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SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	0000014829
Company Name	PILIPINAS SHELL PETROLEUM CORP (NEW)
Industry Classification	Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains
Company Type	Stock Corporation

Document Information

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Pilipinas Shell Petroleum Corporation

Financial Statements
As at December 31, 2016 and 2015
and years ended December 31, 2016,
2015 and 2014

and

Independent Auditors' Report

Pilipinas Shell Petroleum Corporation

Index to Financial Statements and Supplementary Schedules
for the Securities and Exchange Commission
For the period ended 31 December 2016

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Second Section

BUREAU OF INTERNAL REVENUE
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EXCISE LT REGULATORY DIVISION

Pilipinas Shell Petroleum Corporation
Shell House
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1227 Makati City, Philippines
Tel +63 2 499 4001
Fax +63 2 816 6565
Telex 63247 Shell PN
Website http://www.shell.com

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

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 2016**, 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.

BUREAU OF INTERNAL REVENUE
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EXCISE LT REGULATORY DIVISION

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1227 Makati City, Philippines
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Website http://www.shell.com

Edgar O. Chua
Chairman of the Board

Cesar G. Romero
Chief Executive Officer

Jose Jerome R. Pascual III
Chief Financial Officer

Signed this 27th day of February 2017

SUBSCRIBED AND SWORN to before me this 10th day of March 2017 at Makati City, affiant/s exhibiting to me the following Community Tax Certificate and/or Competent Evidence of Identification:

Name	Competent Evidence of Identification		
	Passport Number	Date of Issue	Place of Issue
EDGAR O. CHUA	EC1610571	11th July 2014	DFA Manila
CESAR G. ROMERO	EB7684774	19th March 2013	PE Beijing
JOSE JEROME R. PASCUAL III	EC6677175	7th February 2016	DFA Manila

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

NOTARY PUBLIC

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPT. NO. M-88
UNTIL DEC. 31, 2018
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. IV-0016333-4/10/13
I.B.P O.R No. 708782, LIFETIME MEMBER JAN. 29,2007
PTR No. 590-80-82 JAN.3, 2017
EXECUTIVE BLDG. CENTER
MAKATI AVE. COR., JUPITER ST. MAKATI CITY

Doc. No. 119;
Page No. 486;
Book No. 1;
Series of 2017.

MAR 01 2017

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)*

SHELL HOUSE, NO. 156 VALERO STEET, SALCEDO VILLAGE BRGY. BEL AIR, MAKATI CITY 1227

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
www.shell.com	(632) 4994001	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
35	05/16	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
Jose Jerome R. Pascual III	J.Pascual@shell.com	499-40-01	

CONTACT PERSON's ADDRESS

456 El Grande Ave., BF Homes, Paranaque 1700

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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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Pilipinas Shell Petroleum Corporation
Shell House, No. 156 Valero Street
Salcedo Village, Brgy. Bel-Air, Makati City

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 statement of financial position as at December 31, 2016, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2016, 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, 2016, and its financial performance and its cash flows for the year ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audit 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.

Other Matter

The financial statements of Pilipinas Shell Petroleum Corporation for the years ended December 31, 2015 and 2014 were audited by another auditor, who expressed an unmodified opinion on those statements on March 22, 2016.

Key Audit Matters

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

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

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

As discussed in Note 26 to the financial statements, 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 requires significant judgment by management and the inherent uncertainty over the outcome of these matters brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

In addition, as discussed in Note 7 to the financial statements, the Company recognized claims from certain government agencies relating to excise duties paid under protest for certain Alkylate shipments. The recoverability of this claim requires significant judgment that is likewise dependent on the outcome of the legal proceedings discussed above.

Audit response

We discussed with management the status of the tax assessment and obtained correspondences with courts and regulatory agencies, and opinions of both the Company's internal and external legal counsels. We involved our internal specialist in the evaluation of management's assessment on whether any provision for tax contingencies should be recognized, and the estimation of such amount; including the assessment of recoverability of the claims. We also evaluated the tax position of the Company by considering the tax laws, rulings and jurisprudence.

Valuation of inventories

The Company's inventories substantially comprise of crude oil and finished petroleum products. As of December 31, 2016, total inventories amounting to ₱16.38 billion represents 23% of total assets. We considered this as a key audit matter because the prices of crude oil and finished petroleum products are highly volatile due to various factors such as global trends in demand and other economic factors. 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 (NRV).

Audit response

We obtained an understanding of the Company's inventory valuation process and the related controls. We assessed the process, method and assumptions used to develop the testing of valuation based on the lower of cost and NRV. On a sample basis, we tested the data used by management in calculating the NRV by comparing with prevailing market prices and historical selling costs. We also performed recalculation of the NRV.

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, 2016, 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, 2016 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 audit 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 audit 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.

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BUREAU OF INTERNAL REVENUE
MAR 01 2017
EXCISE LT REGULATORY DIVISION

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.

BUREAU OF INTERNAL REVENUE
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MAR 01 2017
EXCISE LT REGULATORY DIVISION

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 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.

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

Our audit was 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 31 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
SEC Accreditation No. 0328-AR-3 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908781, January 3, 2017, Makati City

February 27, 2017

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November 10, 2015, valid until November 9, 2018

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EXCISE LT REGULATORY DIVISION

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Pilipinas Shell Petroleum Corporation
Shell House, No. 156 Valero Street
Salcedo Village, Brgy. Bel-Air, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Pilipinas Shell Petroleum Corporation as at and for the year ended December 31, 2016, and have issued our report thereon dated February 27, 2017. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended (2011), 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 information required to be set forth therein to the basic Financial Statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-3 (Group A),
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February 27, 2015, valid until February 26, 2018
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February 27, 2017

Pilipinas Shell Petroleum Corporation

Statement of Financial Position
As at 31 December 2016
With Comparative Figures for 31 December 2015
(All amounts in thousands Philippine Peso, except par value per share)

	Notes	2016	2015
Current assets			
Cash	3	4,274,266	3,576,802
Receivables, net	4	8,821,577	10,387,023
Inventories, net	5	16,381,397	11,348,533
Prepayments and other current assets	6	9,379,108	11,343,336
Total current assets		38,856,348	36,655,694
Non-current assets			
Long-term receivables, rentals and investments, net	7	4,056,029	885,263
Property and equipment, net	8	23,378,318	22,309,078
Deferred income tax assets, net	9	330,310	3,712,251
Other assets, net	10	3,988,246	2,671,827
Total non-current assets		31,752,903	29,578,419
Total assets		**70,609,251**	**66,234,113**
Current liabilities			
Accounts payable and accrued expenses	11	17,021,164	16,174,597
Dividends payable	22	9,668	9,668
Short-term borrowings	12	5,370,000	2,717,000
Total current liabilities		22,400,832	18,901,265
Non-current liabilities			
Loans payable	13	11,000,000	16,000,000
Provisions and other liabilities	14	4,280,146	5,237,718
Total non - current liabilities		15,280,146	21,237,718
Total liabilities		**37,680,978**	**40,138,983**
Equity			
Share capital - P1 par value	15	1,681,058	1,653,558
Share premium	15	26,161,736	24,395,991
Treasury shares	15	(507,106)	(507,106)
Retained earnings	16	5,111,868	181,508
Other reserves	10, 23	480,717	371,179
Total equity		32,928,273	26,095,130
Total liabilities and equity		**70,609,251**	**66,234,113**

See accompanying Notes to Financial Statements.

Pilipinas Shell Petroleum Corporation

Statement of Income
For the years ended 31 December 2016, 2015 and 2014
(All amounts in thousands Philippine Peso, except earnings per share)

	Notes	2016	2015	2014
Gross sales		142,075,428	161,789,781	227,761,111
Sales discounts and rebates		(5,312,142)	(4,812,085)	(3,676,286)
Net sales		136,763,286	156,977,696	224,084,825
Cost of sales	18	(112,461,546)	(136,976,853)	(222,450,089)
Gross profit		24,301,740	20,000,843	1,634,736
Selling expenses	19	(10,562,727)	(11,060,933)	(10,618,900)
General and administrative expenses	19	(2,500,333)	(2,234,101)	(2,110,398)
Other operating income, net	20	470,707	212,239	147,165
Income (loss) from operations		11,709,387	6,918,048	(10,947,397)
Finance income	21	175,707	69,130	239,492
Finance expense	21	(1,058,018)	(1,781,265)	(1,659,988)
Other non-operating income (expense), net		1,041	17,092	(17,650)
Income (loss) before income tax		10,828,117	5,223,005	(12,385,543)
Benefit from (provision for) income tax	9	(3,384,342)	(1,669,809)	3,896,963
Profit (loss) for the period		7,443,775	3,553,196	(8,488,580)
Earnings (loss) per share - basic and diluted	17	4.68	3.48	(12.28)

See accompanying Notes to Financial Statements.

Pilipinas Shell Petroleum Corporation

Statement of Comprehensive Income
For the years ended 31 December 2016, 2015 and 2014
(All amounts in thousands Philippine Peso)

	Notes	2016	2015	2014
Profit (loss) for the year		7,443,775	3,553,196	(8,488,580)
Other comprehensive income (loss):				
Items that may not be subsequently reclassified to profit or loss				
Remeasurement gain (loss) on retirement benefits, net of tax	9, 23	786,585	813,114	(220,595)
Items that may be subsequently reclassified to profit or loss				
Increase (decrease) in fair value of available-for-sale financial assets	10	28,285	28,491	(13,488)
Total other comprehensive income (loss) for the year		814,870	841,605	(234,083)
Total comprehensive income (loss) for the year		8,258,645	4,394,801	(8,722,663)

See accompanying Notes to Financial Statements.

Pilipinas Shell Petroleum Corporation

Statement of Changes in Equity
For the years ended 31 December 2016, 2015 and 2014
(All amounts in thousands Philippine Peso)

	Share capital	Share premium	Treasury stock	Retained earnings	Other reserves: Share-based reserve	Other reserves: Fair value reserve	Total equity
Notes	15	15	15	16	9, 23	10	
Balances at 1 January 2014	758,885	7,437,829	(507,106)	4,524,373	82,545	264,169	12,560,695
Comprehensive income							
Loss for the year	-	-	-	(8,488,580)	-	-	(8,488,580)
Other comprehensive loss							
Decrease in fair value reserve of available-for-sale financial assets	-	-	-	-	-	(13,488)	(13,488)
Remeasurement loss on retirement benefits (net of tax amounting to P94,541)	-	-	-	(220,595)	-	-	(220,595)
Total comprehensive income	-	-	-	(8,709,175)	-	(13,488)	(8,722,663)
Transactions with owners							
Share-based compensation	-	-	-	-	(7,390)	-	(7,390)
Total transactions with owners			-	-	(7,390)	-	(7,390)
Balances at 31 December 2014	758,885	7,437,829	(507,106)	(4,184,802)	75,155	250,681	3,830,642
Comprehensive income							
Income for the year	-	-	-	3,553,196	-	-	3,553,196
Other comprehensive income							
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	28,491	28,491
Remeasurement gain on retirement benefits (net of tax amounting to P348,477)	-	-	-	813,114	-	-	813,114
Total comprehensive income	-	-	-	4,366,310	-	28,491	4,394,801
Transactions with owners							
Share-based compensation	-	-	-	-	16,852	-	16,852
Additional issuance of shares, net of transaction costs	894,673	16,958,162	-	-	-	-	17,852,835
Total transactions with owners	894,673	16,958,162	-	-	16,852	-	17,869,687
Balances at 31 December 2015	1,653,558	24,395,991	(507,106)	181,508	92,007	279,172	26,095,130
Comprehensive income							
Income for the year	-	-	-	7,443,775	-	-	7,443,775
Other comprehensive income							
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	28,285	28,285
Remeasurement gain on retirement benefits (net of tax amounting to P337,108)	-	-	-	786,585	-	-	786,585
Total comprehensive income	-	-	-	8,230,360	-	28,285	8,258,645
Transactions with owners							
Share-based compensation	-	-	-	-	81,253	-	81,253
Additional issuance of shares, net of transaction costs	27,500	1,765,745	-	-	-	-	1,793,245
Cash Dividends	-	-	-	(3,300,000)	-	-	(3,300,000)
Total transactions with owners	27,500	1,765,745	-	(3,300,000)	81,253	-	(1,425,502)
Balances at 31 December 2016	**1,681,058**	**26,161,736**	**(507,106)**	**5,111,868**	**173,260**	**307,457**	**32,928,273**

See accompanying Notes to Financial Statements

Pilipinas Shell Petroleum Corporation

Statement of Cash Flows
For the years ended 31 December 2016, 2015 and 2014
(All amounts in thousands Philippine Peso)

	Notes	2016	2015	2014
Cash flows from operating activities				
Income (loss) before income tax		10,828,117	5,223,005	(12,385,543)
Adjustments:				
Amortization of prepaid lease payments		1,830,315	1,469,937	1,427,664
Depreciation and amortization	8, 10	1,742,907	1,637,939	2,299,297
Interest and finance charges	21	474,452	1,035,682	1,250,786
Unrealized mark to market loss (gain), net	20	(333,963)	61,431	59,525
Unrealized foreign exchange loss (gain), net	21	(174,529)	(42,866)	179,292
Cost incurred for issuance of shares		168,822	-	-
Loss on disposal of property and equipment	20	153,836	52,466	16,582
Reversals of provisions for ARO and remediation	14	(151,391)	(519,847)	(124,413)
Pension expense	23	134,737	379,478	167,440
Share-based compensation	23	134,064	109,266	73,832
Accretion expense	21	96,038	196,347	221,690
Provision for legal case, net	14, 20	37,476	37,476	56,214
Intangibles written off		23,310	-	-
Share in loss (profit) of associates		(21,117)	9,200	(64,198)
Interest income	21	(1,178)	(26,264)	(19,688)
Operating income (loss) before working capital changes		14,941,896	9,623,250	(6,841,520)
Decrease (increase) in assets other than cash		(6,490,780)	5,638,325	9,615,181
Increase (decrease) in liabilities other than provisions, dividends payable, short-term borrowings and loans payable		224,579	(1,925,546)	4,000,504
Cash generated from operations		8,675,695	13,336,029	6,774,165
Pension contributions paid	22, 23	(176,081)	(122,396)	(412,907)
Net cash from operating activities		8,499,614	13,213,633	6,361,258
Cash flows from investing activities				
Additions to property and equipment		(3,265,262)	(5,700,597)	(4,754,419)
Decrease (increase) in long-term receivables and rentals, net		(198,679)	344,627	70,770
Proceeds from sale of property and equipment		18,266	28,610	4,336
Dividend received		13,530	1,461	13,092
Interest received	21	1,178	26,264	19,688
Net cash used in investing activities		(3,430,967)	(5,299,635)	(4,646,533)
Cash flows from financing activities				
Repayment of long term loan		(5,000,000)	(12,000,000)	(11,000,000)
Cash dividends paid		(3,300,000)	-	(422)
Net proceeds from (settlements of) short-term borrowings		2,653,000	(29,833,000)	(13,987,000)
Proceeds from issuance of shares		1,842,500	17,852,835	-
Interest and finance charges paid		(526,462)	(1,104,167)	(1,170,326)
Cost incurred for issuance of shares		(218,077)	-	-
Proceeds from long-term loan		-	16,000,000	23,000,000
Net cash used in financing activities		(4,549,039)	(9,084,332)	(3,157,748)
Net increase (decrease) in cash for the year		519,608	(1,170,334)	(1,443,023)
Cash at the beginning of the period		3,576,802	4,721,647	6,161,150
Effect of exchange rate changes on cash		177,856	25,489	3,520
Cash at the end of the year		4,274,266	3,576,802	4,721,647

See accompanying Notes to Financial Statements

Pilipinas Shell Petroleum Corporation

Notes to Financial Statements
As at 31 December 2016 and 2015 and for each of the three years in the period ended 31 December 2016
(All amounts in table are shown in thousand Philippine Peso except per share data and unless otherwise stated)

Note 1 - General information

Pilipinas Shell Petroleum Corporation (the "Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on 9 January 1959 primarily to engage in the refining and marketing of petroleum products. On 5 December 2008, the SEC approved the extension of the corporate term of the Company for another fifty (50) years from 9 January 2009 to 8 January 2059.

Prior to its planned initial public offering, 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 initial public offering to list in Philippine Stock Exchange on 3 November 2016. The offer was composed of a Primary Offer of 27,500,000 Common Shares and Secondary Offer of 247,500,000 Common Shares with an Over-allotment Option of up to 16,000,000 Common Shares, with an Offer Price of P67.0 (USD1.39) per Share. After the IPO, Shell Overseas Investments BV owns 55% of the total outstanding shares of the Company. The Company intends to use 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 Company's registered office, which is also its principal place of business, is located at Shell House, 156 Valero Street, Salcedo Village, Makati City. The Company owns an oil refinery in Tabangao, Batangas and various oil depots and installations all over the Philippines. The Company has 698 regular employees as at 31 December 2016 (31 December 2015 - 754).

The financial statements have been authorized for issue by the Company's Board of Directors on 27 February 2017 upon endorsement by the Board Audit Committee on 21 February 2017.

Note 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.

Note 3 - Cash

The account as at 31 December 2016 and 2015 consists of cash in banks which are earning interest at the prevailing bank deposit rates.

The Company maintains cash deposits with universal and commercial banks in the Philippines. Universal and commercial banks represent the largest single group, resource-wise, of financial institutions in the country.

Cash as at 31 December 2016 and 2015 is maintained with the following type of financial institutions:

	2016	2015
Universal banks	2,263,032	2,670,620
Commercial banks	2,011,234	906,182
	4,274,266	3,576,802

<u>Note 4 - Receivables, net</u>

The account as at 31 December 2016 and 2015 consists of:

	Note	2016	2015
Trade receivables			
Third parties		7,535,929	6,509,676
Related parties	22	295,124	115,706
Provision for impairment of trade receivables from third parties		(123,844)	(119,096)
		7,707,209	6,506,286
Non-trade receivables from related parties	22	87,628	88,899
Other receivables			
Claims from government agencies			
Duty drawback and other claims		125,541	2,185,557
Specific tax		-	1,235,733
Miscellaneous		947,326	753,799
		1,072,867	4,175,089
Provision for impairment of other receivables		(46,127)	(383,251)
		1,026,740	3,791,838
		8,821,577	10,387,023

Miscellaneous receivables pertain to creditable withholding taxes, rental from co-locators in retail service stations and cost recoveries from affiliates.

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

	2016	2015
Philippine peso	7,333,588	10,215,774
US dollar	1,648,385	671,261
Other currencies	9,575	2,335
	8,991,548	10,889,370

The Company holds collaterals for trade receivables from third parties as at 31 December 2016 valued at P3.3 billion (31 December 2015 - P4.8 billion) consisting of cash securities, letters of credit or bank guarantees and Real Estate Mortgages (REM). These securities can be applied once the related customer defaults on settlement of the Company's receivables based on agreed credit terms. The maximum exposure of the Company is P4.5 billion as at 31 December 2016 (2015 - P1.8 billion) (see Note 29.1.2). These balances relate to a number of independent customers for whom there is no recent history of default.

(a) Past due receivables but not impaired

The aging of past due but not impaired trade receivables from third parties as at 31 December 2016 and 2015 are as follow:

	2016	2015
Less than 30 days	186,666	61,362
31 - 60 days	72,537	27,769
61 - 90 days	7,078	62,740
91 - 180 days	39,199	28,822
	305,480	180,693

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

(b) Impaired receivables

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Impaired receivables are fully provided and movements in the provision for impairment of the receivables are presented in the table below.

	Note	Trade	Others	Total
At 1 January 2015		214,665	342,925	557,590
Provisions (reversals)	19	(95,569)	40,326	(55,243)
At 31 December 2015		119,096	383,251	502,347
Provisions	19, 20	4,748	3,787	8,535
Provisions reclassified to long term		-	(340,911)	(340,911)
At 31 December 2016		123,844	46,127	169,971

For the year ended 31 December 2016, total trade receivables written-off directly to statement of income amounted to P12.3 million (2015 - P33.9 million and 2014 - P12.3 million) based on the Company's assessment of recoverability.

(c) Neither past due nor impaired

The credit quality of trade receivables from third parties at 31 December 2016 and 2015 that are neither past due nor impaired that are fully recoverable has been assessed by reference to historical information about counterparty default rates:

Trade receivables (counterparties with internal credit rating)	2016	2015
A	1,485,105	1,436,641
B	1,645,166	1,749,967
C	2,203,418	1,859,965
D	1,772,916	1,163,314
Total trade receivables	7,106,605	6,209,887

A Customers with strong financial performance and with low probability of default.
B Customers with good financial strength but with some elements of risk in one or more financial or non-financial inputs.
C Customers with low credit risk and balance is secured with post-dated checks and other collaterals.

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

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

There are no receivables that are neither past due nor impaired that have been renegotiated for the year ended 31 December 2016 and 2015.

Note 5 - Inventories, net

The account as at 31 December 2016 and 2015 consists of:

	2016	2015
Crude oil and finished products, net	16,075,472	11,035,117
Materials and supplies, net	305,925	313,416
	16,381,397	11,348,533

Details of and changes in allowance for inventory write-down and obsolescence as at and for the years ended 31 December 2016 and 2015 are as follow:

	Crude oil and finished products	Materials and supplies	Total
At 1 January 2015	2,848,256	-	2,848,256
Provisions (reversals), net	(1,807,127)	10,967	(1,796,160)
At 31 December 2015	1,041,129	10,967	1,052,096
Write-off	-	(10,858)	(10,858)
Provisions (reversals), net	(1,012,509)	11,360	(1,001,149)
At 31 December 2016	28,620	11,469	40,089

Write-off in 2016 mainly pertains to inventories tagged as slow and non-moving items of packaged finished products and lubricants.

The provision for inventory resulting from the write-down of crude and finished products to arrive at the net realizable value amounted to P28.6 million as at 31 December 2016 (2015 - P1.0 billion and 2014 - P2.8 billion).

Cost of inventories included as part of cost of sales amounted to P99.9 billion for the year ended 31 December 2016 (2015 – P124.6 billion and 2014 - P207.8 billion) (see Note 18).

Note 6 - Prepayments and other current assets

The account as at 31 December 2016 and 2015 consists of:

	2016	2015
Input Value Added Tax (VAT), net of output VAT (a)	4,560,448	6,627,876
Prepaid corporate income tax (b)	3,686,180	3,286,412
Advance rentals	422,353	682,282
Derivatives (c)	222,336	15,111
Prepaid specific tax	97,082	469,740
Prepaid insurance	60,373	71,582
Prepaid duties and taxes	5,261	7,931
Others	325,075	182,402
	9,379,108	11,343,336

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

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

(b) *Prepaid corporate income tax*

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

(c) *Derivatives*

The Company enters into commodity forward contracts to hedge the commodity price risks arising from its crude oil and other oil products requirements. As at 31 December 2016, the notional principal amount of the outstanding commodity forward contracts amounted to P1.5 billion (2015 – P358.2 million). As at 31 December 2016, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P222.3 million (2015 - P15.1 million).

During the year, the Company's fair value of settled derivatives amounted to P7.4 million (2015 – P265.3 million and 2014 - P149.3 million) (see Note 20).

For the year ended 31 December 2016, net fair value changes of the outstanding commodity forward contracts amounting to a gain of P326.6 million (2015 – loss of P326.7 million; 2014 – loss of P208.8 million) were recognized in 'other operating income, net' (see Note 20).

Note 7 - Long-term receivables, rentals and investments, net

The account as at 31 December 2016 and 2015 consists of:

	Notes	2016	2015
Advances to an entity under common shareholdings (a)	22	-	137,000
Provision for impairment of advances to an entity under common shareholdings	22	-	(137,000)
(Forward)		-	-

	Notes	2016	2015
Advance rentals		792,075	732,336
Market investment loans (b)		93,417	79,330
Investments in associates (c)		47,823	38,330
		933,315	849,996
Long term receivables (a)		3,481,750	53,842
Provision for impairment of long-term receivables		(359,036)	(18,575)
		3,122,714	35,267
		4,056,029	885,263

(a) Long-term receivables and advances to a related party

Long-term receivables include claims from government agencies amounting to P3.4 billion as at 31 December 2016 representing the amount to be recovered from the government on various taxes paid. Included in this P3.4 billion is P1.1 billion of excise duties paid under protest for certain Alkylate shipment (Note 26). The management has assessed that the recoverability of the same is beyond 12 months from the reporting date and hence the same has been reclassified from current to non-current for the year ended 31 December 2016.

As at 31 December 2016, long-term receivables and advances to a related party of P359.0 million (31 December 2015 - P155.6 million) were impaired and fully provided.

Movements in provision for impairment of long-term receivable and advances to a related party are as follow:

	Note	Advances to a related party	Other long-term receivables	Total
At 1 January 2015		163,447	19,575	183,022
Reversal		(26,447)	(1,000)	(27,447)
At 31 December 2015		137,000	18,575	155,575
Provision		60	-	60
Reclassification	4	-	340,911	340,911
Reversal (write-off)	19	(137,060)	(450)	(137,510)
At 31 December 2016		-	359,036	359,036

Reversal of provision of advances to related party during the year is due to payment received from the related party during the year.

The individually impaired receivables mainly relate to an affiliate and are aged over a year.

As at 31 December 2016 and 2015, there are no other long-term receivables that are past due but not impaired. The other classes and balances within long-term receivables, rental and investments are fully performing.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The carrying amounts of market investment loans and long-term receivables approximate their fair value (see Note 29.3).

The carrying amounts of the Company's long-term receivables are denominated only in Philippine peso.

(b) Market investments loans

Market investment loans consist of business development funds used to help customers expand their operations. The payments of the funds are secured by long-term sales contracts with the customers.

(c) Investments in associates

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
2016					
Bonifacio Gas Corporation	44%	141,814	55,985	85,829	39,252
Kamayan Realty Corporation	40%	22,951	7,785	15,166	3,959
2015					
Bonifacio Gas Corporation	44%	119,200	52,641	66,559	19,498
Kamayan Realty Corporation	40%	25,000	1,789	23,211	12,004
2014					
Bonifacio Gas Corporation	44%	125,850	46,839	79,011	25,574
Kamayan Realty Corporation	40%	17,747	2,305	15,442	123,750

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

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

Note 8 - Property and equipment, net

Property and equipment as at 31 December 2016 and 2015 and the movements in the accounts for the year consist of:

	Leasehold improvements	Machinery and equipment	Furniture and fixtures	Transportation	Asset retirement obligation	Assets under construction (AUC)	Total
Cost							
At 1 January 2015	14,797,092	25,344,633	818,961	200,305	1,412,173	6,441,565	49,014,729
Acquisitions	-	-	-	7,812	-	5,247,220	5,255,032
Asset retirement obligation	-	-	-	-	140,160	-	140,160
Disposals / write off	(547,702)	(711,339)	(9,676)	(9,224)	(233,373)	-	(1,511,314)
Transfers and reclassification to other assets (Note 10)	967,558	5,190,276	394,519	2,197	-	(6,556,630)	(2,080)
At 31 December 2015	15,216,948	29,823,570	1,203,804	201,090	1,318,960	5,132,155	52,896,527
Acquisitions	-	9,277	-	5,966	-	2,873,920	2,889,163
Asset retirement obligation	-	-	-	-	93,535	-	93,535
Disposals / write off	(280,823)	(309,232)	(1,327)	(25,201)	(32,795)	-	(649,378)
Transfers and reclassification to other assets (Note 10)	2,235,475	1,951,383	895	2,163	-	(4,192,420)	(2,504)
At 31 December 2016	17,171,600	31,474,998	1,203,372	184,018	1,379,700	3,813,655	55,227,343

	Leasehold improvements	Machinery and equipment	Furniture and fixtures	Transportation	Asset retirement obligation	Assets under construction (AUC)	Total
Accumulated depreciation and amortization and impairment losses							
At 1 January 2015	(9,032,610)	(19,424,187)	(780,304)	(158,930)	(987,969)	-	(30,384,000)
Depreciation and amortization (Notes 18 and 19)	(494,077)	(998,621)	(11,835)	(14,852)	(114,302)	-	(1,633,687)
Disposals	515,105	665,451	9,676	8,321	231,685	-	1,430,238
At 31 December 2015	(9,011,582)	(19,757,357)	(782,463)	(165,461)	(870,586)	-	(30,587,449)
Depreciation and amortization (Notes 18 and 19)	(464,244)	(1,151,174)	(29,265)	(14,115)	(80,054)	-	(1,738,852)
Disposals/write-off	193,559	234,937	935	19,440	28,405	-	477,276
At 31 December 2016	(9,282,267)	(20,673,594)	(810,793)	(160,136)	(922,235)	-	(31,849,025)
Net book values							
At 31 December 2015	6,205,366	10,066,213	421,341	35,629	448,374	5,132,155	22,309,078
At 31 December 2016	7,889,333	10,801,404	392,579	23,882	457,465	3,813,655	23,378,318

The cost of property and equipment as at 31 December 2016 includes fully depreciated assets still in use amounting to P21.3 billion (2015 – P19.0 billion).

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

The Company also recorded an asset retirement obligation covering certain assets in Pandacan and other depots and installation around the country amounting to P1.5 billion as at 31 December 2016 (2015 - P1.4 billion) (see Note 14). Estimated amount of future obligation is discounted using a discount rate of 3.7% as at 31 December 2016 (2015 - 3.7%) (see Note 14).

Note 9 - Provision for income tax; deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts at 31 December 2016 and 2015 are as follow:

	2016	2015
Deferred income tax assets (liabilities)		
Unamortized past service cost, net	396,722	482,879
Asset retirement obligation	377,621	333,315
Provision for remediation costs	232,389	259,062
Operating lease - effect of straight lining	286,811	179,120
Provision for doubtful debts	158,702	197,376
Share-based compensation	51,978	27,602
Provision for inventory losses	12,027	315,629
Unrealized foreign exchange loss (gain)	(24,248)	28,111
Unrealized mark to market loss (gain)	(65,592)	34,596
Retirement benefit asset	(1,049,164)	(699,653)

(Forward)

	2016	2015
Prepaid duties and taxes	(724,277)	(709,645)
Other provisions	677,341	671,014
	330,310	1,119,406
NOLCO	-	2,057,301
MCIT	-	535,544
Deferred income tax assets, net	330,310	3,712,251

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

	2016	2015
At 1 January	3,712,251	5,293,928
Credited to profit and loss	(2,509,289)	(1,233,200)
Credited to other comprehensive income	(337,108)	(348,477)
Application of excess MCIT	(535,544)	-
At 31 December	330,310	3,712,251

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 at 31 December 2016 and 2015 are fully realizable.

Year of incurrence	Year of expiration	NOLCO			MCIT			
		2016	2015	2014	2016	2015	2014	2013
2013	2016	-	-	-	182,328	182,328	182,328	182,328
2014	2017	6,857,670	9,984,281	9,984,281	22,876	22,876	22,876	-
2015	2018	-	-	-	330,340	330,340	-	-
2016	2019	-	-	-	-	-	-	-
		6,857,670	9,984,281	9,984,281	535,544	535,544	205,204	182,328
Applied		(6,857,670)	(3,126,611)	-	(535,544)	-	-	-
		-	6,857,670	9,984,281	-	535,544	205,204	182,328
Tax rate		30%	30%	30%	-	-	-	-
		-	2,057,301	2,995,284	-	535,544	205,204	182,328

The details of provision for (benefit from) income tax for the year ended 31 December 2016, 2015, and 2014 are as follow:

	2016	2015	2014
Current	875,053	107,885	(210,604)
Deferred	2,509,289	1,561,924	(3,686,359)
	3,384,342	1,669,809	(3,896,963)

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:

	2016	2015	2014
Income tax at statutory income tax rate of 30%	3,248,435	1,566,902	(3,715,663)
Income tax effect of:			
Non-deductible expenses	35,395	49,139	37,161
Limitation on deductible interest expense	113	503	508
Interest income subjected to final tax	(342)	(1,508)	(1,523)
Income subjected to 8% final tax	(10,605)	(25,273)	(7,585)
Non-taxable income	(17,985)	(27,839)	(245,100)
Movement of deferred tax asset	109,020	-	-
Provision for income tax before final taxes	3,364,031	1,561,924	(3,932,202)
Final taxes on interest and other charges	20,311	107,885	35,239
Provision for income tax at effective tax rate	3,384,342	1,669,809	(3,896,963)

Note 10 - Other assets, net

The account as at 31 December 2016 and 2015 consists of:

	Note	2016	2015
Pension asset	23	3,497,215	2,332,177
Available-for-sale financial assets (a)		333,087	304,178
Deferred input VAT (b)		147,334	-
Program software (c)		8,633	10,081
Others		1,977	25,391
		3,988,246	2,671,827

(a) Available-for-sale financial assets

Available-for-sale financial assets mainly represent equity securities and proprietary club shares which are carried at fair value (see Note 28.4). Details of the account as at 31 December 2016 and 2015 are as follow:

	2016	2015
Cost	27,994	28,289
Fair value adjustments recognized directly in other comprehensive income		
1 January	279,172	250,681
Change during the period	28,285	28,491
	307,457	279,172
31 December	335,451	307,461
Current portion	(2,364)	(3,283)
Non-current portion	333,087	304,178

The Company intends to sell equity instrument with fair value of P2.4 million within 12 months from 31 December 2016 (2015 - P3.2 million). Correspondingly such amount was reclassified to current assets (see Note 6).

(b) Deferred input VAT

Deferred input VAT will be recovered 12 months after reporting date. Hence, the same is presented as non-current asset as at 31 December 2016.

(c) Program software

Program software as at 31 December 2016 and 2015 and the movements in the accounts for the years consist of:

	Notes	2016	2015
At cost			
1 January		888,787	888,787
Reclassifications from AUC	8	2,504	-
		891,291	888,787
Accumulated amortization			
1 January		(878,706)	(874,454)
Amortization for the year	18, 19	(3,952)	(4,252)
		(882,658)	(878,706)
Net book value		8,633	10,081

Note 11 - Accounts payable and accrued expenses

The account as at 31 December 2016 and 2015 consists of:

	Notes	2016	2015
Trade payables			
Third parties		4,944,514	5,503,347
Related parties	22	6,804,439	5,696,795
		11,748,953	11,200,142
Non-trade payables from related parties	22	439,605	468,824
Other payables			
Rent and utilities		1,281,678	1,155,474
Project-related costs and advances		969,493	1,430,566
Employee benefits		622,510	475,890
Provision for remediation		332,976	-
Advertising and promotions		236,457	339,044
Outside services		203,450	-
Supply and distribution		172,650	115,214
Duties and taxes		158,716	86,982
IT-related costs		31,783	61,796
Derivatives (a)		3,696	130,434
Interest		935	362
Others (b)		818,262	709,869
		17,021,164	16,174,597

(a) As at 31 December 2016, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P3.7 million (2015 - P130.4 million).

(b) Others include the current portion of asset retirement obligation and various other accruals.

Note 12 - Short-term borrowings

The account as at 31 December 2016 consists of an unsecured short-term loan from various banks as per below intended for working capital requirements and corporate expenses.

Bank	Loan Value	Maturity date	Tenure
Metropolitan Bank and Trust Company	2,117,000	3 January 2017	5 days
Metropolitan Bank and Trust Company	1,204,000	3 January 2017	7 days
Metropolitan Bank and Trust Company	1,049,000	4 January 2017	7 days
Development Bank of Philippines	1,000,000	4 January 2017	7 days
	5,370,000		

As at 31 December 2015, unsecured short term loan amounted to P2.7 billion from Metropolitan Bank and Trust Company with tenure of 6 days which will mature on 4 January 2016.

The average interest rate on local borrowings for the year 31 December 2016 was 2.37% (2015 – 2.31% and 2014 - 1.79%). Total interest expense charged to operations for the year ended 31 December 2016 arising from short-term loans amounted to P99.5 million (2015 – P232.2 million and 2014 - P381.7 million) (see Note 21).

Note 13 - Loans payable

Details of the loan agreements with Bank of the Philippine Islands (BPI) as at 31 December 2016 and 2015 follow:

2016	2015	Interest	Terms
6,000,000	6,000,000	2.93% as at 31 December 2016 effective until next re-pricing	Payable after thirty-six (36) months reckoned from the drawdown date on 2 March 2015. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months. Original amount of the loan was P11.0 billion but a principal prepayment of P5.0 billion was made on 1 July 2015.
5,000,000	5,000,000	3.06% as at 31 December 2016 effective until next re-pricing.	Payable after sixty (60) months reckoned from the drawdown date on 2 March 2015. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months.
-	5,000,000	2.94% as at 31 December 2015 effective until next re-pricing. Last pricing was 2.76%	Payable after thirty-six (36) months reckoned from the drawdown date on 17 January 2014. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months. The loan was prepaid on 18 April 2016.
11,000,000	16,000,000		

As at 31 December 2016 and 2015, there are no portions of the borrowings that are presented as part of current liabilities.

Total interest expense charged to operations for the year ended 31 December 2016 arising from these loans amounted to P427.0 million (2015 – P664.9 million and 2014 - P696.4 million) (see Note 21).

There are no borrowings related to acquisition, construction or production of a qualifying asset in 2016 and 2015. The borrowings are intended solely for working capital requirements.

There are no collaterals pledged as security against these borrowings.

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

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

The Company is in compliance with the covenants as at reporting periods presented. See also Note 29.1.3 for the maturity analysis of these loans.

Note 14 - Provisions and other liabilities

The account as at 31 December 2016 and 2015 consists of:

	2016	2015
Provision for legal cases (a)	1,635,974	1,598,498
Asset retirement obligation (ARO) (b)	1,458,759	1,383,126
Provision for remediation (c)	441,655	863,538
Cash security deposits	302,208	340,834
Accrued operating lease	23,684	723,047
Other liabilities (d)	417,866	328,675
	4,280,146	5,237,718

(a) Provision for legal cases

The account represents provisions arising from serious 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 follow:

	Note	2016	2015
1 January		1,598,498	1,561,022
Provisions, net	20	37,476	37,476
31 December		1,635,974	1,598,498

(b) Asset retirement obligation

Movements in the provision for asset retirement obligation follow:

	Notes	2016	2015
1 January		1,383,126	1,611,137
Additions	8	93,535	140,160
Accretion	21	50,447	102,721
Reversals		(51,783)	(470,892)
Transferred to short term		(16,566)	-
31 December		1,458,759	1,383,126

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 2016 (2015 - 7 years). These are stated at present value at 31 December 2016 using a discount rate of 3.7% (2015 - 3.7%).

(c) Provision for remediation

Movements in the provision for remediation follow:

	Note	2016	2015
1 January		863,538	818,867
Accretion	21	45,591	93,626
Transferred to short term		(367,866)	-
Reversals		(99,608)	(48,955)
31 December		441,655	863,538

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 at 5.7% (2015 – 5.7%).

(d) Other liabilities

Other liabilities include the provisions for rewards to be paid to the customers, interest and redundancy provisions and others.

Note 15 - Share capital; Treasury shares; Share premium

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

	2016		2015		2014	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Authorized capital stock, common shares at P1.0 par value per share	2.5 billion	2,500,000	2.5 billion	2,500,000	1 billion	1,000,000
Issued shares	1,681,058,291	1,681,058	1,653,558,291	1,653,558	758,885,514	758,885
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	1,585,944,202	1,146,452	691,271,425	251,779

The capital stock of the Company increased from P1.0 billion divided into 1 billion shares with a par value of P1 each to P2.5 billion divided into 2.5 billion shares with a par value of P1 each. The increase was approved by majority of the Board of Directors on 24 March 2015 and the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock at a meeting held on 12 May 2015, certified to by the Chairman and the Secretary of the stockholders meeting and a majority of the Board of Directors. The Securities and Exchange Commission (SEC) approved the increase in authorized capital stock on 18 August 2015. In 2015, after approval of increase in authorized capital stock, the Company issued 894,672,777 shares with a par value of P1 per share for a total consideration of P17.9 billion. Transaction costs relating to the issue of shares that were accounted for as a deduction from equity, through share premium, amounted to P40.6 million composed of registration and regulatory fees, and stamp duties.

During its initial public offering, the Company issued 27,500,000 shares with a par value of P1 per share for a total consideration of P1.8 billion. Transaction costs relating to the issue of shares and other costs of initial public offer that were accounted for as a deduction from equity, through share premium, amounted to P49.3 million composed of underwriting and selling fees, professional consultancy cost stamp duties and others. Transaction cost that relate jointly to more than one transaction (eg. Professional and consultancy costs) are allocated to those transactions based on the proportion of the number of new shares sold compared to the total number of outstanding shares immediately after the new share issuance.

As at 31 December 2016, the Company has 35 shareholders (31 December 2015 - 362), 33 of whom hold at least 100 shares of the Company's common shares (31 December 2015 - 336).

Note 16 - Retained earnings

	2016	2015
Unappropriated retained earnings	4,186,095	42,320
Re-measurement gains on net defined benefit obligation, net of tax, closed to retained earnings	925,773	139,188
Unappropriated retained earnings	5,111,868	181,508

No dividends were declared for the year ended 31 December 2015. At the regular meeting of the Board held on 15 August 2016, the Board approved the distribution of a cash dividend to stockholders of record as of 15 August 15 2016 of the unrestricted retained earnings available for cash dividends amounting to P3.3 billion as of 30 June 2016.

As at 31 December 2016, cost of treasury shares, accumulated earnings of its associates and unrealized mark to market gains are not available for dividend declaration. Included in the balance of the retained earnings is the amount of P1.1 billion representing the retained earnings of Pilipinas Shell Petroleum Corporation as at 30 June 1999 upon its merger with the Company.

Note 17 - Earnings per share

Computation of earnings per share (EPS) for the years ended 31 December 2016 and 2015 follow:

	Note	2016	2015	2014
Earnings available to stockholders:				
Profit for the period		7,443,775	3,553,196	(8,488,580)
Weighted average number of shares		1,658,291,898	1,089,791,884	758,885,514
Treasury shares	15	(67,614,089)	(67,614,089)	(67,614,089)
		1,590,677,809	1,022,177,795	691,271,425
Basic and diluted EPS		4.68	3.48	(12.28)

As at 31 December 2016 and 2015, the Company does not have any potentially dilutive stocks.

Note 18 - Cost of sales

The components of cost of sales for the years ended 31 December are as follow:

	Note	2016	2015	2014
Crude and product costs		99,948,902	124,566,383	207,762,537
Duties and specific tax		6,913,388	6,877,950	6,593,207
Logistics and transshipment		1,804,771	2,270,178	2,925,867
Manufacturing expenses		1,197,732	972,312	2,621,261
Freight and wharfage		956,284	948,720	994,294
Salaries and other employee benefits		878,076	792,277	722,840
Depreciation and amortization	8	762,393	549,033	830,083
		112,461,546	136,976,853	222,450,089

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

Note 19 - Selling, general and administrative expenses

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

		Selling			General and administrative		
	Notes	2016	2015	2014	2016	2015	2014
Logistics, storage and handling		2,428,075	2,732,766	2,944,084	-	-	-
Outside services		2,113,555	1,266,635	1,217,847	683,056	349,191	212,737
Rentals		1,475,659	1,380,230	1,307,875	123,043	101,899	83,191
Compensation, pension cost and employee benefits		1,375,772	1,291,968	1,277,130	588,784	599,414	448,400
Advertising and promotions		1,053,902	914,536	606,288	159,476	144,282	133,506
Depreciation and amortization	8, 10	987,542	1,070,332	1,342,849	16,282	18,575	126,365
Repairs and maintenance		698,843	1,793,726	1,088,788	76,860	44,920	33,403
Travel and transportation		183,382	149,388	141,226	30,994	32,113	32,273
Communication and utilities		130,545	162,396	136,331	375,196	387,354	445,898
Write-off/Impairment (reversal) of receivables	4, 7, 20	(119,926)	(50,458)	127,107	-	1,718	(747)
Insurance		-	-	-	95,966	214,130	265,365
Miscellaneous		235,378	349,414	429,375	350,676	340,505	330,007
		10,562,727	11,060,933	10,618,900	2,500,333	2,234,101	2,110,398

Freight-out transportation, storage and handling costs previously treated as costs of sales in the Company's results of operations have been reclassified as part of selling expenses in the Company's results of operations for the years ended 31 December 2016, 2015 and 2014.

Note 20 - Other operating income, net

The components of other operating income (expense) for the years ended 31 December are as follow:

	Notes	2016	2015	2014
Unrealized mark-to-market gain (loss), net	6	333,963	(61,431)	(59,525)
Retailer fee, rental income and franchise commission		331,440	298,908	330,083
Commissions		(226,385)	(40,667)	(31,798)

(Forward)

	Notes	2016	2015	2014
Loss on disposal of property and equipment	8	(153,836)	(52,466)	(16,582)
Royalties		77,504	75,132	68,822
Reversal of asset retirement obligation	8	72,591	240,063	-
Provision for legal cases, net	14	(37,476)	(37,476)	(56,214)
Realized trading loss, net	6, 22	(7,386)	(265,285)	(149,274)
Others, net		80,292	55,461	61,653
		470,707	212,239	147,165

Note 21 - Finance income (expense), net

The components of finance income (expense) for the years ended 31 December are as follow:

	Notes	2016	2015	2014
Finance income				
Unrealized foreign exchange gain		174,529	42,866	-
Interest income	3, 7	1,178	26,264	19,688
Realized foreign exchange gain		-	-	219,804
		175,707	69,130	239,492
Finance expense				
Realized foreign exchange loss		(483,099)	(545,035)	-
Interest and finance charges	12, 13	(474,452)	(1,035,682)	(1,250,786)
Accretion expense	14	(96,038)	(196,347)	(221,690)
Bank charges	3, 12, 13	(4,429)	(4,201)	(8,220)
Unrealized foreign exchange loss		-	-	(179,292)
		(1,058,018)	(1,781,265)	(1,659,988)
		(882,311)	(1,712,135)	(1,420,496)

Note 22 - Related party transactions

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

The transactions and outstanding balances of the Company with related parties as at and for the period ended 31 December 2016 are as follow:

(a) Entities under common shareholdings

	Notes	Transactions	Receivables (Payables)	Terms and conditions
Purchases of goods and services	11	75,470,065	(7,185,123)	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. See (i) and (ii).
Leases	11	108,367	(1,207)	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. See (iii).
(Forward)				

	Notes	Transactions	Receivables (Payables)	Terms and conditions
Sales	4	2,665,270	295,124	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)		724,609	-	Payable balances are to be settled in cash within 30 days from month end.
Admin billings (v)				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 to the Company	11	(641,782)	(57,714)	
Charges by the Company	4	850,918	87,628	
Contributions to the plan	23	176,081	-	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	16	2,250,081	(9,668)	Dividends are usually paid in cash within 12 months from reporting date.

(c) Key management personnel

	Note	Transactions	Balances	Terms
Current				
Salaries and other short-term employee benefits		205,087	-	
Non-current				
Post-employment benefits	23	12,125	-	The terms and arrangements of these non-current employee benefits are summarized in the related notes.
Share-based compensation		19,050	-	

The transactions and outstanding balances of the Company with related parties for the comparative figures as at and for the years ended 31 December 2015 and 2014 are presented in the table below. The terms and arrangements presented for 2016 also apply to the transactions and balances for 2015 and 2014.

(a) Entities under common shareholdings

		2015		2014	
	Notes	Transactions	Receivables (Payables)	Transactions	Receivables (Payables)
Purchases of goods and services	11	83,940,172	(5,953,431)	154,075,877	(9,591,144)
Leases	11	176,886	(4,810)	172,519	(27,924)
Sales	4	1,311,460	115,706	8,540,097	557,813
Royalty fee (iv)		561,926	-	68,822	-
Loans extended by the Company	7	(379,678)	-	-	379,678
Interest on loans extended by the Company	7	18,398	-	13,454	-
Advances extended by the Company	7	-	-	6,216	163,447
Admin billings (v)					
Charges to the Company	11	(102,767)	(322,701)	(91,954)	(84,633)
Charges by the Company	4	265,476	88,899	(181,865)	54,835
Pension	23				
Contributions to the plan		884,396	-	412,907	-
Plan assets - investments		25,512	-	-	25,831
Transfer of obligations due to transfers of employees		-	-	5,528	-
Advances		(762,000)	-	370,000	762,000

(b) Parent company

	Note	2015 Transactions	2015 Payable	2014 Transactions	2014 Payable
Dividends declared	16	-	(9,668)	-	(9,668)

(c) Key management personnel

	Note	2015 Transactions	2015 Balances	2014 Transactions	2014 Balances
Current					
Salaries and other short-term employee benefits		101,856	-	95,910	-
Non-current	23				
Post-employment benefits		23,631	-	7,016	39,412
Share-based compensation		26,147	-	16,003	-

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 the year ended 31 December 2016 is P70.0 billion (2015 – P80.2 billion and 2014 - 153.4 billion). As at 31 December 2016, balances payable to SIETCO amounted to P6.4 billion (2015 – P5.4 billion and 2014 - 8.5 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 P1.8 billion during the year ended 31 December 2016 (2015 - P1.9 billion and 2014 - P1.9 billion). As at 31 December 2016, balances payable to SIPC amounted to P39.0 million (2015 - P1.7 million and 2014 - P522.0 million).

iii. The Company leased from Tabangao Realty, Inc. (TRI) the Shell House office building for a period of three years. Rent expense from a related party charged to operations amounted to nil for the year ended 31 December 2016 as the ownership was transferred from TRI to another non related party in 2016 (2015 – P98.4 million and 2014 - P87.5 million). The Company also leases from TRI, land for several depots and retail sites located around the country. Lease term ranges from 5 to 50 years and is renewable, thereafter. Rent expense charged to operations amounted to P108.4 million for the year ended 31 December 2016 (2015 – P78.5 million and 2014 - P85.0 million). As at 31 December 2016, payables amounted to P1.2 million (2015 - P4.8 million and 2014 - P27.9 million).

iv. On 1 January 2008, the Company and Shell Brands International AG (SBI), an entity under common shareholdings, entered into Trade Marks 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 trade mark and other manifestation. In consideration, the Company shall pay a royalty fee, which shall be computed as certain percentage of sales. Royalty rate varies from 0.02% to 0.79% depending on product type. 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.

Note 23 - Employee benefits

(a) 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 Bureau of Internal Revenue (BIR) on 2 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 0n 24 August 2015 and became effective on 1 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 1 September 2015, all new employees will be entitled to a new plan under a defined contribution arrangement with a 10% sponsor contribution. As of 31 December 2016 and 2015, the number of employees entitled to the defined contribution plan were 41 and nil, 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 2016 and 2015, the Company is in compliance with the requirements of R.A. 7641.

Based on the latest actuarial valuation report prepared by the independent actuary was for the year ended 31 December 2016. The principal assumptions were:

	2016	2015
Discount rate	5.10%	4.80%
Future salary increases	6.00%	6.00%

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 67 and the expected future service years is 17.

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 who performs quarterly review of risks relevant to running the retirement fund.

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 2016 and 2015 are as follow:

	2016 Defined benefit	2016 Defined Contribution	2016 Total	2015 Defined Benefit
Pension expense	131,832	2,905	134,737	379,478

	2016 Defined benefit	2016 Defined Contribution	2016 Total	2015 Defined benefit
Pension asset (obligation)	3,498,296	(1,081)	3,497,215	2,332,177

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

	2016 Defined benefit	2016 Defined Contribution	2016 Total	2015 Defined Benefit
Present value of defined benefit obligation	(3,736,701)	(4,071)	(3,740,772)	(3,971,936)
Fair value of plan assets	7,234,997	2,990	7,237,987	6,304,113
Pension asset (obligation)	3,498,296	(1,081)	3,497,215	2,332,177

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

	Note	2016 Defined Benefit	2016 Defined Contribution	2016 Total	2015 Defined benefit
1 January		2,332,177	-	2,332,177	665,668
Pension expense		(131,832)	(2,905)	(134,737)	(379,478)
Actual contributions		173,176	2,905	176,081	884,396
Remeasurement gains		1,124,775	(1,081)	1,123,694	1,161,591
31 December	10	3,498,296	(1,081)	3,497,215	2,332,177

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

	2016 Defined Benefit	2016 Defined Contribution	2016 Total	2015 Defined benefit
Current service cost	238,878	2,905	241,783	243,084
Net interest income	(122,167)	-	(122,167)	(33,891)
Past service cost	15,121	-	15,121	170,285
	131,832	2,905	134,737	379,478

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

	2016 Defined benefit	2016 Defined Contribution	2016 Total	2015 Defined benefit
1 January	3,971,936	-	3,971,936	4,020,046
Current service cost	238,878	2,905	241,783	243,084
Interest cost	184,636	-	184,636	175,199
Benefits paid	(492,552)	-	(492,552)	(570,044)
Transfer of employees from/to entities under common control	29,746	-	29,746	25,512
Remeasurement (gains) losses from:				
Changes in economic assumptions	(122,355)	-	(122,355)	(176,002)
Experience adjustments	(88,709)	1,166	(87,543)	83,856

(Forward)

	2016 Defined benefit	2016 Defined Contribution	2016 Total	2015 Defined benefit
Plan amendments	-	-	-	232,630
Curtailments	15,121	-	15,121	(62,345)
31 December	3,736,701	4,071	3,740,772	3,971,936

Changes in the fair value of the plan assets follow:

	2016 Defined benefit	2016 Defined Contribution	2016 Total	2015 Defined benefit
1 January	6,304,113	-	6,304,113	4,685,714
Interest income	306,803	-	306,803	209,090
Contributions	173,176	2,905	176,081	884,396
Benefits paid	(492,552)	-	(492,552)	(570,044)
Transfer of employees from/to entities under common control	29,746	-	29,746	25,512
Return on plan assets	913,711	85	913,796	1,069,445
31 December	7,234,997	2,990	7,237,987	6,304,113

The carrying value of the plan assets as at the year ended 31 December 2016 and 2015 are equivalent to the fair values presented above and are comprised mainly of investments in equity securities and similar financial assets, which account for 91% of total plan assets in 2016 and 93% in 2015. Plan assets are comprised of:

	2016 Defined Benefit	2016 Defined Contribution	2016 Total	2015 Defined Benefit
Cash and Cash equivalent	20,275	2,990	23,265	4,826
Investments in debt securities:				
Government bonds and securities	56,952	-	56,952	100,089
Corporate bonds	516,249	-	516,249	255,866
Investment in equity securities:				
Unquoted equity instruments	2,585,514	-	2,585,514	1,849,960
Unit investment trust funds	3,977,160	-	3,977,160	4,014,662
Others	78,847	-	78,847	78,710
31 December	7,234,997	2,990	7,237,987	6,304,113

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

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in unit investment trust funds. The Board of Trustees believes that equities offer the best returns over the long term with an acceptable level of risk.

Unquoted equity instruments include shares of an entity under common shareholdings engaged in real estate leasing.

Expected contribution to the plan in 2017 is P45.1 million for defined benefit plan and P3.0 million for defined contribution plan.

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

	2016 Defined benefit	2016 Defined Contribution	2016 Total	2015 Defined benefit
Following year	95,424	10	95,434	96,306
Between 2 to 3 years	329,851	68	329,919	438,121
Between 3 to 5 years	483,176	336	483,512	514,546
Over 5 years	2,276,233	2,418	2,278,651	2,114,914

(b) 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 at no cost but delivery depends upon 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 as follow:

	2016		2015	
	Shares	Weighted average fair value (in U.S. Dollar)	Shares	Weighted average fair value (in U.S. Dollar)
Shares granted as at 1 January	190,100	32.06	170,793	30.89
Grants during the year	69,245	22.58	75,367	32.81
Shares delivered during the year	(58,760)	23.06	(53,310)	32.49
Cancelled/forfeited during the year	(9,673)	-	(2,750)	-
Shares granted as at 31 December	190,912	25.90	190,100	32.06

The total share-based compensation recognized in the statements of income during the year amounted to P134 million (2015 - P109 million).

Note 24 - Lease, commitments and other arrangements

(a) The Company has depots for the distribution of oil products located in various sites all over the country. All of these depots are leased from various lot owners for periods ranging from 5-25 years contracts renewable upon mutual agreement by both parties. These are integral part of the downstream network as fuel products are stored and loaded to tank trucks and barges from these depots. Amount charged to operations for the year ended 31 December 2016 is P1.4 billion (2015 - P2.0 billion and 2014 - P2.0 billion).

(b) The Company has existing agreements with various lessors covering a number of retail stations. Such agreements have terms ranging from 1 to 25 years renewable upon mutual agreement of the parties. Likewise, the Company entered into various lease agreements covering offices, retail sites and storage points. Amount charged to operations for the year ended 31 December 2016 is P1.4 billion (2015 - P1.4 billion and 2014 - P1.0 billion).

(c) The Company has separate agreements with various ship owners for the use of white and black oil vessels for a fixed time charter fee per day. Amount charged to operations under this contract amounted to P1.3 billion (2015 - P2.3 billion and 2014 - P1.9 billion).

The long-term portion of advance rentals on these leases is included under 'Long-term receivables, rentals and investments, net' account (see Note 7); the current portion is included under 'Prepayments and other current assets' account (see Note 6) in the statement of financial position.

Under PAS 17, the Company recorded additional lease accruals amounting to P359.0 million arising from lease straight-lining for year ended 31 December 2016 (2015 - P14 million and 2014 - P12 million). Lease payments recognized as expense are included under Note 19.

The Company's future minimum rental and other similar commitments related to the above leases as at 31 December are as follow:

	2016	2015	2014
Less than 1 year	2,417,884	3,132,892	3,246,615
More than 1 year but not more than 5 years	6,097,588	6,212,281	4,702,344
Over 5 years	5,823,553	4,761,208	3,974,258

(d) Joint Arrangements

The Company has joint arrangements with various oil companies as follows:

(i) The Company entered into agreements with oil companies at Mandaue terminal, Cabadbaran, Cebu and a few other terminals for the joint use and rationalization of storage and handling facilities, conserving future capital expenditures and reducing exposure to operational risk.

(ii) The Company and two (2) oil companies entered into an operating services agreement to undertake a program to scale down the Pandacan Terminals and to establish joint operations and management at the Pandacan Terminals, including the operation of common, integrated and/or shared facilities, consistent with international and domestic technical, safety, environmental and economic considerations and standards. As at 31 December 2015, the Company's share in asset held-jointly in the agreement amounting to P7.2 million was fully impaired.

These arrangements are classified as joint operations.

Note 25 - Foreign currency denominated assets and liabilities

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

Currency	Assets	Liabilities	Net foreign currency assets (liabilities)	Exchange rate	Peso equivalent
2016					
US dollar	67,902	152,583	(84,681)	49.81	(4,217,961)
UK pound	157	277	(120)	60.87	(7,304)
Euro	1,090	1,715	(625)	51.84	(32,400)
Singapore dollar	-	175	(175)	34.35	(6,011)
Australian dollar	-	4	(4)	35.78	(143)
Japanese yen	-	65,403	(65,403)	0.43	(28,123)
Chinese yuan	-	3,028	(3,028)	7.16	(21,680)
					(4,313,622)
2015					
US dollar	375,690	415,258	(39,568)	47.17	(1,866,423)
UK pound	103	296	(193)	70.18	(13,545)
Euro	3,534	1,483	2,051	51.74	106,119
Singapore dollar	439	2,318	(1,879)	33.52	(62,984)
Malaysian ringgit	371	78	293	10.98	3,217
Australian dollar	-	9	(9)	34.27	(308)
Japanese yen	2,349	149,024	(146,675)	0.39	(57,203)
Chinese yuan	-	2,156	(2,156)	7.27	(15,674)
New Zealand dollar	-	317	(317)	32.29	(10,236)
					(1,917,037)
2014					
US dollar	64,807	304,877	(240,070)	44.62	(10,711,923)
UK pound	99	1,194	(1,095)	69.41	(76,004)
Euro	3,251	5,251	(2,000)	54.34	(108,680)
Singapore dollar	439	2,604	(2,165)	33.70	(72,961)
Malaysian ringgit	228	2	226	12.79	2,891
Australian dollar	-	84	(84)	36.21	(3,041)
Japanese yen	4,191	248,545	(244,354)	0.37	(90,411)
Chinese yuan	-	2,260	(2,260)	7.18	(16,227)
Canadian dollar	-	8	(8)	38.40	(307)
Swedish kroner	-	16	(16)	5.69	(91)
					(11,076,754)

Note 26 - 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
CTA Case Nos. 8004 and 8121, Court of Tax Appeals, 2nd Division
CTA Case No. EB 1007/1003, Court of Tax Appeals En Banc
Filed December 03, 2009

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

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

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

The COC denied the appeal of the Company and demanded the payment of excise tax and VAT for the Company’s CCG and LCCG importations this time from 2004 to 2009. The Company filed a motion for reconsideration of the Letter-Decision, which was denied by the COC. The COC then ordered the Company to pay the principal amount of P7.35 billion and pay the excise tax and VAT on all incoming CCG and LCCG shipments.

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

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

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

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

On 4 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 favor of the Company and respondent was prohibited from collecting the alleged unpaid excise taxes and VAT thereon, on the Company's importations of CCG/LCCG for the relevant periods in 2004 to 2009.

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

In its 28 September 2015 decision, the CTA en banc reversed the CTA Third Division, ruled partially in favor 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.

Status:
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 or a total of P54.38 billion.

Management believes that provision should not be recognized as at 31 December 2016 and 31 December 2015 since it is the Company's assessment that liability arising is not probable because the Company's factual and legal positions are strong. The Company continues to take appropriate legal action and remediation with respect to such case.

(b) *Excise tax on Importations of Alkylate*

Pilipinas Shell Petroleum Corporation vs. Commissioner of Internal Revenue et al.
CTA Case No. 8535, Court of Tax Appeals, 1st 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 (SC).

On 2 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, PSPC filed a Motion for Judgment on the Pleadings. This Motion was denied by the tax court on the 13 February 2015. On 16 March 2015, PSPC 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 paid under protest amounting to P1.1 billion for certain Alkylate shipments.

Status:
A pre-trial was held last 31 January 2017 wherein the CTA has scheduled the presentation of the Company's first witnesses on 28 February 2017.

Management believes that provision should not be recognized as at 31 December 2016 and 31 December 2015 since it is the Company's assessment that liability arising is not probable because the Company's factual and legal positions are strong.

(c) Abandonment Case

In 1996, the COC filed a case against the Company alleging that the Company had failed to timely pay duties and taxes on its crude imports. The lower court found in favor of the COC and the Company has since appealed the decision on the grounds that the delay in payment was due to disputes regarding the computation of the amounts.

In a Decision issued on 5 December 2016 (a copy of which was served on the Company on 9 January 2017), the Supreme Court granted the Company's Petition and accordingly reversed and set aside the decisions of the lower courts (i.e. the Decision dated 13 May 2010 and Resolution dated 22 February 2011 of the Court of Tax Appeals Former En Banc In CTA EB 472).

In the said Decision, the Supreme Court stated that there is neither any iota of evidence nor concrete proof offered and admitted to clearly establish that the Company committed any fraudulent acts and that there is no factual finding of fraud.

On 27 January 2017, the Company received a copy of the Government's motion seeking reconsideration of the Decision as well as the referral of the same to the Supreme Court En Banc.

(d) *Tax Credit Certificates Cases*

Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation
SC GR No. 204119-20, Supreme Court 2nd Division
Filed 5 December 2012

Matter Summary:
This is an appeal from the Decision of the Court of Appeals which affirmed the Court of Tax Appeals in setting aside the CIR's demand for payment of the sum of P1.7 billion as the Company's excise tax liabilities for the years 1992, 1994-1997, which were paid by the Company through TCCs and TDMs.

Status:
Awaiting action by the Supreme Court.

Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation
SC-G.R. No. 197945, Supreme Court
Filed October 04, 2011

Matter Summary:
From 1988 to 1997, the Company paid some of its excise tax liabilities with Tax Credit Certificates duly assigned and transferred to it by other BOI-registered entities. In 1998, the BIR sent a collection letter to the Company demanding payment of allegedly unpaid excise taxes. CIR sought to collect from the Company the amount of P235 million. This became the subject of several protests which led to various cases before the CTA.

This is an appeal from the Decision dated 22 February 2011 of the Court of Tax Appeals in CTA EB Case No. 535 which denied the CIR's petition for lack of merit and ruling that the Company has duly settled its excise tax liabilities by utilizing valid and genuine TCC/TDMs, obtained in good faith and for value, and in accordance with the applicable laws and rules.

Status:
Awaiting further action by the court.

Republic of the Philippines rep. by Bureau of Customs vs. Pilipinas Shell Petroleum Corporation & Filipino Way Industries
SC-G.R. No. UDK 14908, SC G.R. No. 209324 Supreme Court

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 favor 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.

This is an appeal by the government from the decision of the Court of Appeals affirming the orders of RTC Manila Branch 49 that dismissed the case

Status:
In its Decision dated 09 December 2015, the Supreme Court (SC) remanded the case to the lower court 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 amounting. The Company filed a Motion for Reconsideration from this decision on 04 February 2016.

(e) *Excise Tax Refund Case*

There are also tax cases filed by the Company for its claims from the government amounting to P745.9 million that are pending as at 31 December 2016 and 31 December 2015 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.

(f) Other significant cases

(i) Cases Filed by the West Tower Condominium Corporation

(a) *West Tower Condominium Corp. et al. vs. Judge Elpidio R. Calis et al*
SC G.R. No. 215901, Supreme Court

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.

(b) ***West Tower Condominium Corp. vs. Garde, et al (Criminal Negligence)***
PS No. XV-05-INV-11J-02709 , Department of Justice
***Filed October* 2, 2011**

Matter Summary:
This is a complaint for criminal negligence against 11 Directors of the Company and 2 Officers of the Company who are also directors of FPIC. Aside from the other Directors and Officers of FPIC, also charged were Directors of First Gen Corp. and Directors of Chevron.

Each of the Company's Directors (11) and Officers (2) filed their respective Counter-affidavits on the 19th of January 2011. The Directors asserted that there is no basis to find them culpable for negligence. The City Prosecutor will make a determination as to the existence of probable cause, which is necessary before the Respondents can be indicted.

Status:
The case is pending resolution.

(ii) Desalination ordinance

City of Batangas, et al., vs. Pilipinas Shell Petroleum Corp., et al.
SC G.R. No. 195003, Supreme Court

In 2003, pursuant to Batangas City Ordinance No. 3 S. 2001 (the Desalination Ordinance), the Company and First Gas Power Corporation commissioned a groundwater study of Batangas City to determine the effects of industrial operations on the Batangas aquifer. The Desalination Ordinance requires all established heavy industries established along the Batangas City portion of the Batangas Bay and in areas declared as Heavy Industrial Zones to construct desalination plants. The ordinance also prohibits the use or exploitation of underground fresh water for cooling system and industrial purposes. The Ordinance provided for a 5-year grace period within which all existing industries must comply with the Ordinance. The results of the study show that the present residential, commercial and industrial users of groundwater in Batangas do not adversely affect the Batangas aquifer. Further studies of the Tabangao Watershed confirmed the initial finding that that there was no legal basis for the requirement to install desalination plants. The Company sought and obtained an injunction enjoining the City of Batangas from implementing the Ordinance. The Regional Trial Court of Batangas as well as the Court of Appeals decided in favor of the Company. The case is currently pending in the Supreme Court.

(iii) Others

Cecilio Abenion, et al vs. Dow Chemical Co, et al.
SC G.R. No. 202295, Supreme Court, 1st Division
SC-G.R. Case 199182-89, Supreme Court, 2nd Division
Filed December 23, 2011

Matter Summary:
In 1996, an action for damages was filed against several U.S. corporations, including Shell Oil Company, alleged to be manufacturers and users of pesticides used in plantations in Davao City. A global compromise agreement was reached between Shell Oil Pilipinas Shell (among others) and the claimants.

In August 2009, a Davao City trial court issued a Notice of Garnishment of the Company's funds in a bank. The Company sought and obtained protective relief from the Court of Appeals on the basis that it was not a party to the case nor to the compromise agreement subject of the case. The Court of Appeals further ordered the judge who issued the execution and garnishment against the Company's assets to recuse himself from further presiding in the proceedings in the trial court. The SC has declared the dismissal of one of the two petitions filed for failure of petitioners to sufficiently show that the Court of Appeals committed any reversible error in the decision and resolution. The SC has not yet resolved the remaining petition but the management believes that the ultimate outcome of this contingency will not have a material impact on the Company's financial statements, given that it is similar to the previous petition which will most probably have the same outcome.

Status:
Two separate petitions for review of the Court of Appeals' decision were filed by the claimants with the Supreme Court. One of the petitions was dismissed by the Supreme Court 1st Division (SC G.R. No. 202295). The other petition is still pending with the 2nd Division (SC G.R. No. 199182-89).

Note 27 - 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.

The Company conducted its initial public offering and officially listed with the PSE on 3 November 2016.

Note 28 - Summary of significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

28.1 Basis of preparation

<u>Basis of Preparation:</u>

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

<u>Statement of Compliance:</u>

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). The Company also prepares and issues financial statements presented in accordance with PFRS.

<u>Changes in Accounting Policies and Disclosures:</u>

- Amendments to PFRS 10, PFRS 12 and PAS 28*, Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
    - Amendment to PFRS 5, *Changes in Methods of Disposal*
    - Amendment to PFRS 7, *Servicing Contracts*
    - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
    - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
    - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

<u>Standards Issued But Not Yet Effective</u>

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 1 January 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 financial statements of the Company.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

  These amendments are not expected to have any impact on the Company.

Effective beginning on or after 1 January 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Company is assessing the potential effect of the amendments on its financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or 1 January 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Company since none of the entities within the Company have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018.

  These amendments are not expected to have any impact on the Company.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after 1 January 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statement of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

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

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On 13 January 2016, the Financial Reporting Standards Council postponed the original effective date of 1 January 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

28.2 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.

28.3 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.

Classification

The Company classifies its financial assets and liabilities according to the categories described below. The classification depends on the purpose for which the financial assets were acquired and their characteristics. Management determines the classification of its financial assets at initial recognition.

i. Financial assets

The Company classifies its financial assets in the following categories: fair value through profit and loss (FVPL), loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The Company's financial assets are limited to loans and receivables, available-for-sale financial assets and derivatives.

ii. Financial assets at fair value through profit or loss

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. The Company has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value 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 and liabilities (see Notes 6 and 11).

iii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and where management has no intention of trading. These are included in current assets, except for maturities greater than 12 months after the statement of financial position date, in which case, these are classified as non-current assets.

Included in this category are the Company's cash (see Note 3), trade and other current receivables (except for claims from government and miscellaneous receivables) (see Note 4), loans to an entity under common shareholdings, market investment loans and other long-term receivables (see Note 7).

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial assets within 12 months from the statement of financial position date. Available-for-sale financial assets mainly represent unquoted equity securities and proprietary club shares and are classified under Prepayments and other current assets and other assets, net in the statement of financial position (see Notes 6 and 10).

v. Financial liabilities

The Company classifies its financial liabilities at initial recognition in the following categories: at FVPL and other financial liabilities at amortized cost. The classification depends on the purpose for which the financial liabilities were acquired.

vi. Financial liabilities at fair value through profit or loss

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.

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 accounts payable and accrued expenses account in the statement of financial position (see Note 11).

vii. Other financial liabilities at amortized cost

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder. The Company's financial liabilities under this category include accounts payable and accrued expenses (except amounts due to government or its agencies) (see Note 11), payable to related parties (see Note 22), dividends payable (see Note 22), short-term borrowings (see Note 12), loans payable (see Note 13) and cash security deposits (see Note 14).

Recognition and measurement

i. Initial recognition and measurement

Regular-way purchases and sales of financial assets are recognized on trade date (the date on which the Company commits to purchase or sell the asset) at invoice amount. Financial assets and liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs.

Financial liabilities carried at FVPL are initially recognized at fair value, and related transaction costs are recognized as expense in profit or loss.

ii. Subsequent measurement

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Available-for-sale financial assets are subsequently measured at fair value. Unrealized gains and losses arising from changes in the fair value of assets classified as available-for-sale are recognized in other comprehensive income.

Derivatives are subsequently re-measured at their fair values. 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. Gains or losses on derivatives accounted for at FVPL arising from changes in the fair value are presented in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other non-operating income when the Company's right to receive payments is established.

Determination of fair value

The fair values of quoted investments classified as available-for-sale financial assets are based on current market prices. If the market for available-for-sale financial assets is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's-length transactions with reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs (see Note 28.4).

Impairment of financial assets

i. Assets carried at amortized cost

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial assets or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indicators that the customers, group of customers, individual debtor and/or group of individual debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Company first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

If, in a subsequent period, the amount of the impairment loss increases or decreases and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, previously recognized impairment loss is increased or reduced by adjusting the allowance account. Changes to the previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited against selling, general and administrative expenses in the statement of income.

Reversals of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited against selling, general and administrative expenses in the statement of income.

ii. Assets classified as available-for-sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale financial assets, a significant decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.
Financial liabilities are derecognized when extinguished, i.e., when the obligation is discharged or is cancelled or expires. 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 modification is treated as a derecognition of the original liability and the recognition of a new liability, and 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 2016 and 2015, there are no financial assets and financial liabilities that were offset.

28.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily of equity investments classified as available-for-sale. The Company's investment in available-for-sale financial assets (see Note 10) which is measured at fair value at 31 December 2016 and 2015 is classified under level 1. The Company does not have non-financial assets and liabilities under Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company's derivatives in relation to forward contracts are classified under level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Company does not have financial instruments and non-financial assets/liabilities classified under level 3.

As at 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

28.5 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.

Provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments is considered indicators that the receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the provision is recognized in the statement of income under selling expenses, and general and administrative expenses. When a trade receivable is uncollectible, it is written-off against the allowance account for trade receivables. Subsequent recoveries of the amount previously written-off are credited against selling expenses in the statement of income.

28.6 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, in case of refined and finished products, is the estimated selling price in the ordinary course of business. 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 statement of income, in the period in which the related revenue is recognized.

28.7 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.

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 2016 and 2015, the Company has no provision for impairment of input VAT (see Note 6).

28.8 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 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.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT), 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.

28.9 Property 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.

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.

28.10 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 10).

28.11 Investments in associates and joint arrangements

(a) 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.

(b) 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.

28.12 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 of the assets 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 pre-tax 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).

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 20).

28.13 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.

28.14 Borrowings and 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.

28.15 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.

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.

28.16 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.

28.17 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.

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.

28.18 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.

28.19 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 share.

28.20 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 21).

28.21 Revenue and expense recognition

i. Revenue

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.

- *Sale of oil 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, rebates and loyalty points. 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.

- *Other operating income*

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

- *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 is determined that such income will accrue to the Company.

- *Dividend income*

  Dividend income is recognized when the right to receive payment is established. The Company's dividend income is presented as part of other non-operating income in the statement of income.

ii. *Costs and expenses*

Costs and expenses are charged to operations as incurred.

28.22 Leases - Company is the lessee

Leases of retail stations, pipelines and office premises where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

When the Company enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Company assesses whether the arrangement is, or contains, a lease. The Company does not have such arrangements.

28.23 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 Group recognizes related restructuring costs

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

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

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

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 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.

28.24 Related party relationships and transactions

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.

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.

28.25 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.

28.26 Events after statement of financial position date

Post year-end events that provide additional information about the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Note 29 - Financial risk management

29.1 Financial risk factors

The Company's operations expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest risk, and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by its Regional Treasury - Shell Treasury Centre East (STCE) under policies approved by the Board of Directors. STCE identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

29.1.1 Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or the prices of crude oil and refined products will adversely affect the value of the Company's assets, liabilities or expected future cash flows.

i. Foreign exchange risk

The Company operates internationally and is exposed to foreign currency exchange risk arising from currency fluctuations, primarily with respect to the importations of crude and finished products denominated in US dollar.

Foreign currency exchange risk may also arise from future commercial transactions and recognized assets and liabilities denominated in a currency other than the Company's functional currency.

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

As at 31 December 2016, 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 P147.6 million (2015 – P65.3 million) lower/higher, as a result of foreign exchange gains/losses on translation of US dollar-denominated receivables and payables as at 31 December 2016 and 2015.

Management considers that there are no significant foreign exchange risks with respect to other currencies disclosed in Note 25.

ii. Cash flow and fair value interest rate risk

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

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

The Company's interest-rate risk arises from its borrowings. Borrowings issued at variable rates expose the Company to cash flow interest-rate risk. As at 31 December 2016 and 2015, 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 2016, if interest rates on Philippine peso-denominated borrowings had been 100 basis points (assessment threshold used by management) higher/lower with all other variables held constant, post-tax profit for the year would have been P114.6 million (2015 – P131.0 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. Management uses 100 basis points as threshold in assessing the potential impact of interest rate movements in its operations.

iii. Commodity and other price risks

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

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

29.1.2 Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to trade and non-trade receivables.

The Company maintains cash and certain other financial instruments with various major financial institutions. To minimize this risk, the Company performs periodic evaluations of the relative credit standing of these financial institutions and where appropriate, places limits on the amount of credit exposure with any one institution. Additional information is presented in Note 3.

The Company has policies in place to ensure that sales of products are made to customers with acceptable creditworthiness. Counterparty credit risk is managed within a framework of individual credit limits with utilization being regularly reviewed. Credit checks are performed by a department independent of sales department, and are undertaken before contractual commitment. Where appropriate, cash on delivery terms are used to manage the specific credit risk. Also there are collaterals and security deposits from customers taken which enables to manage the risk.

There is no concentration of credit risks as at statement of financial position dates as the Company deals with a large number of homogenous trade customers. 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 2016 and 2015, the Company has the following:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
2016					
Financial assets:					
Receivables	7,794,837	-	7,794,837	3,318,201	4,476,636
2015					
Financial assets:					
Receivables	6,595,185	-	6,595,185	4,766,482	1,828,703

29.1.3 Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. The Company has access to sufficient external debt funding sources (banks credit lines) to meet currently foreseeable borrowing requirements. The Treasury group centrally monitors bank borrowings, foreign exchange requirements and cash flow position.

Surplus cash is invested into a range of short-dated money market instruments, time deposits and money funds, which seek to ensure the security and liquidity of investments while optimizing yield.

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.

	0-90 days	91-180 days	180 days - 1 year	Over 1 year	Total
2016					
Short-term borrowings-Principal	5,370,000	-	-	-	5,370,000
Short-term borrowings-Interest	204,928	-	-	-	204,928
Loans payable-Principal	-	-	-	11,000,000	11,000,000
Loans payable-Interest	82,089	82,090	164,179	385,113	713,471
Dividends payable	9,668	-	-	-	9,668
Accounts payable and accrued expenses	16,428,740	275,170	69,838	247,416	17,021,164
Derivatives	3,696	-	-	-	3,696
	22,099,121	357,260	234,017	11,632,529	34,322,927
2015					
Short-term borrowings-Principal	2,717,000	-	-	-	2,717,000
Short-term borrowings-Interest	1,087				1,087
Loans payable-Principal	-	-	-	16,000,000	16,000,000
Loans payable-Interest	114,801	113,540	227,080	727,732	1,183,153
Dividends payable	9,668	-	-	-	9,668
Accounts payable and accrued expenses	15,877,255	225,086	72,257	-	16,174,598
Derivatives	130,434	-	-	-	130,434
	18,850,245	338,626	299,337	16,727,732	36,215,940

Availability of funding to settle the Company's payables are ensured since the Company has unused credit lines of P75.3 billion as at 31 December 2016 (2015 – P85.3 billion) and undrawn borrowing facilities at floating rate amounting to P75.3 billion (2015 – P73.5 billion), which is expiring within one year.

Given the adequacy of the Company's short term credit facilities, it has assessed that it no longer requires its short-term credit facility with STCE (2015 - P11.8 billion). The Company's master agreement with STCE was terminated on 04 April 2016.

29.2 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.

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

The gearing ratios at 31 December 2016 and 2015 are as follow:

	Notes	2016	2015
Total loans and borrowings	12,13	16,370,000	18,717,000
Less: cash	3	4,274,266	3,576,802
Net debt		12,095,734	15,140,198
Total equity (excluding other reserves)		32,447,556	25,723,951
Total capital		44,543,290	40,864,149
Gearing ratio		27%	37%

The Company is not subject to externally imposed capital requirement.

29.3 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 2016 and 2015:

	Notes	2016	2015
Financial assets			
Loans and receivables			
Cash	3	4,274,266	3,576,802
Receivables	4	7,794,837	6,595,185
Derivatives	6	222,336	15,111
Market investment loans	7	93,417	79,330
Long-term receivables	7	64,365	35,267
Available-for-sale financial assets	6,10	335,451	307,461
Total financial assets		12,784,672	10,609,156
Financial liabilities			
Other financial liabilities			
Accounts payable and accrued expenses	11	16,858,752	15,957,181
Dividends payable	22	9,668	9,668
Derivatives	11	3,696	130,434
Cash security deposits	14	302,208	340,834
Short-term borrowings	12	5,370,000	2,717,000
Loans payable	13	11,000,000	16,000,000
Total financial liabilities		33,544,324	35,155,117

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 for which it is practicable to estimate such value:

i. Current financial assets and liabilities

Due to the short-term nature of the accounts, the fair value of cash and cash equivalents, receivables, deposits, accounts payable (excluding derivative financial liabilities) and short-term borrowings approximate the amount of consideration at the time of initial recognition.

ii. Financial assets and liabilities carried at cost

Staff car loans, market investment loans, other long-term receivables and payables, are carried at cost which is the repayable amount.

iii. Financial assets and liabilities carried at fair value

The Company's equity securities classified as available-for-sale financial assets are marked-to-market if traded and quoted. The predominant source used in the determining the fair value of the available-for-sale financial assets is the quoted price and is considered categorized under Level 1 of the fair value hierarchy.

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

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

iv. Loans payable

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

Note 30 - 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.

30.1 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.

(a) 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 28.5. The carrying amount of receivables and other information are disclosed in Note 4.

(b) 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.

(c) 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 2016 is 3.7% and the amount is recognized as accretion cost or income in the statement of income.

The Company has set total outstanding provision of P442 million (2015 - P864 million) to cover the required environmental remediation covering specific assets, based on external evaluation and study, and total outstanding provision of P1.5 billion (2015 - P1.4 billion) for ARO.

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 14.

In relation to the First Philippine Industrial Corporation (FPIC) oil pipeline leak incident in 2010, there is no showing that the mere entry of the Company into agreements with FPIC for the use of the white oil pipeline created a legal or constructive obligation on the part of the Company.

(d) 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.

(e) 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 23, include among others, discount rates, and salary increase rates.

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

	Impact on equity and income before tax	
	2016 (000's)	2015 (000's)
Discount rate		
Increase by 0.50%	(209,483)	(204,158)
Decrease by 0.50%	172,076	222,031
Salary increase rate		
Increase by 0.50%	243,150	213,690
Decrease by 0.50%	(205,742)	(198,597)

The above sensitivity is based on a change 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.

30.2 Critical judgments in applying the Company's accounting policies

(a) Impairment of long-lived assets

Long-lived assets (see Notes 8 and 10) 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 believes that no impairment charge is necessary because there are no impairment indicators on all long-lived assets at CGU level at 31 December 2016 and 2015.

(b) 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 9).

The Company recognizes provision for impairment of input VAT and specific tax 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).

(c) Assessing contingencies

The Company is currently involved in various legal proceedings including a number of tax cases (see Note 26). 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 14 and 26).

Note 31 - Supplementary information required by the Bureau of Internal Revenue

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.

i. Output value-added tax (VAT)

Output VAT declared and the revenues upon which the same was based as at 31 December 2016 consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT		
Sale of goods	135,005,087	16,200,610
Sale to government	263,682	31,642
Sale of services	116,380	13,966
Others	270,323	32,439
	135,655,472	16,278,657

(Forward)

	Gross amount of revenues	Output VAT
Zero-rated		
Sale of goods	13,443,526	-
Exempt		
Sale of goods	45,206	-
Total	149,144,204	16,278,657

Zero-rated sale of goods pertains to direct export sales transactions with PEZA-registered activities and international vessels pursuant to Section 108 (b) of National Internal Revenue Code.

VAT exempt sales pertain to transactions with exempt entities such as Shell Philippines Exploration B.V., Adlaon Energy Development Corporation, British Embassy, Embassy of Malaysia, Embassy of the Czech Republic, Embassy of the Russian, Food and Agriculture, Intl Labour Organization, New Zealand Embassy, Pasar Employees Multi Purpose, Posco Philippine Manila, Royal Netherlands Embassy, San Beda College, South African Embassy, Top ammusement Technology Intl, United Nations Children Fund,United Nations Devt Programme and United Nations Population Fund, which are exempt pursuant to Section 109 of National Internal Revenue Code.

ii. Input VAT

Movements in input VAT for the year ended 31 December 2016 follow:

Beginning balance	6,386,362
Add: Current year's domestic purchases/payments for:	
Importation of goods for resale or manufacture	8,521,316
Domestic goods for resale or manufacture	4,283,384
Services lodged under other accounts	1,399,368
Services rendered by non-residents	89,602
Capital goods subject to amortization	40,233
Capital goods not subject to amortization	89
Other adjustments	13,184
Deduct: Claims for tax credit/refund	-
Total input VAT	20,733,538

iii. 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 2016 follow:

Landed cost of imports	69,329,482
Customs duties and tariff fees paid	1,681,422

iv. 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 P20.8 million were reimbursed by the Company as part of bank service fee.

v. Excise tax

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 2016 are as follow:

	Paid	Charge	Balance
Petroleum products	4,015,000	4,234,023	8,249,023
Mineral products	7,443	6,574	14,017
	4,022,443	4,240,597	8,263,040

vi. All other local and national taxes

All other local and national taxes accrued and paid for the year ended 31 December 2016 consist of:

Real property taxes	228,854
Municipal taxes/Mayor's permit	8,797
Community tax	11
	237,662

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

vii. Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended 31 December 2016 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	478,810	42,503	521,313
Expanded withholding tax	620,822	89,975	710,797
Fringe benefit tax	8,421	4,593	13,014
Final withholding tax	321,343	534	321,877
	1,429,396	137,605	1,567,001

Creditable withholding tax for 2016 is P401.0 million, which represents balance supported with creditable withholding tax certificates as at 31 January 2017.

viii. Tax assessments/cases

The Company's taxable year 2013 is currently under audit by the BIR.

Annex 68-C

Pilipinas Shell Petroleum Corporation

Reconciliation of Retained Earnings available for Dividend Declaration
As at 31 December 2016
(All amounts in thousand Philippine Peso)

Unappropriated Retained Earnings beginning			181,508
Adjustments: *(see adjustments in previous year's Reconciliation)*			(113,217)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning			68,291
Add: Net income actually earned/realized during the period		7,443,775	
Less:	Non-actual/unrealized income net of tax	-	
	Equity in net income of associate/joint venture	(18,854)	
	Unrealized foreign exchange gain – net (except those attributable to cash and cash equivalents)	-	
	Unrealized actuarial gain	-	
	Fair value adjustment (M2M gains)	(333,963)	
	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 the PFRS	-	
Add:	Non-actual losses	-	
	Depreciation on revaluation increment (after tax)	-	
	Adjustment due to deviation from PFRS/GAAP - loss	-	
	Loss on fair value adjustment of investment property (after tax)	-	
Net income actually earned during the period			7,090,958
Add (Less):			
	Dividends declarations during the year	-	(3,300,000)
	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			3,352,143

Pilipinas Shell Petroleum Corporation

Schedule of Philippine Financial Reporting Standards
Effective Standards and Interpretations as at 31 December 2016

		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		

		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9*		✓	
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Reissue to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the 'own credit' gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of PFRS 9*		✓	
	Amendment to PFRS 9, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition*		✓	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10, 12 and PAS 27: Consolidation for investment entities			✓
	Amendments regarding the sale or contribution of assets between investor and its associate or joint venture	✓		
	Amendments regarding the application of the consolidation exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendments regarding the accounting for acquisitions of an interest in a joint operation	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments regarding the application of the consolidation exception	✓		
PFRS 13	Fair Value Measurement	✓		

		Adopted	Not Adopted	Not Applicable
PFRS 14	Regulatory Deferral Accounts	✓		
PFRS 15	Revenue from Contracts with Customers*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments resulting from the disclosure initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments regarding the clarification of acceptable methods of depreciation and amortization	✓		
	Amendments bringing bearer plants into the scope of PAS 16	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
PAS 19 (Amended)	Amendments to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service*		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		

		Adopted	Not Adopted	Not Applicable
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture*		✓	
	Amendments regarding the application of the consolidation exception*		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Financial Instruments Assets and Liability Offsetting	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of assets - Recoverable amount disclosures	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments regarding the clarification of acceptable methods of depreciation and amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Financial Instruments: Recognition and Measurement - Novation of Derivatives and Hedge Accounting			✓
	Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in PAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when PFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception*		✓	
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2	✓		
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		

		Adopted	Not Adopted	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

The standards and interpretations marked with an asterisk (*) refer to those standards and interpretations that are effective after 31 December 2016.

The standards and interpretations that are labeled as “Not Applicable” are already effective as at 31 December 2016 but will never be relevant/applicable to the Company or are currently not relevant to the Company because it has currently no related transactions.

Pilipinas Shell Petroleum Corporation

Schedule A - Financial Assets
As at 31 December 2016
(All amounts in thousand 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 statement of financial position	Valued based on market quotation at end of reporting period	Income received and accrued
Available-for-sale financial assets				
Alabang Country Club, Inc.	2	7,600	7,600	-
Apo Golf and Country Club, Inc.	1	3	3	
Atlas Consolidated Mining and Development Corporation	3,000,000	14,970	14,970	-
Canlubang Golf and Country Club, Inc.	2	1,800	1,800	-
Club Filipino de Cebu, Inc.	24	700	700	
Manila Golf & Country Club, Inc.	6	252,000	252,000	-
Manila Polo Club, Inc.	2	26,000	26,000	-
Manila Southwoods Golf & Country Club	1	950	950	-
Mimosa Golf & Country Club	1	400	400	-
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	70	70	-
Sta. Elena Golf Club, Inc.	2	6,400	6,400	-
The Royal Northwoods and Golf Club & Country Club, Inc.	1	1,000	1,000	
Tower Club, Inc.	1	130	130	-
Valley Golf Club, Inc.	1	170	170	
Wack Wack Golf & Country Club, Inc.	1	19,500	19,500	-
Total available-for-sale financial assets		335,451	335,451	
Cash			4,274,266	
Receivables			7,794,837	
Derivatives			222,336	
Market investment loans			93,417	
Long-term receivables			64,365	
Total Financial Assets			12,784,672	

Pilipinas Shell Petroleum Corporation

Schedule B - Amounts Receivable from Directors, Officers,
Employees, Related Parties and Principal Stockholders
(Other than Related Parties)
As at 31 December 2016

Name of employee	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Not 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.

Pilipinas Shell Petroleum Corporation

Schedule C - Amounts Receivable from Related Parties
which are eliminated during the Consolidation Of Financial Statements
As at 31 December 2016
(All amounts in thousand Philippine Peso)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Not Current	Balance at end of period
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Pilipinas Shell Petroleum Corporation

Schedule D - Intangible Assets - Other Assets
As at 31 December 2016
(All amounts in thousand Philippine Peso)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Program Software	10,081	2,504	(3,952)	-	-	8,633

Pilipinas Shell Petroleum Corporation

Schedule E - Long Term Debt
As at 31 December 2016
(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	11,000,000	-	11,000,000

Pilipinas Shell Petroleum Corporation

Schedule F - Indebtedness to Related Parties
(Long-Term Loans from Related Companies)
As at 31 December 2016

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

Pilipinas Shell Petroleum Corporation

Schedule G - Guarantees of Securities of Other Issuers
As at 31 December 2016

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

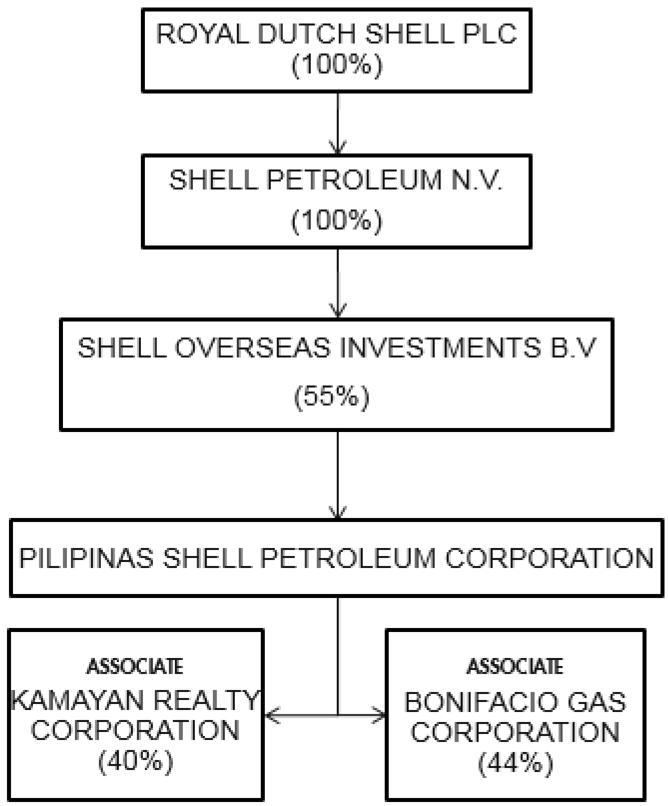
Pilipinas Shell Petroleum Corporation

Schedule H - Capital Stock
As at 31 December 2016

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	-	890,860,212	713,318	721,870,672

Pilipinas Shell Petroleum Corporation

Schedule I – Relationship Map
As at 31 December 2016



Pilipinas Shell Petroleum Corporation

Schedule J – Use of Initial Public Offering Proceeds
As at 31 December 2016
(27,500,000 Primary Offer Shares at P67 Offer Price)
(All amounts in millions Philippine Peso)

	Prospectus	Actual
Gross Proceeds	1,842.5	1,842.5
Net Proceeds	1,356.8	1,356.8

Use of Proceeds	Prospectus Target Net Proceeds	Actual Net Proceeds	Nov-Dec 2016 Actual Application	Total Utilized Amount	Total Unutilized Amount
Retail network and offerings growth	732.6	732.6	218.8	218.8	513.8
Refinery maintenance, turnaround and upgrade	305.3	305.3	227.3	227.3	78
Supply and distribution and network enhancement	183.2	183.2	93.2	93.2	90
Working capital and other corporate expenses	135.7	135.7	135.7	135.7	0
Total	1,356.8	1,356.8	675	675	681.8

Pilipinas Shell Petroleum Corporation

Additional Components of Financial Statements
Schedule of Financial Soundness Indicators
As at and for the period ended 31 December 2016 and 2015

	2016	2015
Current Ratio (a)	1.73	1.94
Debt Ratio (b)	0.17	0.23
Debt to Equity (c)	0.37	0.59
Asset to Equity Ratio (d)	2.18	2.57
Interest Coverage Ratio (e)	21.57	6.82
Return on Assets (f)	10.54%	5.37%
Return on Equity (g)	22.94%	13.81%

a. *Current ratio is computed by dividing current assets over current liabilities.*

b. *Debt ratio is computed by dividing net debt (short-term and long-term borrowings less cash) over total assets.*

c. *Debt to equity ratio is derived by dividing net debt (short-term and long-term borrowings less cash) over stockholder's equity (exclusive of Other Reserves).*

d. *Asset to equity ratio is derived by dividing total assets over stockholder's equity (exclusive of Other Reserves).*

e. *Interest coverage ratio is derived by dividing earnings before interest expense and taxes over interest expense.*

f. *Return on assets is computed as Profit (Loss) for the year divided by total assets.*

g. *Return on equity is computed as Profit (Loss) for the year divided by stockholder's equity (exclusive of Other Reserves).*

Pilipinas Shell Petroleum Corporation

Index to Financial Statements and Supplementary Schedules
for the Securities and Exchange Commission
For the period ended 31 December 2016

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