SECURITIES AND EXCHANGE COMMISSION
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Pilipinas Shell Petroleum Corporation
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1227 Makati City, Philippines
Tel +63 2 499 4001
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Telex 63247 Shell PN
Website http://www.shell.com

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 for the six months period ended 30 June 2016 and 31 December 2015, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders or members.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders for the period ended 30 June 2015 and 30 June 2016, respectively, have examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such examination.

EDGAR O. CHUA
Chairman & President

JOSE JEROME R. PASCUAL III
Chief Financial Officer

Signed this 19th day of August 2016.

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Building a better working world

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

Tel: (632) 891 0307
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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 AUDITORS' 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 Financial Statements

We have audited the accompanying financial statements of Pilipinas Shell Petroleum Corporation which comprise the statement of financial position as at June 30, 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the six months ended June 30, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITORS' 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 the financial statements of Pilipinas Shell Petroleum Corporation as at June 30, 2016 and for the six months ended June 30, 2016 and 2015 and have issued our report thereon dated August 15, 2016. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with 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 stated, in all material respects, the information required to be set forth therein in relation 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),
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. 5321714, January 4, 2016, Makati City

August 15, 2016

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pilipinas Shell Petroleum Corporation as at June 30, 2016, and its financial performance and its cash flows for the six months ended June 30, 2016 and 2015 in accordance with Philippine Financial Reporting Standards.

Other Matter

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

SYCIP GORRES VELAYO & CO.

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INDEPENDENT AUDITORS' 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

We have audited the financial statements of Pilipinas Shell Petroleum Corporation, as at June 30, 2016 and for the six months ended June 30, 2016 and 2015, on which we have rendered the attached report dated August 15, 2016.

In compliance with Securities Regulation Code Rule No. 68, As Amended (2011), we are stating that the Company has three hundred thirty eight (338) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

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August 15, 2016

Pilipinas Shell Petroleum Corporation

Financial Statements
As at 30 June 2016 and 31 December 2015
and for the six months ended
30 June 2016 and 2015

and

Independent Auditors' Report

Pilipinas Shell Petroleum Corporation

Statement of Financial Position
As at 30 June 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	4,815,003	3,576,802
Receivables, net	4	8,265,974	10,387,023
Inventories, net	5	13,196,747	11,348,533
Prepayments and other current assets	6	10,729,216	11,328,225
Total current assets		37,006,940	36,640,583
Non-current assets			
Long-term receivables, rentals and investments, net	7	3,903,773	885,263
Property and equipment, net	8	22,439,317	22,309,078
Deferred income tax assets, net	9	1,899,271	3,712,251
Other assets, net	10	2,868,277	2,671,827
Total non-current assets		31,110,638	29,578,419
Total assets		**68,117,578**	**66,219,002**
Current liabilities			
Accounts payable and accrued expenses	11	16,101,873	16,159,486
Dividends payable	22	9,668	9,668
Short-term borrowings	12	4,830,000	2,717,000
Total current liabilities		20,941,541	18,886,154
Non-current liabilities			
Loans payable	13	11,000,000	16,000,000
Provisions and other liabilities	14	4,978,331	5,237,718
Total non-current liabilities		15,978,331	21,237,718
Total liabilities		**36,919,872**	**40,123,872**
Equity			
Share capital- P1 par value	15	1,653,558	1,653,558
Share premium	15	24,395,991	24,395,991
Treasury shares	15	(507,106)	(507,106)
Retained earnings	16	5,272,382	181,508
Other reserves	10,23	382,881	371,179
Total equity		31,197,706	26,095,130
Total liabilities and equity		**68,117,578**	**66,219,002**

See accompanying Notes to Financial Statements.

Pilipinas Shell Petroleum Corporation

Statements of Income
For the six month period ended 30 June
(All amounts in thousands Philippine Peso, except earnings per share)

	Notes	2016	2015
Gross sales		71,709,079	88,370,596
Sales discounts and rebates		(5,700,431)	(5,714,777)
Net sales		66,008,648	82,655,819
Cost of sales	18	(52,691,648)	(70,546,365)
Gross profit		13,317,000	12,109,454
Selling expenses	19	(5,078,209)	(4,869,565)
General and administrative expenses	19	(982,711)	(1,092,557)
Other operating income, net	20	200,241	225,570
Income from operations		7,456,321	6,372,902
Finance income	21	101,212	28,200
Finance expense	21	(410,797)	(843,048)
Other non-operating income, net		497	-
Income before income tax		7,147,233	5,558,054
Provision for income tax	9	(2,075,010)	(1,595,476)
Profit for the period		5,072,223	3,962,578
Earnings per share – basic and diluted	17	3.20	5.73

See accompanying Notes to Financial Statements.

Pilipinas Shell Petroleum Corporation

Statements of Comprehensive Income
For the six month period ended 30 June
(All amounts in thousands Philippine Peso)

	Notes	2016	2015
Profit for the period		5,072,223	3,962,578
Other comprehensive income:			
Items that may not be subsequently reclassified to profit or loss			
Remeasurement gain on retirement benefits, net of tax	9,23	18,651	-
Items that may be subsequently reclassified to profit or loss			
Increase in fair value of available-for-sale financial assets	10	10,309	51,863
Total comprehensive income for the period		5,101,183	4,014,441

See accompanying Notes to Financial Statements.

Pilipinas Shell Petroleum Corporation

Statements of Changes in Equity
For the six month period ended 30 June
(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 01 January 2015	758,885	7,437,829	(507,106)	(4,184,802)	75,155	250,681	3,830,642
Comprehensive income							
Income for the period	-	-	-	3,962,578	-	-	3,962,578
Other comprehensive income							
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	51,863	51,863
Remeasurement loss on retirement benefits	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	3,962,578	-	51,863	4,014,441
Transactions with owners							
Share-based compensation	-	-	-	-	(37,781)	-	(37,781)
Total transactions with owners	-	-	-	-	(37,781)	-	(37,781)
Balances at 30 June 2015	758,885	7,437,829	(507,106)	(222,224)	37,374	302,544	7,807,302
Balances at 01 January 2016	1,653,558	24,395,991	(507,106)	181,508	92,007	279,172	26,095,130
Comprehensive income							
Income for the period	-	-	-	5,072,223	-	-	5,072,223
Other comprehensive income							
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	10,309	10,309
Remeasurement gain on retirement benefits (net of tax amounting to P7,994)	-	-	-	18,651	-	-	18,651
Total comprehensive income	-	-	-	5,090,874	-	10,309	5,101,183
Transactions with owners							
Share-based compensation	-	-	-	-	1,393	-	1,393
Total transactions with owners	-	-	-	-	1,393	-	1,393
Balances at 30 June 2016	1,653,558	24,395,991	(507,106)	5,272,382	93,400	289,481	31,197,706

See accompanying Notes to Financial Statements

Pilipinas Shell Petroleum Corporation

Statements of Cash Flows
For the six month period ended 30 June
(All amounts in thousands Philippine Peso)

	Notes	2016	2015
Cash flows from operating activities			
Income before income tax		7,147,233	5,558,054
Adjustments:			
Depreciation and amortization	8, 10	839,581	900,780
Interest and finance charges	21	250,484	646,516
Pension expense	23	64,804	104,596
Accretion expense	21	79,006	51,613
Share-based compensation	23	54,633	54,633
Share in loss (profit) of associates		(8,395)	16,487
Unrealized mark-to-market gain, net	20	(159,392)	(35,985)
Intangibles and fixed assets written off		51,181	-
Loss on disposal of property and equipment		27,914	3,152
Reversals of provisions for ARO and remediation and demolition costs	20	(17,536)	(106,047)
Amortization of prepaid lease payments		728,250	726,342
Provision for legal case, net	14, 20	18,738	18,738
Interest income	21	(977)	(10,846)
Unrealized foreign exchange loss (gain), net	21	80,565	(17,354)
Operating income before working capital changes		9,156,089	7,910,679
Decrease (Increase) in current assets other than cash		(3,006,343)	1.592.659
Increase (Decrease) in liabilities other than provisions, dividends payable, short-term borrowings and loans payable		132,140	(3,106,892)
Cash generated from operations		6,281,886	6,396,446
Pension contributions paid	22, 23	(81,954)	(66,989)
Net cash from operating activities		6,199,932	6,329,457
Cash flows from investing activities			
Interest received		977	10,846
Dividend received		13,530	1,461
Increase in long-term receivables and rentals, net		(138,045)	(145,578)
Proceeds from sale of property and equipment		8,147	1,923
Additions to property, plant and equipment		(1,691,090)	(2,460,893)
Net cash used in investing activities		(1,806,481)	(2,592,241)

(Forward)

	Notes	2016	2015
Cash flows from financing activities			
Net proceeds from (settlements of) short-term borrowings	12	2,113,000	(26,234,000)
Proceeds from long-term loan	13	-	16,000,000
Repayment of long term loan	13	(5,000,000)	(7,000,000)
Deposit for stock subscription	15	-	17,893,456
Interest and finance charges paid		(276,389)	(573,743)
Net cash from (used in) financing activities		(3,163,389)	85,713
Net increase in cash for the period		1,230,062	3,822,929
Cash at the beginning of the period		3,576,802	4,721,647
Effect of exchange rate changes on cash		8,139	12,902
Cash at the end of the period		4,815,003	8,557,478

See accompanying Notes to Financial Statements

Pilipinas Shell Petroleum Corporation

Notes to Financial Statements
As at 30 June 2016 and 31 December 2015 and for the
six month period ended 30 June 2016 and 2015
(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.

The Company's immediate parent company having 68% ownership interest in 2016 (2015 - 68%) is Shell Overseas Investments BV (SOIBV), a corporation registered under the laws of Netherlands. Remaining shareholdings of 32% in 2016 (2015 - 32%) are 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 is considered a public company under Securities Regulation Code (SRC) Rule 68, as amended on 20 October 2011, which among others, is any corporation with assets of at least P50 million and has two hundred (200) or more shareholders, each of which holds at least one hundred (100) shares of a class of its equity securities. As at 30 June 2016, the Company has 368 shareholders (31 December 2015 - 362), 338 of whom hold at least 100 shares of the Company's common shares (31 December 2015 - 336).

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 695 regular employees as at 30 June 2016 (31 December 2015 - 754).

The shareholders in the annual general meeting held on 18 July 2016 approved the proposal for the Company to conduct an initial public offering. The financial statements are prepared for the purpose of the Company's initial public offering. The financial statements have been authorized for issue by the Company's Board of Directors on 15 August 2016 upon endorsement by the Board Audit Committee on 11 August 2016.

Note 2 - Operating segments

The Company is organized into the following operating segments:

(a) Retail - comprises the Company's business of directly servicing end consumers (private and commercial motorists) through the Company's network of retail service stations, involving the sale of petroleum fuels and lubricants.

(b) Commercial - comprises the Company's business with commercial accounts in various sectors such as industrial power, manufacturing, wholesale, marine, mining, aviation, transport and others.

(c) Manufacturing and Supply - this segment generates revenue principally from sales of excess supplies of the Company's products to third parties only, such as other oil companies, pursuant to product purchase/sale agreements.

Financial information about business segments is presented below:

The following tables present revenue, and depreciation and amortization information for the Company's operating segments for the six months ended 30 June 2016 and 2015, respectively.

	Retail	Commercial	Manufacturing and supply	Others	Total
For the six month period ended 30 June 2016					
Segment revenue					
Local	37,283,913	17,887,034	8,520,896	-	63,691,843
Export and International	-	1,426,405	890,400	-	2,316,805
Total	37,283,913	19,313,439	9,411,296	-	66,008,648
Depreciation and amortization	(305,207)	(154,448)	(370,886)	(9,040)	(839,581)
For the six month period ended 30 June 2015					
Segment revenue					
Local	42,182,390	27,154,855	10,824,806	-	80,162,051
Export and International	-	2,487,890	5,878	-	2,493,768
Total	42,182,390	29,642,745	10,830,684	-	82,655,819
Depreciation and amortization	(301,363)	(252,553)	(337,385)	(9,479)	(900,780)

The following tables present assets and liabilities information for the Company's operating segment as at 30 June 2016 and 31 December 2015, respectively.

	Retail	Commercial	Manufacturing and supply	Others	Total
As at 30 June 2016					
Assets					
Segment assets	20,964,478	18,477,774	23,718,788	4,956,538	68,117,578
Property and equipment	6,608,484	7,348,353	8,432,864	49,616	22,439,317
Liabilities					
Segment liabilities	(6,763,457)	(4,406,189)	(9,292,366)	(16,457,860)	(36,919,872)
As at 31 December 2015					
Assets					
Segment assets	23,874,808	19,329,287	16,352,629	6,662,278	66,219,002
Property and equipment	6,485,301	7,201,167	8,546,497	76,113	22,309,078
Liabilities					
Segment liabilities	(7,246,459)	(4,868,336)	(8,721,624)	(19,287,453)	(40,123,872)

The total sales include sales to entities under common shareholdings amounting to P999 million (30 June 2015 – P718 million).

Note 3 - Cash

The account at 30 June 2016 and 31 December 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 at 30 June 2016 and 31 December 2015 is maintained with the following type of financial institutions:

	2016	2015
Universal banks	1,895,496	2,670,620
Commercial banks	2,919,507	906,182
	4,815,003	3,576,802

Note 4 - Receivables, net

The account as at 30 June 2016 and 31 December 2015 consists of:

	Note	2016	2015
Trade receivables			
Third parties		7,444,252	6,509,676
Related parties	22	226,900	115,706
Provision for impairment of trade receivables from third parties		(123,178)	(119,096)
		7,547,974	6,506,286
Non-trade receivables from related parties	22	90,988	88,899
Other receivables			
Claims from government agencies			
Duty drawback and other claims		31,061	2,185,557
Specific tax		-	1,235,733
Miscellaneous		643,727	753,799
		674,788	4,175,089
Provision for impairment of other receivables		(47,776)	(383,251)
		627,012	3,791,838
		8,265,974	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	7,774,927	10,215,774
US dollar	661,591	671,261
Other currencies	410	2,335
	8,436,928	10,889,370

The Company holds collaterals for trade receivables from third parties as at 30 June 2016 valued at P3.4 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.

(a) Past due receivables but not impaired

The aging of past due but not impaired trade receivables from third parties as at 30 June 2016 and 31 December 2015 are as follows:

	2016	2015
Less than 30 days	60,276	61,362
31 - 60 days	7,169	27,769
61 - 90 days	16,326	62,740
91 - 180 days	44,914	28,822
	128,685	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	4,082	5,436	9,518
Provisions reclassified to long term	12	-	(340,911)	(340,911)
At 30 June 2016		123,178	47,776	170,954

For the six month period ended 30 June 2016, total trade receivables written-off directly to statement of income amounted to P2.0 million (30 June 2015 – P15.9 million) based on the Company's assessment of recoverability.

(c) Neither past due nor impaired

The credit quality of trade receivables from third parties at 30 June 2016 and 31 December 2015 that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates:

Trade receivables (counterparties with internal credit rating)	2016	2015
A	1,643,017	1,436,641
B	2,254,859	1,749,967
C	2,083,027	1,859,965
D	1,211,486	1,163,314
Total trade receivables	7,192,389	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 impaired assets.

There are no receivables that are neither past due nor impaired that have been renegotiated for the six months period ended 30 June 2016 and for the year ended 31 December 2015.

Note 5 - Inventories, net

The account as at 30 June 2016 and 31 December 2015 consists of:

	2016	2015
Crude oil and finished products	12,956,882	12,064,450
Materials and supplies	314,332	336,179
At cost	13,271,214	12,400,629
Allowance for inventory write-down and obsolescence	(74,467)	(1,052,096)
At net realizable value	13,196,747	11,348,533

Cost of inventories included as part of cost of sales amounted to P47 billion for the period ended June 2016 (2015–P65 billion) (Note 18).

Details of and changes in allowance for inventory write-down and obsolescence as at and for the six month period ended 30 June 2016 and for the year ended 31 December 2015 are as follows:

	Note	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		–	(10,859)	(10,859)
Provisions (Reversals), net		(978,392)	11,622	(966,770)
At 30 June 2016		62,737	11,730	74,467

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

Cost of crude oil and finished goods written-down to net realizable value included in the provisions for inventory amounted to P62.7 million (31 December 2015 – P1.0 billion).

Note 6 - Prepayments and other current assets

The account as at 30 June 2016 and 31 December 2015 consists of:

	Notes	2016	2015
Input VAT, net of output VAT (a)		5,937,961	6,627,876
Prepaid corporate income tax (b)		3,438,775	3,286,412
Advance rentals		633,965	682,282
Prepaid specific tax		323,037	469,740
Prepaid duties and taxes		12,681	7,931
Prepaid insurance		328	71,582
Others	10	382,469	182,402
		10,729,216	11,328,225

(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.

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

The account as at 30 June 2016 and 31 December 2015 consists of:

	Notes	2016	2015
Advances to an entity under common shareholdings (a)	22	137,060	137,000
Provision for impairment of advances to an entity under common shareholdings	22	(137,060)	(137,000)
		-	-
Advance rentals		768,363	732,336
Market investment loans (b)		83,496	79,330
Investments in associates (c)		35,100	38,330
		886,959	849,996
Long term receivables (a)		3,376,250	53,842
Provision for impairment of long-term receivables		(359,436)	(18,575)
		3,016,814	35,267
		3,903,773	885,263

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

As at 30 June 2016, long-term receivables and advances to a related party of P496 million (31 December 2015 - P156 million) were impaired and fully provided.

Long term receivables include claims from government agencies amounting to P3.3 billion as at 30 June 2016 representing the amount to be recovered from the government on various taxes paid. 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 six month period ended 30 June 2016.

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

	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	-	340,911	340,911
Reversal	-	(50)	(50)
At 30 June 2016	137,060	359,436	496,496

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

As at 30 June 2016 and 31 December 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 (Note 28.4).

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 follows:

	Interest	Assets	Liabilities	Net Assets	Income
2016					
Bonifacio Gas Corporation	44%	114,182	55,128	59,054	12,477
Kamayan Realty Corporation	40%	17,786	2,040	15,746	4,539
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

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

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

Note 8 - Property and equipment, net

Property and equipment as at 30 June 2016 and 31 December 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	-	2,880	-	1,600	-	1,043,199	1,047,679
Disposals/write off	(116,956)	(133,989)	(1,020)	(11,111)	(28,773)	-	(291,849)
Transfers and reclassification to other assets (Note 10)	312,227	756,332	1,556	-	-	(1,072,619)	(2,504)
At 30 June 2016	15,412,219	30,448,793	1,204,340	191,579	1,290,187	5,102,735	53,649,853
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)	(217,187)	(554,898)	(14,642)	(7,163)	(43,429)	-	(837,319)
Disposals/write-off	65,898	127,392	704	9,940	10,298	-	214,232
At 30 June 2016	(9,162,871)	(20,184,863)	(796,401)	(162,684)	(903,717)	-	(31,210,536)
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 30 June 2016	6,249,348	10,263,930	407,939	28,895	386,470	5,102,735	22,439,317

The balance of property and equipment as at 30 June 2016 includes fully depreciated assets still in use amounting to P20.0 billion (31 December 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 P1.4 billion as at 30 June 2016 (31 December 2015-P1.4 billion) (Note 14). The amount of provision is based on an external study which takes into consideration the required remediation based on the requirements, if any, of local ordinance. Estimated amount of future obligation is discounted using a discount rate of 3.7% as at 30 June 2016 (31 December 2015-3.7%) (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 30 June 2016 and 31 December 2015 are as follows:

	2016	2015
Deferred income tax assets (liabilities)		
Unamortized past service cost, net	439,801	482,879
Asset retirement obligation	368,179	333,315
Provision for inventory losses	22,340	315,629
Provision for remediation costs	263,784	259,062
Operating lease - effect of straight lining	184,419	179,120
Provision for doubtful debts	200,235	197,376
Unrealized foreign exchange loss	52,316	28,111
Unrealized mark-to-market loss (gain)	(13,221)	34,596
Share-based compensation	28,020	27,602
Retirement benefit asset	(712,791)	(699,653)
Prepaid duties and taxes	(723,880)	(709,645)
Other provisions	756,534	561,993
	865,736	1,010,385
NOLCO	225,957	2,155,187
MCIT	807,578	546,679
Deferred income tax assets, net	1,899,271	3,712,251

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

	2016	2015
At 1 January	3,712,251	5,293,928
Charged (Credited) to profit and loss	(1,804,986)	(1,233,200)
Charged (Credited) to other comprehensive income	(7,994)	(348,477)
At 30 June 2016 and 31 December 2015	1,899,271	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 30 June 2016 and 31 December 2015 are fully realizable.

Year of incurrence	Year of expiration	NOLCO			MCIT			
		2016	2015	2014	2016	2015	2014	2013
2013	2016	-	-	-	193,621	193,621	193,621	193,621
2014	2017	7,183,955	10,229,747	10,229,747	24,334	24,334	24,334	-
2015	2018	-	-	-	328,724	328,724	-	-
2016	2019	-	-	-	260,899	-	-	-
		7,183,955	10,229,747	10,229,747	807,578	546,679	217,955	193,621
Applied		(6,430,766)	(3,045,792)	-	-	-	-	-
		753,189	7,183,955	10,229,747	807,578	546,679	217,955	193,621
Tax rate		30%	30%	30%		-	-	-
		225,957	2,155,187	3,068,924	807,578	546,679	217,955	193,621

The details of provision for income tax for the six month period ended 30 June 2016 and 2015 are as follows:

	2016	2015
Current	270,024	246,253
Deferred	1,804,986	1,349,223
	2,075,010	1,595,476

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
Income tax at statutory income tax rate at 30%	2,144,170	1,667,416
Income tax effect of:		
Limitation on deductible interest expense	95	24
Interest income subjected to final tax	(287)	(73)
Income subjected to 8% final tax	(4,961)	(15,963)
Non-taxable income	(73,132)	(92,628)
Provision for income tax before final taxes	2,065,885	1,558,776
Final taxes on interest and other charges	9,125	36,700
Provision for income tax at effective tax rate	2,075,010	1,595,476

Note 10 - Other assets, net

The account as at 30 June 2016 and 31 December 2015 consists of:

	Note	2016	2015
Pension asset	23	2,375,972	2,332,177
Available-for-sale financial assets (a)		314,958	304,178
Deferred input VAT (b)		164,943	-
Program software (c)		10,375	10,081
Others (d)		2,029	25,391
		2,868,277	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 (Note 28.3). Details of the account as at 30 June 2016 and 31 December 2015 are as follows:

	Note	2016	2015
Cost		28,151	28,289
Fair value adjustments recognized directly in other comprehensive income			
1 January		279,172	250,681
Change during the period		10,309	28,491
		289,481	279,172
30 June 2016 and 31 December 2015		317,632	307,461
Current portion	6	(2,674)	(3,283)
Non-current portion		314,958	304,178

The Company intends to sell equity instrument with fair value of P2.7 million within 12 months from the six month period ended June 2016 (31 December 2015- P3.2 million). Correspondingly such amount was reclassified to current assets (Note 6).

(b) Deferred Input VAT

Deferred input VAT will be recovered 12 months after reporting date. Hence, the same is reclassified to non-current asset as at 30 June 2016.

(c) Program software

Program software as at 30 June 2016 and 31 December 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	(2,210)	(4,252)
		(880,916)	(878,706)
Net book value		10,375	10,081

Note 11 - Accounts payable and accrued expenses

The account as at 30 June 2016 and 31 December 2015 consists of:

	Notes	2016	2015
Trade payables			
Third parties		5,620,677	5,503,347
Related parties	22	6,416,323	5,696,795
		12,037,000	11,200,142
Non-trade payables from related parties	22	161,184	584,147
Other payables			
Rent and utilities		1,252,665	1,155,474
Project-related costs and advances		724,805	1,430,566
Employee benefits		429,985	475,890
Advertising and promotions		367,408	339,044
Duties and taxes		204,965	86,982
Supply and distribution		117,390	115,214
IT-related costs		33,103	61,796
Interest		495	362
Provision for remediation and demolition costs	14	331,703	-
Others		441,170	709,869
		16,101,873	16,159,486

Note 12 - Short-term borrowings

The account as at 30 June 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
Metropolitan Bank and Trust Company	1,000,000	1 July 2016
Development Bank of Philippines	2,687,000	1 July 2016
Development Bank of Philippines	1,143,000	4 July 2016

As at 31 December 2015 unsecured short term loan from Metropolitan Bank and Trust Company (MBTC) with tenure of 6 days which had a maturity date of 4 January 2016.

The average interest rate on local borrowings for the six months ended 30 June 2016 was 2.41% (30 June 2015 – 2.22%). Total interest expense charged to operations for the six months ended 2016 arising from short-term loans amounted to P38.0 million (30 June 2015 – P279.1 million) (See Note 21).

Note 13 - Loans payable

Details of the loan agreements with Bank of the Philippine Islands (BPI) as at 30 June 2016 and 31 December 2015 follow:

2016	2015	Interest	Terms
6,000,000	6,000,000	3.15% as at 30 June 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	3.28% as at 30 June 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.

As at 30 June 2016 and 31 December 2015, there are no portions of the borrowings that are presented as part of current liabilities.

Total interest expense charged to operations for the six month period ended 30 June 2016 arising from these loans amounted to P210.2 million (30 June 2015 – P366.9 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 30 June 2016 and 31 December 2015 consists of:

	Notes	2016	2015
Provision for legal cases (a)		1,617,236	1,598,498
Asset retirement obligation (ARO) (b)		1,368,303	1,383,126
Accrued operating lease	24	752,617	723,047
Provision for remediation and demolition costs (c)		547,576	863,538
Cash security deposits		329,438	340,834
Other liabilities		363,161	328,675
		4,978,331	5,237,718

(a) Provision for legal case

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	18,738	37,476
30 June 2016 and 31 December 2015		1,617,236	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/(Reduction)		(19,906)	140,160
Accretion	21	50,141	102,721
Reversals		(17,536)	(240,063)
Charges		(27,522)	(230,829)
30 June 2016 and 31 December 2015		1,368,303	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 30 June 2016 (31 December 2015 - 7 years). These are stated at present value at 30 June 2016 using a discount rate of 3.7% (31 December 2015 - 3.7%).

(c) Provision for remediation and demolition costs

Movements in the provision for remediation and demolition costs follow:

	Note	2016	2015
1 January		863,538	818,867
Accretion	21	28,865	93,626
Transferred to short term		(331,703)	-
Charges		(13,124)	(48,955)
30 June 2016 and 31 December 2015		547,576	863,538

Provision for environmental liabilities (remediation and demolition) 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 30 June 2016 at 5.7% (31 December 2015 – 5.7%).

Note 15 - Share capital; Treasury shares; Share premium

Capital stock and treasury shares as at 30 June 2016 and 31 December 2015 consist of:

	2016		2015	
	Number of shares	Amount	Number of shares	Amount
Authorized capital stock, common shares at P1 par value per share	2.5 billion	2,500,000	2.5 billion	2,500,000
Issued shares	1,653,558,291	1,653,558	1,653,558,291	1,653,558
Treasury shares	(67,614,089)	(507,106)	(67,614,089)	(507,106)
Issued and outstanding shares	1,585,944,202	1,146,452	1,585,944,202	1,146,452

The capital stock of the Company increased from P1.0 billion divided into 1 billion shares with a par value of P1.00 each to P2.5 billion divided into 2.5 billion shares with a par value of P1.00 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. In June 2015, the Company received P17.9 billion as deposit for subscription of new shares to be issued. 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 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.

Note 16 - Retained earnings; Dividends

	2016	2015
Unappropriated retained earnings	5,114,543	42,320
Re-measurement losses on net defined benefit obligation, net of tax , closed to retained earnings	157,839	139,188
Unappropriated retained earnings	5,272,382	181,508

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

As at 30 June 2016, cost of treasury shares and the accumulated earnings of its associates 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 Shell Philippines Petroleum Corporation as at 30 June 1999 upon its merger with the Company. The said amount is available only for stock dividends.

Note 17 - Earnings per share

Computation of earnings per share (EPS) for the six month periods ended 30 June follow:

	Note	2016	2015
Earnings available to stockholders:			
Profit for the period		5,072,223	3,962,578
Weighted average number of shares		1,653,558,291	758,885,334
Treasury shares	15	(67,614,089)	(67,614,089)
		1,585,944,902	691,271,245
Basic and diluted EPS		3.20	5.73

As at 30 June 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 six month periods ended 30 June are as follows:

	Notes	2016	2015
Crude and product costs		46,630,946	64,533,530
Duties and specific tax		3,393,865	3,327,128
Logistics and transshipment		971,756	1,302,273
Manufacturing expenses		521,219	371,009
Freight and wharfage		353,376	338,654
Salaries and other employee benefits		449,600	336,386
Depreciation and amortization	8	370,886	337,385
		52,691,648	70,546,365

The more significant components of manufacturing expenses consist of repairs made to manufacturing units, transportation and insurance.

Note 19 - Selling, general and administrative expenses

The components of selling, general and administrative expenses for the six month period ended 30 June are as follows:

		Selling		General and administrative	
	Notes	2016	2015	2016	2015
Logistics and transshipment		1,122,297	1,143,785	-	-
Outside services		1,082,483	895,810	109,090	82,968
Rentals		712,288	634,715	68,097	47,816
Compensation, pension cost and employee benefits		625,499	470,869	284,155	283,319
Advertising and promotions		559,284	382,918	63,040	42,622
Depreciation and amortization	8	459,655	553,916	9,040	9,479
Repairs and maintenance		176,185	545,046	36,538	26,650
Travel and transportation		92,839	51,674	17,522	11,939
Communication and utilities		58,999	69,246	215,097	222,808
Intangibles and fixed assets written off		51,181	-	-	-
Write-off/Impairment (Reversal) of receivables	4	6,182	(43,737)	-	1,718
Insurance		-	-	51,023	59,633
Miscellaneous		131,317	165,323	129,109	303,605
		5,078,209	4,869,565	982,711	1,092,557

Certain logistics and transhipment costs 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 six months ended 30 June 2015 to conform with 30 June 2016 presentation.

Note 20 - Other operating income, net

The components of other operating income (expense) for the period ended 30 June are as follows:

	Notes	2016	2015
Unrealized mark-to-market gain, net		159,392	35,985
Retailer fee, rental income and franchise commission		151,977	156,826
Royalties		33,306	38,530
Reversal of asset retirement obligation		17,536	106,047
Provision for legal cases, net	14	(18,738)	(18,738)
Commissions		(22,461)	(21,420)
Loss on disposal of property and equipment		(27,914)	(3,152)
Realized mark-to-market loss, net	22	(102,262)	(13,203)
Others, net		9,405	(55,305)
		200,241	225,570

Note 21 - Finance income (expense), net

The components of finance income (expense) for the six month periods ended 30 June are as follows:

	Notes	2016	2015
Finance income			
Realized foreign exchange gain		100,235	-
Interest income	3, 7	977	10,846
Unrealized foreign exchange gain		-	17,354
		101,212	28,200
Finance expense			
Interest and finance charges	12,13	(250,484)	(646,516)
Unrealized foreign exchange loss		(80,565)	-
Accretion expense	14	(79,006)	(51,613)
Bank charges	12, 13	(742)	(2,129)
Realized foreign exchange loss		-	(142,790)
		(410,797)	(843,048)
		(309,585)	(814,848)

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 30 June 2016 are as follows:

(a) Entities under common shareholdings

	Notes	Transactions	Receivables (Payables)	Terms and conditions
Purchases of goods and services	11	31,664,893	(6,502,255)	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), (ii).
Leases	4	65,382	13,508	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).
Sales	4	998,503	226,900	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 (v)		265,780	-	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	(276,315)	(75,252)	
Charges by the Company	4	734,121	77,480	

	Notes	Transactions	Receivables (Payables)	Terms and conditions
Contributions to the plan	23	81,954	-	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	-	(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		67,562	-	
Non-current				
Post-employment benefits	23	6,478	-	The terms and arrangements of these non-current employee benefits are summarized in the related notes.
Share-based compensation		17,350	-	

The transactions and outstanding balances of the Company with related parties for the comparative figures for the six months ended 30 June 2015 are presented in the table below. The terms and arrangements presented for 30 June 2016 also apply to the transactions for the six month period ended 30 June 2015 and balances as at 31 December 2015.

(a) Entities under common shareholdings

	Notes	2015 Transactions	2015 Receivables (Payables)
Purchases of goods and services	11	45,744,535	(5,953,431)
Leases	11	100,963	(4,810)
Sales	4	718,264	115,706
Royalty fee (v)		259,828	-
Interest on loans extended by the Company	7	8,035	-
Admin billings (vii)			
Charges to the Company	11	(60,170)	(322,701)
Charges by the Company	4	62,627	88,899
Pension	23		
Contributions to the plan		828,989	-
Plan assets – investments		-	-
Transfer of obligations due to transfers of employees		12,756	-
Advances		(762,000)	-

(b) Parent company

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

(c) Key management personnel

	Note	2015 Transactions	2015 Balances
Current			
Salaries and other short-term employee benefits		61,296	-
Non-current	23		
Post-employment benefits		3,144	-
Share-based compensation		26,147	-

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 six months period is P31.6 billion (30 June 2015 – P43.8 billion). As at 30 June 2016, balances payable to SIETCO amounted to P5.9 billion (31 December 2015 – P5.4 billion). During the period, the Company recognized mark-to-market losses of P102.2 million (30 June 2015 – P13.2 million) (Note 20), in relation to certain product purchases from SIETCO.

The notional principal amount of the outstanding commodity forward contracts as at 30 June 2016 amounted to P2.2 billion (31 December 2015 – P358.2 million). The fair values of the derivative assets from outstanding forward contracts amounting to P84.0 million (31 December 2015 – 15.1 million) are booked as other current assets and the outstanding derivative liabilities amounting to P40.0 million (31 December 2015 – P122.2 million) are booked as accounts payable and accrued expenses in the statement of financial position.

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 P1.1 billion during the six months ended June 2016 (30 June 2015-P766.9 million). As at 30 June 2016, balances payable to SIPC amounted to P10.9 million (31 December 2015 - P1.7 million).

iii. The Company leases from Tabangao Realty, Inc. (TRI) the Shell House office building for a period of three years, renewable annually thereafter. Rent expense charged to operations amounted to nil for the period ended 30 June 2016 as the ownership was transferred from TRI to another non related party in 2016.(30 June 2015 - P43.1 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 P65.3 million for the six months ended 30 June 2016 (30 June 2015 – P56.9 million). As at 30 June 2016,receivables amounted to P13.5 million (31 December 2015 - payable of P4.8 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.

Note 23 - Employee benefits

(a) Retirement plan

The Company has a non-contributory retirement gratuity plan (Plan) for the benefit of its regular employees. The assets of the Plan are maintained by a trustee bank. The Plan provides for payment of benefits in lump sum, upon attainment of the normal retirement age of 60, or, upon retirement/separation at an earlier age.

The pension obligation is determined using the "Projected Unit Credit Cost" (PUC) method. Under the PUC method, the annual normal cost for the portion of the retirement is determined as the amount necessary to provide for the portion of the retirement benefit accruing during the year.

The actuarial present value of the retirement benefits obligation under the plan is measured in terms of actuarial assumptions for discount rate, salary increases, retirement rates and mortality using the 1994 Group Annuity Mortality Table. The rate used to discount post-employment benefit obligations are based on the calculated single effective discount rate determined by discounting the projected benefit payments using different term-dependent derived zero-coupon government bond yields.

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 on 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 30 June 2016 and 31 December 2015, there are no new employees entitled to the defined contribution plan, hence no liability was recognized.

The actuarial valuation of the Company's retirement plan was performed by an independent actuary as at 30 June 2016 and 31 December 2015 using the projected unit credit method. The latest actuarial valuation report prepared by the independent actuary was for the period ended 30 June 2016. The principal assumptions were:

	2016	2015
Discount rate	4.80%	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 are 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 for the six month periods ended 30 June 2016 and 2015 and pension asset as at 30 June 2016 and 31 December 2015 are as follows:

	2016	2015
Pension expense for the six month period ended June 30	64,804	104,596

	2016	2015
Pension asset as at 30 June 2016 and 31 December 2015	2,375,972	2,332,177

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

	2016	2015
Present value of defined benefit obligation	(4,079,110)	(3,971,936)
Fair value of plan assets	6,455,082	6,304,113
Pension asset	2,375,972	2,332,177

The movement in the pension asset recognized in the balance sheets as at 30 June 2016 and 31 December 2015 are follows:

	Note	2016	2015
1 January		2,332,177	665,668
Pension expense		(64,804)	(379,478)
Actual contributions		81,954	884,396
Remeasurement gains		26,645	1,161,591
30 June 2016 and 31 December 2015	10	2,375,972	2,332,177

Pension expense recognized in the statements of income for six months period ended 30 June is as follows:

	2016	2015
Current service cost	122,332	121,542
Interest cost	(57,528)	(16,946)
	64,804	104,596

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

	2016	2015
1 January	3,971,936	4,020,046
Current service cost	122,332	243,084
Interest cost	94,171	175,199
Benefits paid	(109,329)	(570,044)
Transfer of employees from/to entities under common control	-	25,512
Remeasurement (gains) losses from:		
Changes in financial assumptions	-	(176,002)
Experience adjustments	-	83,856
Plan amendments	-	232,630
Curtailments	-	(62,345)
30 June 2016 and 31 December 2015	4,079,110	3,971,936

Changes in the fair value of the plan assets follow:

	2016	2015
1 January	6,304,113	4,685,714
Interest income	151,699	209,090
Contributions	81,954	884,396
Benefits paid	(109,329)	(570,044)
Transferred from/to entities under common shareholdings, net	-	25,512
Remeasurement gains from experience adjustments	26,645	1,069,445
30 June 2016 and 31 December 2015	6,455,082	6,304,113

The carrying value of the plan assets as at the period ended 30 June 2016 and year ended 31 December 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 93% of the total plan assets in 2016 and 2015. Plan assets are comprised of:

	2016	2015
Cash and Cash equivalent	30,392	4,826
Investments in debt securities:		
Government bonds and securities	100,836	100,089
Corporate bonds	294,706	255,866
Investment in equity securities:		
Unquoted equity instruments	1,829,884	1,849,960
Unit investment trust funds	3,996,533	4,014,662
Others	202,731	78,710
	6,455,082	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 next half of 2016 is P64.8 million.

The expected undiscounted maturity benefit payments for the next 10 years as at 30 June 2016 and 31 December 2015 are as follows:

	2016	2015
Following year	182,538	96,306
Between 2 to 3 years	408,621	438,121
Between 3 to 5 years	528,868	514,546
Over 5 years	2,266,588	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 period ended 30 June 2016 and 31 December 2015 are as follows:

	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	20.21	75,367	32.81
Shares delivered during the year	(58,760)	21.21	(53,310)	32.49
Cancelled/forfeited during the year	(1,150)	-	(2,750)	-
Shares granted as at 30 June 2016 and 31 December 2015	199,435	24.49	190,100	32.06

The total share-based compensation recognized in the statements of income during the period amounted to P55 million (2015 - P55 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 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 period ended 30 June 2016 is P699.0 million (30 June 2015 – P615.0 million).

(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 period ended 30 June 2016 is P709.0 million (30 June 2015 - P633.0 million).

(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 P769.0 million (30 June 2015 – P687.0 million).

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

Under PAS 17, the Company recorded additional lease accruals amounting to P17 million arising from lease straight-lining for period ended 30 June 2016 and P14 million for the year ended 31 December 2015.

The Company's future minimum rental and other similar commitments related to the above leases as at 30 June 2016 and 31 December 2015 are as follows:

	2016	2015
Less than 1 year	2,745,925	3,132,892
More than 1 year but not more than 5 years	5,856,243	6,212,281
Over 5 years	3,757,459	4,761,208

(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 30 June 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 30 June 2016 and 31 December 2015 are as follows:

Currency	Assets	Liabilities	Net foreign currency assets (liabilities)	Exchange rate	Peso equivalent
2016					
US dollar	69,193	176,447	(107,254)	46.96	(5,036,648)
UK pound	7	3	4	63.05	252
Euro	1,127	829	298	52.25	15,571
Singapore dollar	-	488	(488)	34.84	(17,002)
Malaysian ringgit	-	(157)	(157)	11.64	(1,827)
Australian dollar	-	10	(10)	34.98	(350)
Japanese yen	-	52,310	(52,310)	0.46	(24,063)

(Forward)

Currency	Assets	Liabilities	Net foreign currency assets (liabilities)	Exchange rate	Peso equivalent
Chinese yuan	-	371	(371)	7.07	(2,623)
New Zealand dollar	-	8	(8)	33.39	(267)
					(5,066,957)
2015					
US dollar	375,690	962,586	(586,896)	47.17	(27,683,884)
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)
					(27,734,498)

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:
The Company imported substances such as CCG and LCGG which it combined and blended with other petroleum substances to produce finished gasoline products that are compliant with the requirements of the Clean Air Act and the Philippine National Standard.

In 2004, the then Deputy Commissioner of the Bureau of Internal Revenue (BIR) Legal and Inspection Group, acting on the opinion of the Department of Energy (DOE) that CCG and LCCG were raw materials or blending components in the production or processing of gasoline in its finished form, ascertained that imported CCG and LCGG were not subject to excise tax under the National Internal Revenue Code (NIRC) because they were intermediate goods which were not intended for domestic sale or consumption but were instead additional components in the production of finished gasoline products which were then subject to excise tax.

Relying in good faith on these administrative actions, the Company imported from 2004 to 2009 shipments of CCG and LCCG into the Philippines with each shipment covered by the corresponding BIR Authority to Release Imported Goods (ATRIG) stating that the importation is not subject to excise tax. Upon payment of value-added tax (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.

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 P7.3 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.

Status:
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 a decision of the CTA en banc dated 28 September 2015, the Court ruled that the Company is liable to pay the government unpaid excise taxes and Value Added Tax (VAT) for the importation of raw materials used to produce Clean Air Act compliant unleaded gasoline for the period of 2006 to 2009. On 2 November 2015, the Company filed a motion for reconsideration in CTA en Banc, while the BOC and the BIR filed their Omnibus Partial Motion for Reconsideration and Clarification on 26 October 2015. Later, on 15 April 2016, the Company also filed a supplemental motion for reconsideration.

Management believes that provision should not be recognized as at 30 June 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.

Status:
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.

The pre-trial was set in 11 August 2016.

Management believes that provision should not be recognized as at 30 June 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. The case is on-going as of 30 June 2016.

(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 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 million that are pending as at 30 June 2016 and 31 December 2015. Management believes that the ultimate outcome of such contingencies will not have a material impact on the Company's financial statements.

(f) Other significant pending tax cases

Management believes that the ultimate outcome of the contingencies discussed below will not have a material impact on the financial statements as at 30 June 2016 and 31 December 2015.

(i) Pandacan zoning ordinance

On 28 November 2001, the City Government of Manila enacted Ordinance No. 8207 rezoning the Pandacan depot from an Industrial II to a Commercial I classification. This Ordinance required the Company and two (2) other oil companies operating in Pandacan to cease and desist from operating their business within six (6) months.

On 25 November 2014, the SC decided to declare Ordinance No. 8187, which repeals Ordinance No. 8207, unconstitutional and invalid with respect to the continuing stay of the Pandacan depots.

In response to the latest decision of the SC, the Company has taken all the necessary actions to comply with the said ordinance in 2015.

(ii) 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.

(iii) 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.

(iv) 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. No single person or entity shall be allowed to own more than five percent (5%) of the stock offering: Provided, further, That any crude oil refining company and any stockholder thereof shall not acquire, directly or indirectly, any share of stock offered by any other crude oil refining company pursuant to his Section: Provided, finally, That any such company which made the requisite public offering before the effectivity of this Act shall be exempted from the requirement.

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.

Currently, a refiner may conduct a public offering by itself taking into account "the prevailing business, economic, equity capital market, social or political circumstances and/or other conditions" or by the Secretary of Energy upon a determination that the socio-economic, political, financial, and technical data and information warrant the conduct of an Initial Public Offering (IPO), as guided by the assessment and determination of an independent financial adviser mutually acceptable to the DOE and the offeror.

The shareholders in the annual general meeting held on 18 July 2016 approved the proposal for the Company to conduct an initial public offering.

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

Basis of Preparation:

The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets 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.

The financial statements are prepared for purposes of the Company's initial public offering.

Statement of Compliance:

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.

Changes in Accounting Policies and Disclosures:
The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations [based on International Financial Reporting Interpretations Committee (IFRIC) interpretations] which were adopted as of January 1, 2016. Adoption of these amendments to PFRS, PAS and Philippine Interpretations did not have any significant effect to the Company.

- PFRS 10, *Consolidated Financial Statements, and PAS 28, Investments in Associates and Joint Ventures - Investment entities: Applying the consolidation Exception (Amendments)*
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests (Amendments)*
- PAS 1, *Presentation of Financial Statements - Disclosure Initiative (Amendments)*
- PAS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
- Annual Improvements to PFRSs (2012 - 2014 cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  - PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits - regional market issue regarding discount rate*
  - PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*

Standards Issued But Not Yet Effective

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

- PFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of PFRS 9 was issued in July 2014. It replaces the guidance in PAS 39 that relates to the classification and measurement of financial instruments. PFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in PAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. PFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests.

It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under PAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company's initial assessment of PFRS 9's potential impact on its financial statements provides that it would change the classification of its financial assets but it will not affect the measurement of its current types of financial assets. The Company will continue its assessment and finalize the same upon effective date of the new standard.

- IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces PAS 18 'Revenue' and PAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company's initial assessment of PFRS 15's potential impact on its financial statements provides that its current revenue recognition will not be significantly affected. The Company will continue its assessment and finalize the same upon effective date of the new standard.

- IFRS 16, Leases (effective January 1, 2019). The standard now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. It has also included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. PFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, but only in conjunction with PFRS 15, 'Revenue from Contracts with Customers'. In order to facilitate transition, entities can choose a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use asset and the lease liability, rather than full retrospective application; furthermore, the 'simplified approach' does not require a restatement of comparatives. In addition, as a practical expedient entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are "grandfathered"). The Company will continue its assessment and finalize the same upon effective date of the new standard.

28.2 Cash

Cash consists of deposits held at call with banks. It is carried in the balance sheet at face amount or nominal amount. Cash in banks earns interest in 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. 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 and available-for-sale financial assets.

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 finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of income.

Included in this category are the Company's derivative financial assets (Note 22).

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 balance sheet date, in which case, these are classified as non-current assets.

Included in this category are the Company's cash (Note 3), trade and other current receivables (except for claims from government and miscellaneous receivables) (Note 4), loans to an entity under common shareholdings, market investment loans and other long-term receivables (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 balance sheet date. Available-for-sale financial assets mainly represent unquoted equity securities and proprietary club shares and are classified under other assets in the statement of financial position. (Note 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 classified 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 grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and PAS 39 permits the entire combined contract (asset or liability) to be designated as FVPL.

The Company's forward contracts are considered not significant in value and are included under accounts payable and accrued expenses account in the balance sheet. Such arrangements qualified as a derivative and are accounted for at FVPL.

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) (Note 11), payable to related parties (Note 22), dividends payable (Note 22), short-term borrowings (Note 12), loans payable (Note 13) and cash security deposits (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 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 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 (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. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized 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.

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. As at 30 June 2016 and 31 December 2015, there are no financial assets and financial liabilities that were offset except those that are mentioned in note 29.1.2.

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 (Note 10) which is measured at fair value at 30 June 2016 and 31 December 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 balance sheet 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.

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.

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 30 June 2016 and 31 December 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 balance sheet 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 balance sheet 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 balance sheet 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
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 it is 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.

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 as part of the "other assets" account in the balance sheet (Note 10).

28.11 Investments in associates and joint arrangements

(a) Associates

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

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 and intangibles) 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.

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 balance sheet 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 balance sheet.

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.

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 incurred 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, determined by periodic actuarial calculations. The Company maintains a defined benefit pension plan, which is a pension plan that defines 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 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 defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. 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.

In cases when the fair value of the plan assets is in excess of the present value of the defined benefit obligation, the Company measures the resulting asset at the lower of such amount determined, and the asset ceiling calculated as the present value of available future refunds and reductions in the future contributions.

Restricted or non-transferable assets of the fund are excluded in the determination of fair value of plan assets.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited as 'remeasurements' to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in the statement of 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 balance sheet 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.

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 (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 balance sheet date

Post year-end events that provide additional information about the Company's position at the balance sheet 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 exchange risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate 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.

As at 30 June 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 P176 million (31 December 2015 – P969 million) lower/higher, as a result of foreign exchange gains/losses on translation of US dollar-denominated receivables and payables as at 30 June 2016 and 31 December 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 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. At 30 June 2016 and 31 December 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 30 June 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 period would have been P111 million (31 December 2015 – P131 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. Moreover, there is no material exposure of fair value risk arising from outstanding forward contracts (Note 22).

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 balance sheet 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 June 30, 2016 and December 31, 2015, the Company has the following:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
30 June 2016					
Financial assets:					
Receivables	7,638,962	-	7,638,962	3,382,751	4,256,211
Derivative assets	84,046	39,977	44,069	-	44,069
31 December 2015					
Financial assets:					
Receivables	6,595,185	-	6,595,185	4,766,482	1,828,703
Financial liabilities:					
Derivative liabilities	15,111	(122,201)	(107,090)	-	(107,090)

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 balance sheet 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
At 30 June 2016					
Short-term borrowings	4,830,000	-	-	-	4,830,000
Future interest payment	15,179	-	-	-	15,179
Loans payable	-	-	-	11,000,000	11,000,000
Dividends payable	-	-	-	9,668	9,668
Accounts payable and accrued expenses	15,638,750	28,501	229,657	-	15,896,908
	20,483,929	28,501	229,657	11,009,668	31,751,755
At 31 December 2015					
Short-term borrowings	2,717,000	-	-	-	2,717,000

(Forward)

	0-90 days	91-180 days	180 days - 1 year	Over 1 year	Total
Future interest payment	115,888	113,540	227,080	727,732	1,184,240
Loans payable	-	-	-	16,000,000	16,000,000
Dividends payable	-	-	-	9,668	9,668
Accounts payable and accrued expenses	15,775,161	225,086	72,257	-	16,072,504
	18,608,049	338,626	299,337	16,737,400	35,983,412

Availability of funding to settle the Company's payables are ensured since the Company has unused credit lines of P74.3 billion as at 30 June 2016 (31 December 2015 – P85.3 billion) and undrawn borrowing facilities at floating rate amounting to P74.3 billion (31 December 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 (31 December 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 balance sheet less other reserves plus net debt.

i. Cash flow from operating activities

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

ii. Gearing ratio

The gearing ratio is a measure of the Company's financial leverage reflecting the degree to which the operations of the Company are financed by debt. The amount of debt that the Company will commit depends on cash inflow from operations, divestment proceeds and cash outflow in the form of capital investment, dividend payments and share repurchases. The Company aims to maintain an efficient balance sheet 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. To improve gearing ratio, additional equity has been infused in August 2015 (Note 15).

The gearing ratios at 30 June 2016 and 31 December 2015 are as follows:

	Notes	2016	2015
Total loans and borrowings	12,13	15,830,000	18,717,000
Less: cash	3	4,815,003	3,576,802
Net debt		11,014,997	15,140,198
Total equity (excluding other reserves)		30,814,825	25,723,951
Total capital		41,829,822	40,864,149
Gearing ratio		26%	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 30 June 2016 and 31 December 2015:

	Notes	2016	2015
Financial assets			
Loans and receivables			
Cash	3	4,815,003	3,576,802
Receivables	4	7,638,962	6,595,185
Market investment loans	7	83,496	79,330
Long-term receivables	7	63,058	35,267
Available-for-sale financial assets	6,10	317,632	307,461
Total financial assets		12,918,151	10,594,045
Financial liabilities			
Other financial liabilities			
Accounts payable and accrued expenses	11	15,896,908	16,072,504
Dividends payable	22	9,668	9,668
Short-term borrowings	12	4,830,000	2,717,000
Loans payable	13	11,000,000	16,000,000
Total financial liabilities		31,736,576	34,799,172

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 30 June 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 P548 million (2015 - P864 million) to cover the required environmental remediation covering specific assets, based on external evaluation and study, and total outstanding provision of P1.4 billion (31 December 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%	(216,193)	(204,158)
Decrease by 0.50%	175,402	222,031
Salary increase rate		
Increase by 0.50%	265,142	213,690
Decrease by 0.50%	(224,351)	(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 (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 30 June 2016 and 31 December 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 balance sheet 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 balance sheet date (Note 9).

The Company recognizes provision for impairment of input value added tax (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 balance sheet date (Notes 6 and 9).

(c) Assessing contingencies

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

Annex 68-C

Pilipinas Shell Petroleum Corporation

Reconciliation of Retained Earnings for Dividend Declaration
As at 30 June 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, beginning			68,291
Net income based on the face of audited financial statements		5,072,223	
Less:	Non-actual/unrealized income net of tax	-	
	Equity in net income of associate/joint venture	(7,261)	
	Unrealized foreign exchange gain – net (except those attributable to cash and cash equivalents)	-	
	Unrealized actuarial gain	(18,651)	
	Fair value adjustment	(159,392)	
	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			4,886,919
Add (Less):			
	Dividends declarations during the year	-	
	Appropriations of retained earnings	-	
	Reversal of appropriateness	-	
	Other reserves from restatement due to PAS19 Revised	-	
	Treasury shares	-	(507,106)
Unappropriated Retained Earnings, as adjusted, ending*			4,448,104

**P1.1 billion retained earnings of Pilipinas Shell Petroleum Corporation from 1999 merger is only available for stock dividend.*

Pilipinas Shell Petroleum Corporation

Schedule of Philippine Financial Reporting Standards
Effective Standards and Interpretations as at 30 June 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	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		

		Adopted	Not Adopted	Not Applicable
	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	✓		
PFRS 14	Regulatory Deferral Accounts	✓		
PFRS 15	Revenue from Contracts with Customers*		✓	

		Adopted	Not Adopted	Not Applicable
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	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓

		Adopted	Not Adopted	Not Applicable
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			✓
	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			✓

		Adopted	Not Adopted	Not Applicable
	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	✓		
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			✓

		Adopted	Not Adopted	Not Applicable
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 30 June 2016.

The standards and interpretations that are labeled as “Not Applicable” are already effective as at 30 June 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 30 June 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 balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Available-for-sale financial assets				
Alabang Country Club, Inc.	2	6,600	6,600	-
Apo Golf and Country Club, Inc.	1	4	4	
Atlas Consolidated Corporation	3,000,000	13,200	13,200	-
Canlubang Golf and Country Club, Inc.	2	1,600	1,600	-
Club Filipino de Cebu, Inc.	24	700	700	
Makati (Sports) Club, Inc.	1	400	400	
Manila Golf & Country Club, Inc.	6	240,000	240,000	-
Manila Polo Club, Inc.	2	25,000	25,000	-
Manila Southwoods Golf & Country Club	1	800	800	-
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	-
Valle Verde Country Club, Inc.	1	400	400	
Valley Golf Club, Inc.	1	170	170	
Wack Wack Golf & Country Club, Inc.	1	17,000	17,000	-
Total available-for-sale financial assets		317,632	317,632	
Cash			4,815,003	
Receivables			7,638,962	
Market investment loans			83,496	
Long-term receivables			63,058	
Total Financial Assets			12,918,151	

Pilipinas Shell Petroleum Corporation

Schedule B - Amounts Receivable from Directors, Officers,
Employees, Related Parties and Principal Stockholders
(Other than Related Parties)
As at 30 June 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 30 June 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 30 June 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	(2,210)	-	-	10,375

Pilipinas Shell Petroleum Corporation

Schedule E - Long Term Debt
As at 30 June 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 balance sheet	Amount shown under caption “Loans payable, net of current portion” in related balance sheet
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 30 June 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 30 June 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 30 June 2016

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as shown under related balance sheet 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	1,585,944,202	-	1,081,364,501	67	504,579,634

Pilipinas Shell Petroleum Corporation

Additional Components of Financial Statements
Schedule of Financial Soundness Indicators
As at and for the period ended 30 June 2016 and 31 December 2015

	2016	2015
Current Ratio	1.77	1.94
Debt to Equity	0.36	0.59
Debt Ratio	0.16	0.23
Return on Assets	7.45%	5.37%

Pilipinas Shell Petroleum Corporation

Index to Financial Statements and Supplementary Schedules
for the Securities and Exchange Commission
For the period ended 30 June 2016

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C O V E R S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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C O M P A N Y   N A M E

PILIPINAS SHELL PETROLEUM CORP
ORATION

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

SHELL HOUSE NO. 156 VALERO STR
EET, SALCEDO VILAGE BRGY. BEL-
AIR, MAKATI CITY 1227

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

C O M P A N Y   I N F O R M A T I O N

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
366	07/18	06/12

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

CONTACT PERSON's ADDRESS

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.*