.1. Basis of preparation (continued)

Changes in Accounting Policies and Disclosures: (continued)

• Amendments to PFRS 16, COVID-19-related Rent Concessions

• Amendments to PFRS 7, Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform

Standards Issued But Not Yet Effective

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

*Effective beginning on or after January 1, 2021*

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

*Effective beginning on or after January 1, 2022*

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

*Effective beginning on or after January 1, 2023*

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

*Deferred effectivity*

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

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

### 30.2. 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.

### 30.3. Financial Instruments

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 OCI, and fair value through profit or loss.

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.

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 - Subsequent Measurement

i. Financial assets at amortized cost

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;

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

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in statement of income when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes trade and other receivables.

ii. 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 income 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 (see note 11).

The Company elected to classify irrevocably its equity investments under this category.

iii. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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 income. Dividends on listed equity investments are also recognized as other income in the statement of income when the right of payment has been established.

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

Included in this category are the Company's derivative financial assets (see Note 6).

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39. 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 presented as part of other operating income in the statement of income.

Financial instruments may be designated as at FVPL on initial recognition when any of the following criteria is met:

The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis (accounting mismatch); or the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Included in this category are the Company’s derivative financial assets (see Note 6).

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established probability of default rates for third party trade receivables based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company applies the historical credit loss method in case undue cost or effort is involved in calculating the ECL by considering the forward-looking factors. For inter-group trade receivables, the Company has established probability of default rates based on internal credit rating of the customers. Internal credit ratings are based on methodologies adopted by independent credit rating agencies. Therefore, the internal ratings already consider forward looking information.

The Company considers a financial asset to be in default when contractual payments are 180 days past due. However, Company considers internal or external information when there are indicators that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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.

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

Financial liabilities - Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of income.

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Company as at fair value through profit or loss upon initial recognition.

i. Financial liabilities at fair value through profit or loss

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

A financial liability is designated as financial liability at fair value through profit or loss upon initial recognition if: such designation significantly reduces measurement or recognition inconsistency that would otherwise arise; the financial liability forms group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about its grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives requiring separation, and PAS 39 permits the entire combined contract (asset or liability) to be designated as FVPL.

Included in this category are the Company's derivative financial liabilities under trade and other payables account in the statement of financial position.

ii. 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.

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

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.

Financial liabilities - Derecognition

A financial liability is derecognized when the obligation under the liability has been discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties. As at 31 December 2020 and 2019, there are no financial assets and financial liabilities that were offset.

Derivative financial instruments

The Company uses derivatives in the management of interest rate risk, 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.

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.

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

### 30.4. 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.

### 30.5. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in first-out (FIFO) method for crude oil and finished products, materials and supplies. Cost of products sold 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, less the estimated cost of completion, 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.

Crude oil and finished 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.

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

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

### 30.6. Prepayments and other current assets (continued)

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 2020 and 2019, 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 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.

### 30.7. 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

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

### 30.7. Taxes (continued)

**Deferred tax (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.

### 30.8. Property, plant and equipment

Property 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.

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

### 30.8. 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:

| | |
|---|---|
| Leasehold improvements | 5 to 40 or term of lease, whichever is shorter |
| Furniture and fixtures | 5 to 20 |
| Machinery 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.

ARO is amortized on a straight-line basis over the estimated life of the related assets or lease term (in case of leased assets) whichever is shorter.

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.

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

### 30.9. 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 11).

### 30.10. Leases

The Company has applied PFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under PAS 17 and IFRIC 4. The details of accounting policies under PAS 17 and IFRIC 4 are disclosed separately.

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.

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

**30.10.** Leases (continued)

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. For accounting policies refer Note 30.8.

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.

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.

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

**30.10.** Leases (continued)

Right to use assets are presented separately in the statement of financial position. Expenses related to leases previously classified as operating leases are presented under Selling, distribution and administrative expenses in 2020 and 2019. Payments related to leases previously classified as operating 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 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 is 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.

30.11. Investments in associates and joint arrangements

Associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Investments in associates are accounted for using equity method. Under this method, the investment is carried at cost, increased or decreased by the equity in the net earnings or losses of the investee since the date of acquisition. Dividends received, if any, are treated as reduction in the carrying value of the investment.

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

### 30.11. Investment in associates and joint ventures (continued)

Joint Arrangements

A joint arrangement is an arrangement of which the Company has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor.

Joint operations are accounted for by recognizing the Company's own or its share of assets, liabilities, revenue and expenses in the arrangement.

### 30.12. 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 excise duties claims 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 (see Note 21).

### 30.13. Accounts payable and accrued expenses

Accounts payable and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

### 30.14. Borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the maturity value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. All other borrowing costs are recognized and charged to operations in the year in which they are incurred.

### 30.15. 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.

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.

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

### 30.16. 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.

### 30.17. Share capital

Common shares are classified as equity. Share premium is recognized for the excess proceeds of subscriptions over the par value of the shares issued, net of transaction costs.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax.

Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's equity holders.

### 30.18. Dividends distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

### 30.19. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Company and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has no dilutive potential common shares.

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

### 30.20. 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 22).

### 30.21. 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.

i) Sale of goods

Revenue from sales of oil and gas 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.

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.

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

30.21. Revenue and expense recognition (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).

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.

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

30.21. Revenue and expense recognition (continued)

| | 2020 | 2019 |
|---|---|---|
| Performance obligations satisfied | 24,434 | 23,743 |

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Contract liabilities included in trade and other payables and in provisions and other liabilities | 665,437 | 558,643 |

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.

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 measured 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.

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

30.21. Revenue and expense recognition (continued)

Sale of oil and gas products

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.

Sales of oil and gas products are recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer, 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.

30.22. 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.

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

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

### 30.22. Employee benefits (continued)

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 that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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 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 our other comprehensive income.

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

### 30.22. Employee benefits (continued)

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

RDS 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 RDS 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.

### 30.23. Related parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities under common shareholdings, which includes entities that are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

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

**30.23.** Related parties (continued)

The Company, in its regular conduct of business, enters into transactions with related parties, which consists of sales and purchase transactions, leases and management and administrative service agreements. Transactions with related parties are on an arm's length basis similar to transactions with third parties.

30.24. 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.

30.25. Events after statement of financial position date

On 13 August 2020, the Company had announced its decision to convert its oil refinery into a world-class import terminal. An impairment loss amounting to P8,848.9 million is recognized for the oil refinery assets. The Company has identified a potential buyer after the reporting date to sell these assets upon completion of decommissioning activities and the sale is expected to be completed within a period of twenty four months.

## 31. Financial risk management

31.1 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 crude oil and refined products will adversely affect the value of the Company's assets, liabilities or expected future cash flows.

### 31. Financial risk management (continued)

a) Market risk (continued)

i) Foreign exchange risk

The Company operates internationally and is exposed to foreign currency exchange risk arising from currency fluctuations, primarily with respect to the importations of crude and finished products denominated in US dollar. Foreign currency exchange risk may also arise from future commercial transactions and recognized assets and liabilities denominated in a currency other than the Company's functional currency.

Foreign exchange currency risks are not hedged and the Company does not enter into significant derivative contracts to manage foreign currency risks. Since foreign currency exposure is significantly concentrated on purchase of crude, the Company manages foreign currency risk by planning the timing of its importation settlements with related parties and considering the forecast of foreign exchange rates.

As at 31 December 2020, 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 P187.9 million (2019 -P493.9 million) lower/higher, as a result of foreign exchange gains/losses on translation of US dollar-denominated receivables and payables as at 31 December 2020 and 2019.

Management considers that there are no significant foreign exchange risks with respect to other currencies disclosed in Note 27.

ii) Cash flow and fair value interest rate risk

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

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

The Company's interest-rate risk arises from its borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest-rate risk. As at 31 December 2020 and 2019, the Company's short-term borrowings and loans payable carry floating rates based on a certain index plus applicable premium.

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

For the year ended 31 December 2020, 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 P154 million (2019 - P65 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.

## 31. Financial risk management (continued)

a) Market risk (continued)

iii) Commodity and other price risks

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

The Company is not significantly exposed to price risk on equity securities and proprietary club shares as investments held by the Company classified in the statement of financial position as 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.

## 31. Financial risk management (continued)

b) Credit risk (continued)
There is no concentration of credit risks as at statement of financial position dates as the Company deals with a large number of homogenous trade customers. Additional information is presented in Note 4.

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 2020 and 2019, the Company has the following :

| | Note | Gross amounts before offset | Amount offset | Net Amounts as presented | Credit Enhancement | Net Amount |
|---|---|---|---|---|---|---|
| 2020 | | | | | | |
| Financial Assets: | | | | | | |
| Receivables | 4 | 8,830,486 | - | 8,830,486 | 4,206,465 | 4,624,021 |
| 2019 | | | | | | |
| Financial Assets: | | | | | | |
| Receivables | 4 | 12,589,703 | - | 12,589,703 | 1,237,171 | 11,352,532 |

The gross carrying amount of the receivables and ECL in Stage 1 with 12-month ECL as at 31 December 2020 is P93.4 million and nil. The gross carrying amount of the receivables and ECL in Stage 2 with lifetime ECL as at 31 December 2020 is P1,006.4 million and P22 million. The gross carrying amount of the receivables and ECL in Stage 3 with lifetime ECL as at 31 December 2020 is P129.0 million and P17.8 million. The gross carrying amount of the receivables and ECL in simplified approach with lifetime ECL as at 31 December 2020 is P8,175.9 million and P336.5 million.

The expected credit loss in the current year is not significantly impacted by the changes in the macroeconomic environment and the COVID-19 pandemic.

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.

## 31. Financial risk management (continued)

c) Liquidity risk (continued)

| | Note | 0-90 days | 91-180 days | 181 days - 1 year | Over 1 year | Total |
|---|---|---|---|---|---|---|
| 2020 | | | | | | |
| Short-term borrowings-Principal | 13 | 3,000,000 | - | 10,000,000 | - | 13,000,000 |
| Short-term borrowings-Interest | | 95,386 | - | 356,735 | - | 452,121 |
| Loans payable-Principal | 14 | - | - | - | 9,000,000 | 9,000,000 |
| Loans payable-Interest | | 38,156 | 38,156 | 76,311 | 193,745 | 346,368 |
| Dividends payable | | 17,074 | - | - | - | 17,074 |
| Accounts payable and accrued expenses | 12 | 14,711,243 | 3,257,019 | 792,927 | 1,615,599 | 20,376,788 |
| Derivatives | 12 | 447 | - | - | - | 447 |
| | | 17,862,306 | 3,295,175 | 11,225,973 | 10,809,344 | 43,192,798 |
| 2019 | | | | | | |
| Short-term borrowings-Principal | 13 | 9,752,000 | - | - | - | 9,752,000 |
| Short-term borrowings-Interest | | 1,132 | - | - | - | 1,132 |
| Loans payable-Principal | 14 | - | - | - | 9,000,000 | 9,000,000 |
| Loans payable-Interest | | 85,500 | - | - | 781,850 | 867,350 |
| Dividends payable | | 17,054 | - | - | - | 17,054 |
| Accounts payable and accrued expenses | 12 | 28,565,455 | (367,281) | 1,224,983 | 259,017 | 29,682,174 |
| Derivatives | 12 | 1,979 | - | - | - | 1,979 |
| | | 38,423,120 | (367,281) | 1,224,983 | 10,040,867 | 49,321,689 |

The maturity analysis for lease liability is disclosed in note 26. 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 P60.3 billion (2019 - P62.1 billion), which is expiring within one year.

### 31.2 Capital management

The Company manages its business to deliver strong cash flows to fund capital expenditures and growth based on cautious assumptions relating to crude oil prices. Strong cash position and operational cash flow provide the Company financial flexibility both to fund capital investment and return on equity. Total capital is calculated as 'equity' as shown in the 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.

## 31. Financial risk management (continued)

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, after the funding of dividends. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings less cash.

The Company does not have a fixed gearing target and management considers whether the present gearing level is commercially acceptable based on the ability of the Company to operate on a standalone basis and is set after appropriate advice has been taken from Tax, Treasury and Legal advisors.

The gearing ratios at 31 December 2020 and 2019 are as follows:

| | Note | 2020 | 2019 |
|---|---|---|---|
| Total loans and borrowings | 13, 14 | 22,000,000 | 18,752,000 |
| Less: Cash | 3 | 6,290,505 | 4,778,877 |
| Net debt | | 15,709,495 | 13,973,123 |
| Total equity (excluding other reserves) | | 23,031,629 | 39,273,668 |
| Total capital | | 38,741,124 | 53,246,791 |
| Gearing ratio | | 41% | 26% |

The Company is not subject to externally imposed capital requirement.

## 31. Financial risk management (continued)

31.3 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 2020 and 2019:

| | Note | 2020 | 2019 |
|---|---|---|---|
| Financial assets | | | |
| Loans and receivables | | | |
| Cash | 3 | 6,290,505 | 4,778,877 |
| Receivables | 4 | 8,830,486 | 12,589,703 |
| Derivatives | 6 | 20,392 | 3,715 |
| Customer grants | 7 | 61,469 | 36,783 |
| Long-term receivables | 7 | 159,836 | 198,510 |
| Equity through OCI | 11 | 580,958 | 584,107 |
| Total financial assets | | 15,943,646 | 18,191,695 |
| Other financial liabilities | | | |
| Accounts payable and accrued expenses | 12 | 20,105,026 | 29,523,994 |
| Dividends payable | | 17,074 | 17,054 |
| Derivatives | 12 | 447 | 1,979 |
| Cash security deposits | 15 | 290,472 | 280,058 |
| Short-term borrowings | 13 | 13,000,000 | 9,752,000 |
| Loans payable | 14 | 9,000,000 | 9,000,000 |
| Total financial liabilities | | 42,413,019 | 48,575,085 |

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.

## 31. Financial risk management (continued)

iii. Financial assets and liabilities carried at fair value.

The Company's equity securities classified as equity instruments through OCI are marked-to-market if traded and quoted. The predominant source used in the determining the fair value of the equity through other comprehensive income financial assets is the quoted price and is considered categorized under Level 1 of the fair value hierarchy. The Company's golf club shares are categorized under Level 2 of the fair value hierarchy.

For unquoted equity securities, the fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of carrying at a reliable fair value. These are carried at cost less any allowance for impairment losses. These are not significant in relation to the Company's portfolio of financial instruments.

Fair values of derivative assets and liabilities are calculated by reference to the fixed price and the relevant index price as of the statement of financial position date. The fair values of the derivatives are categorized under Level 2 of the fair value hierarchy.

iv. Loans payable

The carrying values of long-term loans payable approximates their fair value because of regular interest repricing based on market conditions.

## 32. Critical accounting estimates, assumptions and judgments

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 30.4. The carrying amount of receivables and other information are disclosed in Note 4.

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

32.1. Critical accounting estimates and assumptions (continued)

ii) Provision for inventory losses
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 monthly 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 2020 and 2019 ranges from 3.36% to 3.49% and 3.80% to 4.00%, respectively, and the amount is recognized as accretion cost or income in the statement of income.

The Company has set total outstanding provision of P65.3 million (2019 - P65.3 million) to cover the required environmental remediation covering specific assets, based on external evaluation and study, and total outstanding provision of P3.7 billion (2019 - P1.8 billion) for ARO (see note 15).

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 15.

Management decision on estimating decommissioning and demolition obligations for refinery assets are disclosed in Note 23.

iv) Determining useful lives and depreciation
Management determines the estimated useful lives and related depreciation charges for the Company's property and equipment (Note 8). Management will revise the depreciation charge where useful lives are different from the previous estimate, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Management does not foresee any changes in terms of business operations that would warrant reassessment of estimated useful lives.

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

32.1. Critical accounting estimates and assumptions (continued)

v) 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 25, include among others, discount rates, and salary increase rates.

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

| | Impact on equity and income before tax | |
|---|---|---|
| | 2020 | 2019 |
| Discount rate | | |
| Increase by 0.50% | (182,233) | (226,498) |
| Decrease by 0.50% | 138,844 | 185,317 |
| Salary increase rate | | |
| Increase by 0.50% | 1,735,551 | 1,729,621 |
| Age 20 | 759,304 | 761,857 |
| Age 31-40 | 455,582 | 432,405 |
| Age 41-50 | 325,416 | 308,861 |
| Age 50 | 195,249 | 226,498 |
| Decrease by 0.50% | (1,561,966) | (1,564,895) |
| Age 20 | (715,915) | (720,675) |
| Age 31-40 | (412,193) | (391,224) |
| Age 41-50 | (282,027) | (267,679) |
| Age 50 | (151,861) | (185,317) |

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.

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

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

vi) Provision for expected credit losses of trade receivables

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.

The expected credit loss is not significantly impacted in the current year due to changes in the macroeconomic environment and the COVID-19 pandemic.

vii) 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.

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

i) Impairment of assets
Assets (see Notes 8 and 11) 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.

Management decision on impairment of refinery assets are disclosed in Note 23.

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

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

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.

The Company recognizes provision for impairment of input VAT and excise duties claims 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).

iii) Assessing contingencies

The Company is currently involved in various legal proceedings including a number of tax cases (see Note 28). 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 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 15 and 28).

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

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

iv) 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.

## 33. Changes in liability arising from financing activities

| | 01 January 2020 | Cash flows | Accrued and paid during the year | Other | 31 December 2020 |
|---|---|---|---|---|---|
| Short term loans | 9,752,000 | 3,248,000 | - | - | 13,000,000 |
| Long term loans | | | | | |
| Non-Current | 9,000,000 | - | - | - | 9,000,000 |
| Dividend payable | 17,054 | - | - | 20 | 17,074 |
| Accrued interest payable | 27,416 | (678,616) | 651,200 | 237,247 | 237,247 |
| Lease liabilities | 10,477,414 | (3,041,721) | 4,381,159 | 1,201,910 | 13,018,762 |
| Total liabilities from financing activities | 29,273,884 | (472,337) | 5,032,359 | 1,439,177 | 35,273,083 |

Others include the dividend unpaid for the prior years, additions to lease liabilities and interest accrued but not paid during the year.

## 34. 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 2020 consist of:

| | Gross amount of revenues | Output VAT |
|---|---|---|
| Subject to 12% VAT | | |
| Sale of goods | 139,861,951 | 16,783,434 |
| Sale to government | 355,697 | 42,684 |
| Sale of services | 442,130 | 53,056 |
| Others | 453,809 | 54,457 |
| | 141,113,587 | 16,933,631 |

### 34. Supplementary Information Required Under Revenue Regulations No. 15-2010 (continued)

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

| | Gross amount of revenues | Output VAT |
|---|---|---|
| Zero rated | | |
| Sale of goods | 20,975,436 | - |
| Exempt | | |
| Sale of goods | 203,440 | - |
| Total | 162,292,463 | 16,933,631 |

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.

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 2020 follow:

| | |
|---|---|
| Beginning balance | 138,461 |
| Add:Current year's domestic purchases/payments for: | |
| Importation of goods for resale/manufacture | 10,758,662 |
| Domestic goods for resale or manufacture | 3,706,317 |
| Services lodged under other accounts | 1,559,929 |
| Services rendered by non-residents | 165,548 |
| Capital goods subject to amortization | 53,020 |
| Total input VAT | **16,381,937** |
| 5% Final withholding VAT against sale to government | 10,608 |
| Monthly VAT payments | 431,246 |
| Total input VAT | **16,823,791** |

**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 2020 follow:

| | |
|---|---|
| Landed cost of imports | 70,022,828 |
| Customs duties and tariff fees paid | 19,632,689 |

## 34. Supplementary Information Required Under Revenue Regulations No. 15-2010 (continued)

### 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 P165.02 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 2020 are as follow:

| | Paid | Charge | Balance |
|---|---|---|---|
| Local Petroleum products | 8,045,000 | 7,603,464 | 441,536 |
| Imported Petroleum products | 18,179,614 | 18,179,045 | 569 |
| | 26,224,614 | 25,782,509 | 442,105 |

### f.) All other local and national taxes

All other local and national taxes accrued and paid for the year ended December 31, 2020 consist of:

| | |
|---|---|
| Real property tax | 398,432 |
| Municipal taxes / Mayor's permit | 22,891 |
| Community tax | 11 |
| | 421,334 |

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 2020 consist of:

| | Paid | Accrued | Total |
|---|---|---|---|
| Withholding tax on compensation | 414,045 | 30,961 | 445,006 |
| Expanded withholding tax | 633,361 | 99,782 | 733,143 |
| Fringe benefit tax | 34,841 | 11,785 | 46,626 |
| Final withholding tax | 192,125 | 615 | 192,740 |
| | 1,274,372 | 143,143 | 1,417,515 |

### h.) Tax assessments and cases

Other than tax cases mentioned in Note 28, there has been no tax assessments for the year 2020.

**SCHEDULE I - RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION PURSUANT TO SEC RULE 68, AS AMENDED AND SEC MEMORANDUM CIRCULAR NO. 11**
**As at 31 December 2020**
**(All amounts in thousands Philippine Peso)**

| | | |
|---|---|---|
| Unappropriated Retained Earnings beginning | | 11,937,980 |
| Adjustments: (see adjustments in previous year's Reconciliation) | | (4,202,183) |
| Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning | | 7,735,797 |
| Add: Net loss actually earned/realized during the period | (16,182,673) | |
| Less: Non-actual/unrealized income net of tax | (7,277,183) | |
| Equity in net income of associate/joint venture | (33,951) | |
| Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents) | (46,216) | |
| Unrealized actuarial gain | - | |
| Fair value adjustment (M2M gains) | (18,209) | |
| Fair value adjustment of Investment property resulting to gain | - | |
| Adjustment due to deviation from PFRS/GAAP - gain | - | |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted under PFRS | - | |
| Add: Non-actual losses | - | |
| Depreciation on revaluation increment (after tax) | - | |
| Loss on fair value adjustment of investment property (after tax) | - | |
| Adjustment due to deviation from PFRS/GAAP - loss | - | |
| Net loss actually earned during the period | | (23,558,232) |
| Add (Less): | | |
| Dividend declaration during the year | | - |
| Appropriations of retained earnings during the period | | - |
| Reversal of appropriateness | | - |
| Effects of prior period adjustments | | - |
| Treasury shares | | (507,106) |
| Total retained earnings, end available for dividend declaration* | | (16,329,541) |

## SCHEDULE II - SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS PURSUANT TO SRC RULE 68, AS AMENDED

| | Years Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Current Ratio (a) | 0.90 | 1.20 |
| Acid test ratio (b) | 0.84 | 1.17 |
| Solvency ratio(c) | 2.47% | 21.20% |
| Debt to Equity (d) | 0.68 | 0.36 |
| Debt Ratio(e) | 0.18 | 0.14 |
| Return on Equity(f) | (70.26)% | 14.31% |
| Asset to Equity Ratio(g) | 3.76 | 2.62 |
| Interest rate coverage ratio (h) | (24.92) | 10.19 |
| Return on Assets(i) | (18.70)% | 5.46% |

a. Current ratio is computed by dividing current assets over current liabilities.
b. Acid test ratio is computed by dividing current assets net of prepayments over current liabilities
c. Solvency ratio is computed by dividing net operating income after tax over total liabilities
d. Debt to equity ratio is derived by dividing net debt (short-term and long-term borrowings less cash) over stockholder's equity (exclusive of Other Reserves).
e. Debt ratio is computed by dividing net debt (short-term and long-term borrowings less cash) over total assets.
f. Return on equity is computed as Profit (Loss) for the year divided by stockholder's equity (exclusive of Other Reserves).
g. Asset to equity ratio is derived by dividing total assets over stockholder's equity (exclusive of Other Reserves).
h. Interest rate coverage ratio is derived by dividing earnings before interest expense and taxes over interest expense.
i. Return on assets is computed as Profit (Loss) for the year divided by total assets.

**SCHEDULE A - FINANCIAL ASSETS**
**As at 31 December 2020**
**(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 | 12,000 | 12,000 | |
| Atlas Consolidated Mining and Development | 3,000,000 | 19,380 | 19,380 | |
| Canlubang Golf & Country Club, Inc. | 2 | 2,800 | 2,800 | |
| Club Filipino de Cebu, Inc. | 24 | 700 | 700 | |
| Manila Golf & Country Club, Inc. | 6 | 450,000 | 450,000 | |
| Manila Polo Club, Inc. | 2 | 44,000 | 44,000 | |
| Manila Southwoods Golf & Country Club | 1 | 1,200 | 1,200 | |
| 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 | 120 | 120 | |
| Sta. Elena Golf Club, Inc. | 2 | 11,000 | 11,000 | |
| The Royal Northwoods Golf Club & Country | 1 | 1,000 | 1,000 | |
| Valley Golf Club, Inc. | 1 | 1,000 | 1,000 | |
| Wack Wack Golf & Country Club, Inc. | 1 | 34,000 | 34,000 | |
| Total Equity through OCI financial assets | | 580,958 | 580,958 | |
| Cash | | | 6,290,505 | |
| Receivables | | | 8,830,486 | |
| Derivatives | | | 20,392 | |
| Market investment loans | | | 61,469 | |
| Long-term receivables | | | 159,836 | |
| Total financial assets | | | 15,943,646 | |

**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**As at 31 December 2020**

| 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 |

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 - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**As at 31 December 2020**

| 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 - LONG TERM DEBT**
**As at 31 December 2020**
**(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 | 9,000,000 | - | 9,000,000 |

**SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES**
**(LONG-TERM LOANS FROM RELATED COMPANIES)**
**As at 31 December 2020**

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

**SCHEDULE F - GUARANTEES OF SECURITIES OF OTHER ISSUERS**
**As at 31 December 2020**

| 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 - CAPITAL STOCK
**As at 31 December 2020**

| 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 | 289,397 | 722,294,572 |

**SCHEDULE H - RELATIONSHIP MAP**
**As at 31 December 2020**