COVER SHEET

1 4 8 2 9

S.E.C. Registration Number

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

(Company's Full Name)

4 1 S T F L R . T H E F I N A N C E C E N T E R ,

2 6 T H S T . C O R 9 T H A V E . , B O N I F A C I O
G L O B A L C I T Y , B R G Y . F O R T

B O N I F A C I O , T A G U I G C I T Y , M E T R O
M A N I L A 1 6 3 5

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

Contact Person	Company Telephone Number
Reynaldo P. Abilo	+632 3 4994001

Fiscal Year		Form Type	Annual General Meeting as per By-Laws	
Month	*Day*	FORM TYPE	*Month*	*Day*
0 6	3 0	1 7 - Q	0 5	1 1

2nd Tuesday of May Annual General Meeting as per By-Laws

Fiscal Year

CERTIFICATE OF PERMIT TO OFFER SECURITIES FOR SALE DATED 14 OCTOBER 2016

Secondary License Type, If Applicable

C G F D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders (As of 30 June 2023)	Domestic	Foreign
319	40,189,000,000	

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: June 30, 2023

2. Commission identification number: 14829

3. BIR Tax Identification Number: 000-164-757

4. Exact name of issuer as specified in its chapter

   SHELL PILIPINAS CORPORATION

5. Province, country, or other jurisdiction of incorporation or organization: Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office — *Postal code*

   41st Floor, The Finance Centre, 26th Street corner 9th Avenue Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila, 1635 — 1635

8. Issuer's telephone number, including area code: (632) 3 4994001

9. Former name, former address, and formal fiscal year, if changed since last report: N/A

10. Securities registered pursuant to Sections 8 and 12 of the Code, or sections 4 and 8 of RSA

Title of Class	*Number of shares common stock outstanding and amount of debt outstanding*
Common Stock	1,613,444,202
Total Liabilities	90,067,882,000

11. Are any or all of the securities listed on a Stock Exchange? Yes [X] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:
    Philippines Stock Exchange - Common Shares

12. Indicate by check mark whether the registrant
    (a) has filed all reports required to be filed with Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

    Yes [X] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days
    Yes [X] No [ ]

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PART I – FINANCIAL INFORMATION

ITEM 1

SHELL PILIPINAS CORPORATION
Statements of Financial Position
As at 30 June 2023
With Comparative Figures for 31 December 2022
(All amounts in thousands Philippine Peso, except par value per share)

	Note	June 2023 Unaudited	December 2022 Audited
ASSETS			
Current Assets			
Cash	**2**	2,842,236	2,957,163
Trade and other receivables, net	**3**	19,775,735	23,051,832
Inventories, net	**4**	17,958,694	17,939,924
Prepayments and other current assets	**5**	7,996,544	5,884,332
Total Current Assets		**48,573,209**	**49,833,251**
Noncurrent Assets			
Long-term receivables, rentals and investments, net	**6**	11,906,023	11,331,500
Property, plant and equipment, net		29,796,373	27,262,700
Right of use assets, net	**8**	20,351,026	20,113,272
Deferred tax assets, net	**7**	2,991,144	3,037,513
Other assets, net	**9**	5,609,986	5,458,169
Total Noncurrent Assets		**70,654,552**	**67,203,154**
TOTAL ASSETS		**119,227,761**	**117,036,405**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	**10**	27,908,041	32,926,048
Short term loans	**11**	25,189,000	17,827,000
Current portion of long-term debt	**12**	-	9,000,000
Dividends payable		17,580	17,764
Total Current Liabilities		**53,114,621**	**59,770,812**
Noncurrent Liabilities			
Long-term debt	**12**	15,000,000	6,000,000
Lease liabilities		18,303,478	18,126,332
Provisions and other liabilities	**13**	3,649,783	4,209,885
Total Noncurrent Liabilities		**36,953,261**	**28,336,217**
Total liabilities		**90,067,882**	**88,107,029**
Equity			
Share capital – P1 par value	**14**	1,681,058	1,681,058
Share premium		21,857,677	21,857,677
Treasury shares	**14**	(507,106)	(507,106)
Retained earnings	**15**	3,911,083	3,788,190
Remeasurement gains on defined benefit plans		1,199,567	1,199,567
Other reserves		1,017,600	909,990
Total Equity		**29,159,879**	**28,929,376**
TOTAL LIABILITIES AND EQUITY		**119,227,761**	**117,036,405**

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

SHELL PILIPINAS CORPORATION

Unaudited Statement of Income
For the period ended 30 June 2023 and 2022
(All amounts in thousands Philippine Peso, except earnings per share)

2Q 2023	2Q 2022		YTD 2Q 2023	YTD 2Q 2022
63,129,895	**76,258,291**	Net sales	**128,422,718**	**135,326,326**
(58,203,867)	**(65,923,003)**	Cost of sales	**(119,035,555)**	**(117,093,640)**
4,926,028	**10,335,288**	Gross profit	**9,387,163**	**18,232,686**
(3,595,989)	**(3,634,944)**	Selling, general and administrative expenses	**(7,876,141)**	**(7,071,965)**
220,511	**124,911**	Other operating income/(expenses), net	**320,804**	**852,624**
1,550,550	**6,825,255**	Loss/Income from operations	**1,831,826**	**12,013,345**
(964,303)	**(1,200,031)**	Finance expense, net	**(1,671,422)**	**(1,667,694)**
-	**-**	Other non-operating income, net	**-**	**-**
586,247	**5,625,224**	Loss/Income before income tax	**160,404**	**10,345,651**
(153,117)	**(1,387,366)**	Provision for income tax	**(37,511)**	**(2,579,910)**
433,130	**4,237,858**	Net loss/income	**122,893**	**7,765,741**
0.27	**2.63**	Earnings per share - Basic and Diluted	**0.08**	**4.81**

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

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

Weighted average number of Common Shares, excluding Treasury Shares, for 2Q 2023 and for 2Q 2022 is 1,613,444,202 respectively.

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

SHELL PILIPINAS CORPORATION
Unaudited Statement of Comprehensive Income
For the period ended 30 June 2023 and 2022
(All amounts in thousands Philippine Peso)

2Q 2023	2Q 2022		YTD 2Q 2023	YTD 2Q 2022
433,130	4,237,858	**Net Income**	122,893	7,765,741
		Other comprehensive income		
		Items not to be reclassified to income or loss in subsequent periods:		
57,690	48,348	Increase/(Decrease) in fair value of equity through OCI financial assets, net of tax	107,610	69,692
490,820	**4,286,206**	**Total comprehensive income**	**230,503**	**7,835,433**

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

SHELL PILIPINAS CORPORATION
Unaudited Statement of Changes in Equity
For the period ended 30 June 2023 and 2022
(All amounts in thousands Philippine Peso)

					Other Reserves			
	Share Capital	Share Premium	Treasury Stock	Retained Earnings	Share-based Reserve	Fair value Reserve	Remeasurement Gain on Defined Benefit Plans	Total
Notes	14	14	14	15				
Balances as at 01 January 2022	1,681,058	21,857,677	(507,106)	1,325,887	151,549	514,944	1,147,495	26,171,504
Income for the period	-	-	-	7,765,741	-	-	-	7,765,741
Increase in fair value of AFS financial assets	-	-	-	-	-	69,692	-	69,692
Total comprehensive income for the period	-	-	-	7,765,741	-	69,692	-	7,835,433
Transactions with owners								
Cash dividends	-	-	-	-	-	-	-	-
Total transactions with owners for the period	-	-	-	-	-	-	-	-
Balances as at 30 June 2022	**1,681,058**	**21,857,677**	**(507,106)**	**9,091,628**	**151,549**	**584,636**	**1,147,495**	**34,006,937**
Balances as at 01 January 2023	**1,681,058**	**21,857,677**	**(507,106)**	**3,788,190**	**238,442**	**671,548**	**1,199,567**	**28,929,376**
Income for the period	-	-	-	122,893	-	-	-	122,893
Increase in fair value of AFS financial assets	-	-	-	-	-	107,610	-	107,610
Total comprehensive income for the period	-	-	-	122,893	-	107,610	-	230,503
Transactions with owners								
Cash dividends	-	-	-	-	-	-	-	-
Total transactions with owners for the period	-	-	-	-	-	-	-	-
Balances as at 30 June 2023	**1,681,058**	**21,857,677**	**(507,106)**	**3,911,083**	**238,442**	**779,158**	**1,199,567**	**29,159,879**

* Refer to “Basis of Preparation”

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

SHELL PILIPINAS CORPORATION
Unaudited Statement of Cash Flows
For the period ended 30 June 2023 and 2022
(All amounts in thousands Philippine Peso)

	June 2023	June 2022
Cash flows from operating activities		
Income (loss) before income tax	160,404	10,345,651
Adjustments:		
Depreciation and amortization expense	1,447,446	2,193,267
Interest and finance charges	1,673,351	818,013
Unrealized foreign exchange (gain) loss, net	(176,333)	294,244
Pension expense	133,614	20,057
Accretion expense	55,124	40,177
Loss/(gain) on disposal of property and equipment	7,195	(3,005)
Write-off of asset	-	17,742
Interest income	1,044	(717)
Share in profit of associates	(34,572)	(64,164)
Operating income before working capital changes	3,267,273	13,661,265
Increase/(Decrease) in inventories, trade and other receivables, Prepayments and other assets	473,425	(16,727,525)
Increase/(Decrease) in trade and other payables and provisions and other liabilities	(5,670,561)	4,756,954
Cash generated from operations	(1,929,863)	1,690,694
Pension contributions paid	(10,065)	(7,679)
Net cash flows from operating activities	(1,939,928)	1,683,015
Cash flows from investing activities		
Additions to property and equipment	(2,035,951)	(2,414,410)
Proceeds from sale of property and equipment	26,243	10,752
Dividend received	2,533	47,495
Interest received	(1,044)	717
Net cash flows used in investing activities	(2,008,219)	(2,355,446)
Cash flows from financing activities		
Dividends paid	(184)	-
Net proceeds (settlements of) from short-term borrowings	7,362,000	4,282,000
Interest and finance charges paid	(2,557,375)	(340,712)
Principal elements of lease payments	(971,224)	(1,983,095)
Net cash flows used in financing activities	3,833,217	1,958,193
Net increase in cash	(114,930)	1,285,762
Cash at the beginning of the period	2,957,163	1,684,252
Effect of exchange rate changes on cash	3	(14,632)
Cash at end of the period	**2,842,236**	**2,955,382**

Certified by:	REYNALDO P. ABILO
	Chief Financial Officer

SHELL PILIPINAS CORPORATION
NOTES TO FINANCIAL STATEMENTS
As at 30 June 2023 and 31 December 2022 and for the
six-month period ended 30 June 2023 and 2022
(All amounts in table are shown in thousand Philippine Peso
except per share data and unless otherwise stated)

Note 1 - General information

Shell Pilipinas Corporation (the "Company" or "SPC") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on 09 January 1959 primarily to engage in the refining and marketing of petroleum products.

Prior to its initial public offering ("IPO"), the Company is 68% owned by Shell Overseas Investments BV ("SOIBV"), a corporation registered under the laws of the Netherlands and 32% owned by Filipino and other foreign shareholders. The ultimate parent of the Company is Shell plc., incorporated in the United Kingdom. The Company conducted its IPO to list in the Philippine Stock Exchange on 03 November 2016. The offer was composed of a Primary Offer of 27,500,000 common shares and Secondary Offer of 247,500,000 common shares with an overallotment option of up to 16,000,000 common shares, with an offer price of P67.0 (USD1.39) per share. After the IPO, SOIBV owns 55% of the total outstanding shares of the Company. The Company used the net proceeds from the Primary Offer to fund capital expenditure, working capital and general corporate expenses. Net proceeds amounted to P1.4 billion (USD 0.03 billion). The IPO proceeds have been fully utilized as at 31 December 2017. The Company does not have any other share issuances subsequent to its initial public offering.

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

The Company's ceased its refinery operations and converted the facility to an import terminal to optimize its asset portfolio and enhance its cost and supply chain competitiveness in 2020. The Company during its Stockholders' Meeting on 11 May 2021 amended its Primary Purpose in the Articles of Incorporation to incorporate the change. The shift in supply chain strategy from manufacturing to full import prepares the Company for a future that will rely on more and cleaner energy solutions.

The Company's registered office, which is also its principal place of business, is 41st Floor, The Finance Centre, 26th Street corner 9th Avenue Bonifacio Global City, Brgy. Fort Bonifacio, Taguig City, Metro Manila, 1635. On August 10, 2022, the Board has approved the change in corporate name of the Company to "Shell Pilipinas Corporation" and the amendment and broadening of the Corporation's Secondary Purpose to include retail trade as it aims to grow its non-fuel retail segment.

Moreover, in its virtual Special Stockholders' Meeting on 26 September 2022 through Shell Operated Webcast, stockholders representing at least 79.1% of the total issued and outstanding capital approved the change in corporate name from "Pilipinas Shell Petroleum Corporation" to "Shell Pilipinas Corporation" and the new Secondary Purpose to allow retail trade. This introduces the Company's wider future forward approach towards energy transition that will reposition it beyond petroleum, shifting towards sustainable and cleaner energy solutions. The SEC approval was obtained on 15 March 2023.

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

Thus, the CTA prohibited the government from collecting, in any manner, excise taxes and value-added tax on SPC's Alkylate importations. A copy of the decision was received on 02 May 2023.

Note 2 - Cash

The account as at 30 June 2023 and 31 December 2022 consists of cash in banks which are earning interest at the prevailing bank deposit rates. The Company maintains cash deposits with universal and commercial banks in the Philippines. Universal and commercial banks represent the largest single group, resource-wise, of financial institutions in the country.

Cash as at 30 June 2023 and 31 December 2022 is maintained with the following type of financial institutions:

	30 June 2023	31 December 2022
Universal bank	2,688,844	1,979,727
Commercial bank	153,392	977,436
	2,842,236	2,957,163

Note 3 – Trade and other receivables, net

The account as at 30 June 2023 and 31 December 2022 consists of:

	30 June 2023	31 December 2022
Trade receivables		
Third parties	15,687,259	18,899,677
Related parties	217,226	234,717
Provision for impairment of trade receivables from third parties	(430,397)	(488,943)
	15,474,088	18,645,451
Non-trade receivables from related parties	93,296	36,005
Other receivables		
Creditable withholding tax	758,390	852,577
Duty drawback and other claims	2,461,739	2,508,474
Non-trade receivable from third party	286,400	349,934
Miscellaneous	741,708	699,277
Provision for impairment of other receivables	(39,886)	(39,886)
	4,208,351	4,370,376
	19,775,735	23,051,832

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

The Company holds collaterals for trade receivables from third parties as at 30 June 2023 valued at P5.8 billion (31 December 2022 – P5.7 billion) consisting of cash securities, letters of credit or bank guarantees and Real Estate Mortgages (REM). These securities can be applied once the related customer defaults on settlement of the Company's receivables based on agreed credit terms. The maximum exposure of the Company is P9.8 billion as at 30 June 2023 (31 December 2021 – P12.9 billion). These balances relate to a number of independent customers with whom there is no recent history of default. The carrying amount of trade and other receivables at the reporting date approximated their fair value.

(a) Past due receivables but not impaired

The aging of past due trade receivables, net of provision from third parties as at 30 June 2023 and 31 December 2022 are as follows:

	30 June 2023	31 December 2022
Less than 30 days	638,378	933,905
31 - 60 days	60,996	435,093
61 - 90 days	96,394	121,919
Greater than 90 days	216,705	377,156
	1,012,473	1,868,073

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

(b) Impaired receivables

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

	Trade	Others	Total
As at 01 January 2022	358,991	39,886	398,877
Provisions (Reversals)	130,382	-	130,382
Write Off	(430)	-	(430)
As at 31 December 2022	488,943	39,886	528,829
Provisions (Reversals)	(37,999)	-	(37,999)
Write Off	(20,547)	-	(20,547)
As at 30 June 2023	430,397	39,886	470,283

For the year ended 30 June 2023, total trade receivables written-off directly to statement of income amounted to P23.0 million (30 June 2022 - direct write off P8.7 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 2023 and 31 December 2022 that are neither past due nor impaired that are fully recoverable has been assessed by reference to historical information about counterparty default rates:

Trade receivables (counterparties with internal credit rating)	30 June 2023	31 December 2022
A	1,117,836	1,436,287
B	2,377,436	1,364,099
C	4,387,539	6,471,558
D	6,361,578	7,270,722
Total trade receivables	14,244,389	16,542,666

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. 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-month period ended 30 June 2023 and for the year ended 31 December 2022.

Note 4 - Inventories, net

The account as at 30 June 2023 and 31 December 2022 consists of:

	30 June 2023	31 December 2022
Petroleum products	17,778,566	17,759,686
Materials and supplies	180,128	180,238
	17,958,694	17,939,924

Details of and changes in allowance for inventory write-down and obsolescence as at and for the six-month period ended 30 June 2023 and for the year ended 31 December 2022 are as follows:

	Petroleum products	Materials and supplies	Total
As at 01 January 2022	14,859	3,000	17,859
Write-off	-	-	-
Provisions, net	48,244	-	48,244
As at 31 December 2022	63,103	3,000	66,103
Provisions/(reversals), net	(31,842)	-	(31,842)
As at 30 June 2023	31,261	3,000	34,261

The allowance for inventory resulting from the write-down of petroleum products to net realizable value amounted to P26.5 million as at 30 June 2023 (31 December 2022 – P58.9 million) and the allowance for obsolescence of finished products amounted to P4.7 million as at 30 June 2023 (31 December 2022 – P4.2 million). In 2023, amount of petroleum products written-off amounted to Nil as at 30 June 2023 (31 December 2022 – Nil).

Of the total amount of inventories, the inventories with a value of P238.7 million as at 30 June 2023 (31 December 2022 – P1,981.1 million) are carried at net realizable value, this being lower than cost which approximates the inventories fair value less cost to sell.

Cost of inventories included as part of cost of sales amounted to P102.0 billion for the six-month period ended 30 June 2023 (30 June 2022 – P101.2 billion).

Note 5 - Prepayments and other current assets

The account as at 30 June 2023 and 31 December 2022 consists of:

	30 June 2023	31 December 2022
Input VAT net of output VAT (a)	1,049,799	612,872
Prepaid corporate income taxes (b)	5,817,355	4,457,170
Advance rentals	991,998	659,555
Derivative financial assets (c)	43,513	101,897
Prepaid duties and taxes	5,641	4,489
Others	88,238	48,349
	7,996,544	5,884,332

(a) Input VAT, net of output VAT

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

(b) Prepaid corporate income tax

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

(c) Derivative financial assets

The Company enters into commodity forward contracts to hedge the commodity price risks arising from its petroleum products requirements. As at 30 June 2023, the notional principal amount of the outstanding commodity forward contracts amounted to P9.0 billion (31 December 2022 – P2.4 billion). As at 30 June 2023, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P43.5 million (31 December 2022 – P101.9 million).

For the six-month period ended 30 June 2023, the Company's fair value of settled derivatives amounted to realized loss of P156.6 million (30 June 2022 – gain of P713.1 million).

For the six-month period ended 30 June 2023, net fair value changes of the outstanding commodity forward contracts amounting to a loss of P101.1 million (30 June 2022– loss of P387.3 million) were recognized in 'Other operating income, net'.

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

The account as at 30 June 2023 and 31 December 2022 consists of:

	30 June 2023	31 December 2022
Advance rentals	156,947	141,520
Market investment loans (b)	99,554	100,308
Investments in associates (c)	58,199	26,160
	314,700	267,988
Long-term receivables (a)	11,749,505	11,222,057
Provision for impairment of long-term receivables	(158,182)	(158,545)
	11,591,323	11,063,512
	11,906,023	11,331,500

(a) Long-term receivables

Long-term receivables include claims from government agencies amounting to P11.4 billion as at 30 June 2023 (31 December 2021 – P10.9 billion) representing the amount to be recovered from the government on various taxes paid. Included in this P11.4 billion, is P4.6 billion of excise duties and VAT paid under protest for Alkylate shipment see (Note 18).

As at 30 June 2023, long-term receivables of P158.2 million (31 December 2022 – P158.5 million) were impaired and fully provided.

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

	Other long-term receivables
As at 01 January 2022	208,604
Write-off	(1,000)
Reversal	(49,059)
As at 31 December 2022	158,545
Write-off	(363)
As at 30 June 2023	158,182

As at 30 June 2023 and 31 December 2022, there are no other long-term receivables that are past due but not impaired. The other classes and balances within long-term receivables, rental and investments are fully performing.

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

(b) Market investment loans

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

(c) Investments in associates

	30 June 2023	31 December 2022
Carrying amount of investment in associate	26,161	26,161

	Interest	Assets	Liabilities	Net Assets	Income	Share of Profit
30 June 2023						
Bonifacio Gas Corporation	40%	286,833	137,116	149,717	102,738	41,095
Kamayan Realty Corporation	40%	22,757	8,428	14,329	2,919	1,168
31 December 2022						
Bonifacio Gas Corporation	40%	185,080	137,498	47,582	152,719	61,088
Kamayan Realty Corporation	40%	23,922	6,100	17,822	6,412	2,565

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.

In 2021 Fort Bonifacio Development Corporation (FBDC) offered to acquire the 3.65% or 11,108 shares which SPC agreed to sell. The shares have a par value of Php 100 for each share.

Kamayan Realty Corporation is an entity engaged in leasing and selling of real properties in the Philippines.

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

Note 7 - Provision for income tax; deferred tax assets / (liabilities)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts at 30 June 2023 and 31 December 2022 are as follows:

	30 June 2023	31 December 2022
Deferred income tax assets (liabilities)		
Impairment of property, plant and equipment	1,014,445	1,297,376
PFRS 16 Lease Liability accrual	1,396,209	1,142,287
Retirement benefit asset	(1,115,657)	(1,115,657)
Asset retirement obligation	988,181	1,012,556
MCIT – Recognition	400,336	738,784
Prepaid duties and taxes	(74,278)	(558,542)
Provision for doubtful debts	153,475	168,202
Provision for inventory losses	144,030	151,990
Other provisions	107,881	151,541
Unrealized foreign exchange gain	(105,398)	(61,314)
Share-based compensation	57,536	57,536
NOLCO	-	42,834
Unamortized past service cost, net	26,630	37,228
Unrealised Mark to market loss (gain)	1,485	(23,784)
Provision for remediation costs	(3,731)	(3,524)
Net deferred income tax	2,991,144	3,037,513

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

	30 June 2023	31 December 2022
As at 01 January	3,037,513	4,130,652
Credited/(charged) to profit and loss	311,068	(1,361,539)
Credited to other comprehensive income	(18,990)	(44,993)
MCIT Credited/(charged) to profit and loss	(338,447)	313,393
As at 30 June 2023 and 31 December 2022	2,991,144	3,037,513

Realization of the future benefits related to the deferred income tax assets is dependent on many factors, including the Company's ability to generate taxable income in the future. The Company's Management has considered these factors in arriving at its conclusion that the deferred income tax assets as at 30 June 2023 and 31 December 2022 are fully realizable.

On 31 December 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4 of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

NOLCO balances as of 30 June 2023

As at 30 June 2023, the Company has incurred NOLCO which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Year Incurred	Availment Period	Amount	NOLCO Applied Previous Years	NOLCO Expired	NOLCO Applied Current Year	NOLCO Unapplied
2020	2021-2025	5,899,148	5,800,710	-	-	98,438
2021	2022-2026	72,899	-	-	-	72,899
2022	2023-2025	-	-	-	-	-
2023	2024-2026	-	-	-	171,337	(171,337)

MCIT balances as at 30 June 2023

Year Incurred	Availment Period	Amount	MCIT Applied Previous Years	MCIT Expired	MCIT Applied Current Year	MCIT Unapplied
2020	2021-2023	160,193	-	-	-	160,193
2021	2022-2024	265,197	-	-	-	265,197
2022	2023-2025	313,393	-	-	-	313,393
2022	2024-2026	-	-	-	338,447	(338,447)

The details of provision for income tax for the six-month period ended 30 June 2023 and 2022 are as follows:

	30 June 2023	30 June 2022
Current	10,132	534,673
Deferred	27,379	2,045,237
	37,511	2,579,910

The reconciliation of provision for income tax computed at the statutory rate to actual provision for income tax shown in the statements of income is shown below:

	30 June 2023	30 June 2022
Income tax at statutory income tax rate	40,101	2,586,413
Income tax effect of:		
Non-deductible expenses	(1,303)	7,208
Limitation on deductible interest expense	64	67
Interest income subjected to final tax	(322)	(336)
Income subjected to 8% final tax	(2,518)	(11,758)
Non-taxable income	(8,643)	(16,041)
Provision for income tax before final taxes	27,379	2,565,553
Final taxes on interest and other charges	10,132	14,357
Provision for income tax at effective tax rate	37,511	2,579,910

Note 8 – Right of use lease assets

The account as at 30 June 2023 and 31 December 2022 consists of:

	30 June 2023	31 December 2022
Cost	31,530,255	30,644,577
Accumulated depreciation	(11,179,229)	(10,531,305)
Net carrying amount	20,351,026	20,113,272

Note 9 - Other assets, net

The account as at 30 June 2023 and 31 December 2022 consists of:

	30 June 2023	31 December 2022
Pension asset	4,592,101	4,553,157
Equity through OCI (a)	943,458	816,858
Deferred input VAT (b)	73,233	86,960
Intangible assets (c)	1,194	1,194
	5,609,986	5,458,169

(a) Equity through OCI

Equity through OCI mainly represent equity securities and proprietary club shares which are carried at fair value. Details of the account as at 30 June 2023 and 31 December 2022 are as follows:

	30 June 2023	31 December 2022
Cost		
As at 01 January	26,800	26,800
Balance at the end	26,800	26,800
Fair value adjustments recognized directly in OCI		
Balance at the beginning	790,058	605,818
Changes during the period	126,600	184,240
	916,658	790,058
Balance at the end	943,458	816,858
Current portion	-	-
Non-current portion	943,458	816,858

The Company has intended to sell equity instruments within 12 months from 30 June 2023 and 31 December 2022.

(b) Deferred Input VAT

Deferred input VAT will be recovered 12 months after reporting date. Hence, this is presented as non-current asset as at 30 June 2023 and 31 December 2022.

(c) Intangible Asset

Intangible asset consists of program software and others. As at 30 June 2023 and 31 December 2022 the movements in the accounts for the years consist of:

	30 June 2022	31 December 2022
Cost		
As at 01 January	1,007,623	1,007,623
Balance at the end	1,007,623	1,007,623
Accumulated amortization		
As at 01 January	(1,006,429)	(1,006,429)
Amortization for the period	-	-
Balance at the end	(1,006,429)	(1,006,429)
Net book value	1,194	1,194

Note 10 – Trade and other payables

The account as at 30 June 2023 and 31 December 2022 consists of:

	30 June 2023	31 December 2022
Trade Payables		
Third parties	6,710,199	10,148,439
Related parties	11,598,651	14,033,005
	18,308,850	24,181,444
Non-trade payables from related parties	624,305	239,045
Lease liabilities	2,542,159	2,068,541
Project-related costs and advances	1,447,986	1,885,819
Provision for ARO and remediation	2,077,426	1,535,046
Rent and utilities	665,145	555,617
Advertising and promotions	353,052	498,032
Employee benefits	330,660	435,901
Duties and taxes	611,046	228,559
Supply and distribution	27,651	4,228
Derivatives (a)	49,451	6,759
Others (b)	870,310	1,287,057
	27,908,041	32,926,048

(a) As at 30 June 2023, the notional principal amount of the outstanding commodity forward contract liabilities amounted to P1.8 million (31 December 2022 - P0.8 billion). As at the same date, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P49.5 million (31 December 2022 - P6.8 million).

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

Note 11 - Short-term loans

As at 30 June 2023, unsecured short-term loan amounted to P25,189.0 million with tenure ranging from 3 to 92 days. The loans are intended for working capital requirements and corporate expenses.

As at 31 December 2022, unsecured short-term loan amounted to P17,827.0 million with tenure ranging from 5 to 60 days. The loans are intended for working capital requirements and corporate expenses.

The average interest rate on local borrowings for the six-month period ended 30 June 2023 was 5.95% (30 June 2022 – 2.26%). Total interest expense charged to operations for the six-month period ended 30 June 2023 arising from short-term loans amounted to P714.31 million (30 June 2022 – P172.02 million).

Note 12 – Long-term debt

Details of the loan agreements with Bank of the Philippine Islands (BPI) & Metropolitan Bank and Trust Co Phil as at 30 June 2023 and 31 December 2022 follow:

30 June 2023	31 December 2022	Interest	Terms
9,000,000	9,000,000	5.09% as at 30 June 2023 effective until next re-pricing	Payable after sixty (60) months reckoned from the drawdown date on 23 February 2023. Principal is payable in lump sum at maturity date 23 February 2028. Interest is re-priced every three (3) months.
6,000,000	6,000,000	5.60% as at 30 June 2023 effective until next re-pricing	Payable after sixty (60) months reckoned from the drawdown rate of 20 December 2021. Principal is payable in lump sum at maturity date 21 December 2026. Interest is repriced every three (3) months.

The average interest rate on local borrowings for the six-month period ended 30 June 2023 was 5.26% (30 June 2022 – 1.79%). Total interest expense charged to operations for the six-month period ended 30 June 2023 arising from these loans amounted to P323.35 million (30 June 2022 – P126.08 million).

There are no collaterals pledged as security against these borrowings.

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

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

The Company is in compliance with the covenants as at reporting periods presented.

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

Note 13 – Provisions and Other Liabilities

As at 30 June 2023, provisions and other liabilities amounted to P3,649.8 million which also contains asset retirement obligation representing the future estimated dismantling costs of various assets used in retail, depot and commercial operations, amounting to P2,620.7 million and cash security deposits amounting to P178.6 million.

As at 31 December 2022, provisions and other liabilities amounted to P4,209.9 million which also contains asset retirement obligation representing the future estimated dismantling costs of various assets used in retail, depot and commercial operations, amounting to P3,288.3 million and cash security deposits amounting to P179.4 million.

Note 14 - Share capital; Treasury shares; Share premium

Capital stock and treasury shares as at 30 June 2023 and 31 December 2022 consist of:

	30 June 2023		31 December 2022	
	Number of shares	Amount	Number of shares	Amount
Authorized capital stock, common shares at P1 par value per share	2.5 billion	2,500,000	2.5 billion	2,500,000
Issued shares	1,681,058,291	1,681,058	1,681,058,291	1,681,058
Treasury shares	(67,614,089)	(507,106)	(67,614,089)	(507,106)
Issued and outstanding shares	1,613,444,202	1,173,952	1,613,444,202	1,173,952

As at 30 June 2023, the Company has 319 shareholders excluding treasury shares (31 December 2022 - 319), 283 of whom hold at least 100 shares of the Company's common shares (31 December 2022 - 282).

Note 15 - Retained earnings

Retained earnings as at 30 June 2023 and 31 December 2022 consist of:

	30 June 2023	31 December 2022
Unappropriated retained earnings, unadjusted	3,911,083	3,788,190
Adjustments & Unrealized income items	(5,094,476)	(5,629,005)
Unappropriated Retained Earnings available for dividends (deficit)	(1,183,393)	(1,840,815)

Note 16 - Earnings per share

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

	YTD 2Q 2023	YTD 2Q 2022
Earnings available to stockholders:		
Profit for the period	122,893	7,765,741
Weighted average number of shares	1,681,058,291	1,681,058,291
Treasury shares	(67,614,089)	(67,614,089)
	1,613,444,202	1,613,444,202
Basic and diluted EPS	0.08	4.81

As at 30 June 2023 and 2022, the Company does not have any potentially dilutive stocks.

Trailing Earnings per share

	2023 (Trailing 12 months)	2022 (Trailing 12 months)
Earnings available to stockholders:		
Profit for the period	(3,567,101)	9,400,232
Weighted average number of shares	1,681,058,291	1,681,058,291
Treasury shares	(67,614,089)	(67,614,089)
	1,613,444,202	1,613,444,202
Basic and diluted EPS	(2.21)	5.83

Trailing 12 months Earnings/(Loss) per Share (Basic) = Trailing 12 months Net Income/(Loss) – Dividends Paid on Preferred Stock/Weighted Ave. No. of Common Shares Outstanding.

Trailing 12 months Net Income/(Loss) = Current Year-to-date Net Income/(Loss) + Latest Annual Net Income/(Loss) – Previous Year-to-date Net Income/(Loss).

Note 17 – Classification of other operating and non-operating income and finance expense

	YTD 2Q 2023	YTD 2Q 2022
Other operating income	666,924	1,286,661
Other operating expense	(346,120)	(434,037)
Other operating income, net	320,804	852,624
Finance income	175,290	87,101
Finance expenses	(1,846,712)	(1,754,795)
Finance expenses, net	(1,671,422)	(1,667,694)

Other operating income, net comprises rental income and franchise commission from non-fuel retail business, mark to market loss or gain from hedge settlements, loss on disposal of fixed assets and others. Decline in Other operating income due to realized mark to market loss of vs gain in prior year.

Note 18 – Contingencies

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

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

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

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

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

The COC denied the appeal of the Company and demanded the payment of excise tax and VAT for the Company's CCG and LCCG importations this time from 2004 to 2009. The Company filed a motion for reconsideration of the Letter-Decision, which was denied by the COC. The COC then ordered the Company to pay the principal amount of P7.4 billion and pay the excise tax and VAT on all incoming CCG and LCCG shipments.

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

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

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

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

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

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

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

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

On 21 September 2016, the Company received an Amended Decision of the CTA en banc upholding its 28 September 2015 ruling and holding that the Company is liable to pay the Government for alleged unpaid taxes for the importation of CCG and LCCG for the period from 2006 to 2009 totalling P5.7 billion.

On 06 October 2016, the Company filed the appropriate appeal with the Supreme Court. The BOC and the BIR also filed their Petition for Review on Certiorari seeking to bring back the liability of the Company to P7.4 billion plus interest and surcharges.

Status:

The Supreme Court consolidated the said petitions and the parties have filed their respective Comments. The Government and the Company filed their Reply on 22 January 2018 and 06 June 2018, respectively. On 06 March 2020, the Office of the Solicitor General filed a Motion for Early Resolution. The Company subsequently filed a motion for leave to file an opposition on 23 March 2020. Awaiting action by the Supreme Court. No change in status as of 30 June 2023.

Management believes that provision should not be recognized as at 30 June 2023 since it is the Company's assessment that liability arising is not probable because its factual and legal positions are strong. The Company continues to take appropriate legal action and remediation with respect to such case.

(b) Excise tax on Importations of Alkylate

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

Matter Summary:

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

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

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

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

On 02 June 2014, the Company filed a Petition for Certiorari with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the SC questioning the denial of its application for the issuance of a suspension order against the assessment and collection of excise taxes on its March 2014 alkylate shipment. On 07 July 2014, the SC issued a temporary restraining order enjoining the CTA and the tax-collecting agencies of the government from imposing excise taxes on incoming alkylate importations of the Company.

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

As disclosed in Note 6, the Company has excise duties and VAT paid under protest amounting to P5.5 billion for certain Alkylate shipments.

Status:

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

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

In the consolidated jurisdictional cases before the Supreme Court, the Office of the Solicitor General (OSG) filed a Motion to Lift TRO and for Immediate Resolution of the Consolidated Cases on 23 October 2020. SPC filed its Comment/Opposition on 27 November 2020. In July 2021, the Supreme Court lifted the temporary restraining order (TRO) against the collection of excise tax for the Company's alkylate importations from March 2014 to April 2020 (principal amount involved is around P3.4 billion) and remanded the case to the Court of Tax Appeals (CTA) for the latter to determine the propriety of issuing a TRO / injunction in favor of the Company.

In line with said Supreme Court ruling, the Company has already filed an application for TRO / injunction with the CTA, which remains pending to date. The CTA has scheduled a hearing on the application for TRO / injunction on 26 January 2022 however it did not push through due to COVID situation at that time. During the hearing on 02 March 2022, the CTA said that SPC's application for a TRO / Injunction is already moot and academic in view of the prior payment under protest. Currently awaiting further action from the CTA.

In the meantime, the District Collector of the Bureau of Customs, taking action outside of the court proceedings, issued a letter to the Company demanding for the payment of around P3.4 billion. The Company promptly responded and argued, among others, that there is no final decision yet from either the CTA or Supreme Court on the taxability of the Company's alkylate importations.

Nevertheless, the Bureau of Customs commenced actions to suspend the Company's accreditation as an importer. Left without an immediate legal remedy that would avert the disruption of its operations, the Company in December 2021 and January 2022 was constrained to pay under protest the Bureau of Customs the amount of around P3.4 billion. The Company has since initiated refund proceedings to recover the amounts paid under protest.

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

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

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

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

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

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

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

Status:

In a decision dated 16 February 2021, the RTC dismissed the case on the merits. The Bureau of Customs has filed a Notice of Appeal. As of 30 June 2023, the Company is awaiting further actions from the RTC and/or the Court of Appeals.

SPC received the Appellant's Brief of the Republic on 21 February 2023. SPC filed its Appellee's Brief on 22 May 2023, within the extended deadline. On 29 June 2023, SPC received a copy of the Reply Brief of the Republic. As of 31 July 2023, the Republic's appeal is pending at the Court of Appeals

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

There are also tax cases filed by the Company for its claims from the government amounting to P1.7 billion as of 30 June 2023 in the CTA and SC. Management believes that the ultimate outcome of such cases will not have a material impact on the Company's financial statements.

(e) ***Other significant case***

Case filed by the West Tower Condominium Corporation (WTCC)

West Tower Condominium Corp. et al. vs. Judge Elpidio R. Calis et al
SC G.R. No. 215901, Supreme Court
Filed 11 June 2012
Matter Summary:
The Company is a respondent in this Petition for Certiorari filed by West Tower Condominium Corp, et al. to challenge the ruling of Judge Calis requiring the payment of filing fees in the civil case for damages earlier brought by WTCC in connection with the leak in White Oil Pipeline. The issue is whether the case filed with the lower court is exempt from payment of filing fees. The trial court judge earlier ruled that the claim is an ordinary claim for damages.

Status:

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

On 26 September 2014, the Company asked the Court of Appeals to deny the motion for reconsideration filed by West Tower Condominium Corporation, et al. for lack of merit. In its resolution dated 11 December 2014, the Court of Appeals denied the motion for reconsideration filed by the West Tower Condominium Corporation, et al. West Tower Condominium Corporation, et al.'s filed with the Supreme Court the present petition dated 11 February 2015 seeking a review of the decision of the Court of Appeals. The Company has filed its Comment with Opposition dated 18 September 2015 asking the Supreme Court to dismiss the petition and to deny the application for a temporary restraining order. Awaiting Supreme Court's action. No change in status as of 30 June 2023.

Note 19 - Deregulation Law

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

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

On 03 November 2016, the Company became a publicly listed company with the Philippine Stock Exchange, in compliance with Philippine Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 and its implementing rules and regulations.

Note 20 - Summary of significant accounting policies

20.1 Basis of preparation

Basis of Preparation:

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

Statement of Compliance:

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

Changes in Accounting Policies and Disclosures:

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards effective in 2022. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

New Standards, Interpretations and Amendments

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

• Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, Levies, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

• Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

• Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

• *Annual Improvements to PFRSs 2018-2020 Cycle*

• Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 percent' test for derecognition of financial liabilities*

  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

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 unless otherwise indicated.

Effective beginning on or after 01 January 2023

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

- *Amendments to PAS 8, Definition of Accounting Estimates*

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

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

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

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

The Company is currently assessing the impact of the amendments.

Effective beginning on or after 01 January 2024

- Amendments to PAS 1, Classification of Liabilities as Current or Non-current
- Amendments to PFRS 16, Lease Liability in a Sale and Leaseback

Effective beginning on or after January 1, 2025

- PFRS 17, Insurance Contracts

Deferred effectivity

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

20.2 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties. As at 30 June 2023 and 31 December 2022, there are no financial assets and financial liabilities that were offset.

Note 21 - Financial risk management

21.1 Financial risk factors

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

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

21.1.1 Market risk

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

i. Foreign exchange risk

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

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

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

ii. Cash flow and fair value interest rate risk

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

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

The Company's interest-rate risk arises from its borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest-rate risk. As at 30 June 2023 and December 2022, 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 significant hedging activities or derivative contracts to cover risk associated with borrowings.

For the year ended 30 June 2023, if interest rates on Philippine peso-denominated borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been P301.4 million (2022 – P246.2 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. Management uses 100 basis points as threshold in assessing the potential impact of interest rate movements in its operations.

iii. Commodity and Other Price risks

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

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

21.1.2 Credit risk

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

The Company maintains cash and certain other financial instruments with various major financial institutions. To minimize this risk, the Company performs periodic evaluations of the relative credit standing of these financial institutions and where appropriate, places limits on the amount of credit exposure with any one institution. Additional information is presented in Note 2.

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

There is no concentration of credit risks as at statement of financial position dates as the Company deals with a large number of homogenous trade customers. Additional information is presented in Note 3. Where there is a legally enforceable right to offset under trading agreements and net settlement is regularly applied, the net asset or liability is recognized in the statement of financial position, otherwise assets and liabilities are presented at gross. As at 30 June 2023 and December 2022, the Company has the following:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
30 June 2023					
Financial assets:					
Receivables	15,567,384	-	15,567,384	5,793,268	9,774,116
31 December 2022					
Financial assets:					
Receivables	18,681,456	-	18,681,456	5,749,567	12,931,889

21.1.3 Liquidity risk

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

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

Availability of funding to settle the Company's payables are ensured since the Company has unused credit lines and undrawn borrowing facilities at floating rate amounting to P40.8 billion as at 30 June 2023 which are subject to annual review.

21.2 Capital management

The Company manages its business to deliver strong cash flows to fund capital expenditures and growth based on cautious assumptions relating to petroleum products prices. Strong cash position and operational cash flow provide the Company financial flexibility both to fund capital investment and return on equity. Total capital is calculated as 'equity' as shown in the statement of financial position less other reserves plus net debt.

i. Cash flow from operating activities

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

ii. Gearing ratio

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

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

The gearing ratios at 30 June 2023 and 31 December 2022 are as follows:

	Note	30 June 2023	31 December 2022
Total loans and borrowings	11,12	40,189,000	32,827,000
Less: cash	2	2,842,236	2,957,163
Net debt		37,346,764	29,869,837
Total equity (excluding other reserves)	14,15	28,142,279	28,019,386
Total Capital		65,489,043	57,889,223
Gearing ratio		57%	52%

The Company is not subject to externally imposed capital requirement.

21.3 Fair value estimation

The table below presents the carrying amounts of the Company's financial assets and financial liabilities, which approximates its fair values, as at 30 June 2023 and 31 December 2022:

	Note	30 June 2023	31 December 2022
Financial assets			
Loans and receivables			
Cash	2	2,842,236	2,957,163
Receivables	3	15,567,384	18,681,456
Derivatives	5	43,513	101,897
Customer grants	6	99,554	100,308
Long-term receivables		345,965	308,084
Equity through OCI	9	943,458	816,858
Total financial assets		19,842,110	22,965,766

	Note	30 June 2023	31 December 2022
Financial liabilities			
Other financial liabilities			
Accounts payable and accrued expenses	10	27,858,590	32,919,289
Dividends payable		17,580	17,764
Derivatives	10	49,451	6,759
Cash security deposits		178,639	179,355
Short-term borrowings	11	25,189,000	17,827,000
Current portion of loans payable	12	-	9,000,000
Loans payable	12	15,000,000	6,000,000
Lease Liabilities		20,845,637	20,194,873
Total financial liabilities		89,138,897	86,145,040

Receivables in the table above exclude claims from the government and miscellaneous receivables while accounts payable and accrued expenses exclude amounts payable to the government and its related agencies.
The following methods and assumptions were used to estimate the value of each class of financial instrument:

i. *Current financial assets and liabilities*

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

ii. *Financial assets and liabilities carried at cost*

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

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 or variable price and the relevant index price as of the statement of financial position date. The fair values of the derivatives are categorized under Level 2 of the fair value hierarchy.

iv. *Loans payable*

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

<u>Note 22 – Changes in estimates of amounts</u>

There were no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that would have a material effect in the current interim period.

Note 23 – Issuances, repurchases, and repayments of debt and equity securities

There were no issuances, repurchases of debt and equity securities during the quarter.

Note 24 – Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

There were no material events subsequent to the end of the interim period that has not been reflected in the financial statements for the interim period.

Note 25 – Changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations

There were no changes of material amount in the composition of the Company during the interim period.

Note 26 – Changes in contingent liabilities or contingent assets

There were no changes of material amount in contingent liabilities or contingent assets since the last annual balance sheet date.

Note 27 – Existence of material contingencies

There were no material contingencies, events or transactions that existed that materially impact the current interim period except those disclosed in the contingencies note.

Note 28 – Other Matters

a. The Company has reviewed the known trends, demands, developments, commitments, events or uncertainties during the reporting period and is of the opinion that there are no items which will have a material impact on the issuer's liquidity.

b. There were no material or significant events during the reporting period that will trigger direct or contingent financial obligations that are material to Shell Pilipinas Corporation except for the cases enumerated under Note 18 - Contingencies.

c. There were no material off-balance sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

d. For the year 2023, a budget of ~P5 to 6 billion has been allotted for capital expenditures, subject to additional spend deemed necessary by the Company in order to accelerate growth and enhance supply chain operations. Bulk of the capital expenditures will be allocated to build new mobility stations and growth projects, and the improvement of existing supply and distribution facilities.

e. Global developments, particularly the volatility in oil prices, will continue to impact fuel oil supply, both internationally and in the domestic market.

f. There are no material elements of income or loss that did not arise from the registrant's continuing operations during the period.

ITEM 2
Management's Discussion and Analysis of Financial Performance and Financial Condition

The Statements of Financial Position and Statements of Income for the period ended 30 June 2023 and 31 December 2022, are shown in Million Philippine Pesos.

Financial condition as of the six-month period ended 30 June 2023 compared with the period ended 31 December 2022

	30 June 2023	31 December 2022	% Increase (Decrease)
Current assets	48,573.2	49,833.3	(2.5)%
Non-Current assets	70,654.6	67,203.2	5.1%
Total assets	119,227.8	117,036.4	1.9%
Current Liabilities	53,114.6	59,770.8	(11.1)%
Non-Current Liabilities	36,953.3	28,336.2	30.4%
Total Liabilities	90,067.9	88,107.0	2.2%
Equity	29,159.9	28,929.4	0.8%

Current assets

SPC's current assets decreased from P49,833.3 million as of 31 December 2022 to P48,573.2 million as of 30 June 2023 primarily due to the following:

Cash decreased by P114.9 million, or 3.9% from P2,957.2 million as of 31 December 2022 to P2,842.2 million as of 30 June 2023 driven by working capital movements.

Receivables decreased by P3,276.1 million, or 14.2% from P23,051.8 million as of 31 December 2022 to P19,775.7 million as of 30 June 2023 primarily driven by the decrease in global fuel prices.

Prepayments and other current Assets increased by P2,112.2 million, or 35.9% from P5,884.3 million as of 31 December 2022 to P7,996.5 million as of 30 June 2023 mainly driven by the increase in prepaid corporate taxes and input VAT credit from higher importations.

Non-Current Assets

SPC's non-current assets increased from P67,203.2 million as of 31 December 2022 to P70,654.6 million as of 30 June 2023 primarily due to the following:

Property, plant and equipment, net increased by P2,533.7 million, or 9.3% from P27,262.7 million as of 31 December 2022 to P29,796.4 million as of 30 June 2023 due to additional mobility stations built during the year, upgrades made to existing mobility sites and enhancement of the supply chain network.

Long-term Receivables, rentals and investments, net, increased by P574.5 million, or 5.1 % from P11,331.5 million as of 31 December 2022 to P11,906.0 million as of 30 June 2023 primarily due to increase in excise duty claims.

Deferred income tax assets, net, decreased by P46.4 million, or 1.5% from P3,037.5 million as of 31 December 2022 to P2,991.1 million as of 30 June 2023 primarily due to utilization NOLCO and MCIT from prior years.

Current Liabilities

SPC's current liabilities decreased from P59,770.8 million as of 31 December 2022 to P53,114.6 million as of 30 June 2023 primarily due to the following:

Trade and other payables decreased by P5,018.0 million, or 15.2% from P32,926.0 million as of 31 December 2022 to P27,908.0 million as of 30 June 2023 primarily driven by decrease in average global fuel product prices for petroleum products such as gasoline, diesel, fuel oil, aviation fuel from ~$94/bbl as of 31 December 2022 to ~$86/bbl by end of June 2023.

Short-term loans increased by P7,362.0 million, or 41.3% from P17,827.0 million as of 31 December 2022 to P25,189.0 million as of 30 June 2023 primarily due to higher working capital requirements.

Current portion of loans payable decreased by P9,000.0 million, or 100.0% from P9,000.0 million as of 31 December 2022 to Nil as of 30 June 2023 due to the replacement of a maturing loan with a new medium-term loan drawn in February 2023.

Non-Current Liabilities

SPC's non-current liabilities increased from P28,336.2 million as of 31 December 2022 to P36,953.3 million as of 30 June 2023 primarily due to the following:

Long-term loans increased by P9,000 million, or 150.0% from P6,000.0 million as of 31 December 2022 to P15,000.0 million as of 30 June 2023 due to the new medium-term loan drawn last February 2023 with a 5-year duration.

Provision and other liabilities decreased by P560.1 million, or 13.3% from P4,209.9 million as of 31 December 2022 to P3,649.8 million as of 30 June 2023 primarily driven by reclassification of Tabangao asset retirement obligation to short-term provision due to the expected spending on D&R for the year.

Equity

SPC's total equity increased from P28,929.4 million as of 31 December 2022 to P29,159.9 million as of 30 June 2023 primarily driven by increase in profits and fair value of equity instruments.

Financial Performance

	YTD 2Q 2023	YTD 2Q 2022	%Increase (decrease)
Net Sales	128,422.7	135,326.3	(5.1)%
Sales Volumes (M liters)	2,139.7	1,947.8	9.9%
Marketing Volumes (M liters)	2,116.1	1,933.2	9.5%
Cost of sales	119,035.6	117,093.6	1.7%
Gross profit	9,387.2	18,232.7	(48.5)%
Selling, General and administrative expenses	7,876.1	7,072.0	11.4%
Other operating income/expense, net	320.8	852.6	(62.4)%
Finance expenses, net	1,671.4	1,667.7	0.2%
EBITDA	3,337.4	13,396.4	(75.1)%
Provision for income tax	37.5	2,579.9	(98.5)%
Net Income	122.9	7,765.7	(98.4)%
Core earnings	1,437.3	1,367.7	5.1%

Results of operations for the period ended 30 June 2023 compared with the period ended 30 June 2022

Net sales decreased by P6,903.6 million, or 5.1% from P135,326.3 million for the year ended 30 June 2022 to P128,422.7 million for the year ended 30 June 2023 primarily due to lower pump prices driven by the general decrease in global oil prices.

Gross profit decreased by P8,845.5 million or 48.5% from P18,232.7 million for the year ended 30 June 2022 to P9,387.2 million for the year ended 30 June 2023 mainly due to pre-tax inventory holding loss of P2,261.43 million in Q2 2023 against pre-tax gains of P8,529.73 million in Q2 2022.

Selling, General and Administrative expenses increased by P804.2 million, or 11.4% from P7,072.0 million for the year ended 30 June 2022 to P7,876.1 million for the year ended 30 June 2023 primarily as a result of increased spending on outside services, logistics and transhipment costs, repair and maintenance and documentary stamp tax related to borrowings. This is partially offset by Tabangao refinery impairment reversal.

Other operating income/expense, net decreased by P531.8 million or 62.4% from P852.6 million income for the period ended 30 June 2022 to P320.8 million income for the period ended 30 June 2023 primarily driven by the commodity hedging net mark to market loss in 2023 as compared to 2022 due to the oil price and market premium volatility globally and depreciation of the Philippine Peso. This is partially offset by the income P121.0 million generated by the non-fuel retail business.

EBITDA decreased by P10,059.0 million or 75.1% from P13,396.4 million for the period ended 30 June 2022 to P3,337.4 million for the period ended 30 June 2023 mainly due to impact of pre-tax inventory holding loss of P2,261.43 million in Q2 2023 against pre-tax gains of P8,529.73 million in Q2 2022.

Core earnings (net earnings excluding inventory holding gains and other one-off items) increased by P69.6 million from P1,367.7 million for the period ended 30 June 2022 to P1,437.3 million for the period ended 30 June 2023. This was driven by the increase in marketing volumes and premium products partially offset by increase in borrowing costs as Philippine interest rates tripled from Q1 2022 versus 2023 levels.

Key financial ratios

	YTD 2Q 2023 (Unaudited)	FY 2022 (Audited)
Current Ratio (a)	0.91	0.83
Debt Ratio (b)	0.31	0.26
Debt to Equity (c)	1.33	1.07
Asset to equity ratio (d)	4.24	4.18
Interest coverage ratio (e)	1.15	7.40
Return on Assets (f)	0.10%	3.48%
Return on Equity (g)	0.44%	14.55%
Return on average capital employed (h)	-2.88%	13.56%

a. Current ratio is computed by dividing current assets over current liabilities.
b. Debt ratio is computed by dividing net debt (short-term and long-term borrowings less cash) over total assets.
c. Debt to equity ratio is derived by dividing net debt (short-term and long-term borrowings less cash) over stockholder’s equity (exclusive of Other Reserves).
d. Asset to equity ratio is derived by dividing total assets over stockholder’s equity (exclusive of Other Reserves).
e. Interest coverage ratio is derived by dividing earnings before interest expense and taxes over interest expense.
f. Return on assets is computed as Profit (Loss) for the year divided by total assets.
g. Return on equity is computed as Profit (Loss) for the year divided by stockholder’s equity (exclusive of Other Reserves).
h. Return on average capital employed is defined as rolling 12 months EBIT as a percentage of the average capital employed for the period. Capital employed consists of total equity, short-term borrowings and loans payable. Average capital is calculated as the mean of the opening and closing balances of capital employed for that period.

(Please note that the numbers for 2023 are only for YTD 2Q 2023 while those for 2022 are for the full year, as audited).

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of SPC Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Taguig on day of ___________________.

Issuer:

Signature and Title: ___________________________
REYNALDO P. ABILO
Vice President – Finance, Treasurer and Chief Risk Officer

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

Signature and Title: ___________________________
ATTY. MARK HADRIAN GAMO
Corporate Secretary