COVER SHEET

1	4	8	2	9					

S.E.C. Registration Number

PILIPINAS SHELL PETROLEUM CORPORATION

(Company's Full Name)

156 VALERO ST SALCEDO VILLAGE BARANGAY BEL-AIR MAKATI CITY

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

Jose Jerome R. Pascual III
Contact Person

499-4001
Company Telephone Number

0 6 | 3 0
Month Day

Fiscal Year

1 7 - Q
FORM TYPE

0 5 | 1 6
Month Day
3rd Tuesday of May
Annual General Meeting as per By-Laws

CERTIFICATE OF PERMIT TO OFFER SECURITIES FOR SALE DATED 14 OCTOBER 2016
Secondary License Type, If Applicable

C F D
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign
310	13,064,000,000	

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

Confidential

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, 2017
2. Commission identification number: 14829
3. BIR Tax Identification Number: 000-164-757
4. Exact name of issuer as specified in its chapter: PILIPINAS SHELL PETROLEUM 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: Shell House, 156 Valero Street, Salcedo Village, Barangay Bel-Air, Makati City — *Postal code*: 1227
8. Issuer's telephone number, including area code: (632) 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	36,007,899,049

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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This is not applicable. There are no disclosures not made under SEC Form 17-C.

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PART I – FINANCIAL INFORMATION

ITEM 1

PILIPINAS SHELL PETROLEUM CORPORATION
Statement of Financial Position
As at 30 June 2017
With Comparative Figures for 31 December 2016
(All amounts in thousands Philippine Peso, except par value per share)

	Notes	June 2017 Unaudited	December 2016 Audited
Current assets			
Cash	2	3,757,549	4,274,266
Receivables, net	3	7,998,969	8,821,577
Inventories, net	4	18,790,572	16,381,397
Prepayments and other current assets	5	7,671,188	9,379,108
Total current assets		38,218,278	38,856,348
Non-current assets			
Long-term receivables, rentals and investments, net	6	4,145,221	4,056,029
Property and equipment, net		24,131,888	23,378,318
Deferred income tax assets, net	7	-	330,310
Other assets, net	8	3,982,720	3,988,246
Total non-current assets		32,259,829	31,752,903
Total assets		**70,478,107**	**70,609,251**
Current liabilities			
Accounts payable and accrued expenses	9	20,011,339	17,021,164
Dividends payable		14,589	9,668
Short-term borrowings	10	2,064,000	5,370,000
Current portion of loans payable	11	6,000,000	-
Total current liabilities		28,089,928	22,400,832
Non-current liabilities			
Loans payable	11	5,000,000	11,000,000
Deferred income tax liabilities, net	7	28,122	-
Provisions and other liabilities	12	2,889,849	4,280,146
Total non-current liabilities		7,917,971	15,280,146
Total liabilities		**36,007,899**	**37,680,978**
Equity			
Share capital- P1 par value	13	1,681,058	1,681,058
Share premium	13	26,161,736	26,161,736
Treasury shares	13	(507,106)	(507,106)
Retained earnings	14	6,640,714	5,111,868
Other reserves		493,806	480,717
Total equity		34,470,208	32,928,273
Total liabilities and equity		**70,478,107**	**70,609,251**

Certified by:	JOSE JEROME R. PASCUAL III
	Vice President – Finance and Treasurer

PILIPINAS SHELL PETROLEUM CORPORATION

Statement of Income
For the period ended 30 June 2017 and 2016
(All amounts in thousands Philippine Peso, except earnings per share)

2Q 2017	2Q 2016		YTD 2Q 2017 Unaudited	YTD 2Q 2016 Audited
40,597,178	34,786,111	Net sales	**82,240,097**	66,008,648
(36,004,902)	(27,571,687)	Cost of sales	**(70,389,895)**	(52,691,648)
4,592,276	7,214,424	Gross profit	**11,850,202**	13,317,000
(2,263,745)	(3,335,449)	Selling, General and Administrative expenses	**(5,241,113)**	(6,060,920)
35,771	168,674	Other operating income, net	**37,733**	200,241
2,364,302	4,047,649	Income from operations	**6,646,822**	7,456,321
(456,210)	(161,124)	Finance expense, net	**(611,198)**	(309,585)
-	497	Other non-operating income, net	**-**	497
1,908,092	3,887,022	Income before income tax	**6,035,624**	7,147,233
(609,229)	(1,089,004)	Provision for income tax	**(1,844,595)**	(2,075,010)
1,298,863	2,798,018	Profit for the period	**4,191,029**	5,072,223
0.81	1.76	Earnings per share* (basic and diluted)	**2.60**	3.20

**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 for 2Q 2016 is 1,585,944,202 and for 2Q 2017 1,613,444,202.

Certified by:	JOSE JEROME R. PASCUAL III
	Vice President – Finance and Treasurer

PILIPINAS SHELL PETROLEUM CORPORATION
Statement of Comprehensive Income
For the period ended 30 June 2017 and 2016
(All amounts in thousands Philippine Peso)

2Q 2017	2Q 2016		YTD 2Q 2017 Unaudited	YTD 2Q 2016 Audited
1,298,863	2,798,018	**Profit for the period**	**4,191,029**	5,072,223
		Other comprehensive income:		
		Items that may not be subsequently reclassified to profit or loss		
-	18,651	Re-measurement gains on retirement benefits, net of tax	-	18,651
		Items that may be subsequently reclassified to profit or loss		
4,630	899	Increase in fair value of available-for-sale financial assets	**13,089**	10,309
1,303,493	2,817,568	**Total comprehensive income for the period**	**4,204,118**	5,101,183

Certified by:	JOSE JEROME R. PASCUAL III
	Vice President – Finance and Treasurer

PILIPINAS SHELL PETROLEUM CORPORATION
Unaudited Statement of Changes in Stockholder's Equity
For the period ended 30 June 2017 and
Audited Statement of Changes in Stockholder's Equity
For the period ended 30 June 2016
(All amounts in thousands Philippine Peso)

	Share capital	Share premium	Treasury stock	Retained earnings	Other reserves		Total equity
					Share-based reserve	Fair value reserve	
Notes	13	13	13	14			
Balances at 01 January 2016	**1,653,558**	**24,395,991**	**(507,106)**	**181,508**	**92,007**	**279,172**	**26,095,130**
Comprehensive income							
Income for the period	-	-	-	5,072,223	-	-	5,072,223
Other comprehensive income							
Remeasurement gain on retirement benefits (net of tax amounting to P7,994)	-	-	-	18,651	-	-	18,651
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	10,309	10,309
Total comprehensive income	-	-	-	5,090,874	-	10,309	5,101,183
Transactions with owners							
Share-based compensation	-	-	-	-	1,393	-	1,393
Total transactions with owners	-	-	-	-	1,393	-	1,393
Balances at 30 June 2016	**1,653,558**	**24,395,991**	**(507,106)**	**5,272,382**	**93,400**	**289,481**	**31,197,706**
Balances at 01 January 2017	**1,681,058**	**26,161,736**	**(507,106)**	**5,111,868**	**173,260**	**307,457**	**32,928,273**
Comprehensive income							
Income for the period	-	-	-	4,191,029	-	-	4,191,029
Other comprehensive income							
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	13,089	13,089
Total comprehensive income	-	-	-	4,191,029	-	13,089	4,204,118
Transactions with owners							
Cash dividends	-	-	-	(2,662,183)	-	-	(2,662,183)
Total transactions with owners	-	-	-	(2,662,183)	-	-	(2,662,183)
Balances at 30 June 2017	**1,681,058**	**26,161,736**	**(507,106)**	**6,640,714**	**173,260**	**320,546**	**34,470,208**

Certified by:	JOSE JEROME R. PASCUAL III
	Vice President – Finance and Treasurer

PILIPINAS SHELL PETROLEUM CORPORATION
Statement of Cash Flows
For the period ended 30 June 2017 and 2016
(All amounts in thousands Philippine Peso)

	June 2017 Unaudited	June 2016 Audited
Cash flows from operating activities		
Income before income tax	6,035,624	7,147,233
Adjustments:		
Depreciation and amortization	946,471	839,581
Amortization of prepaid lease payments	729,158	728,250
Interest and finance charges	238,706	250,484
Unrealized mark to market loss (gain), net	156,471	(159,392)
Unrealized foreign exchange loss, net	122,032	80,565
Pension expense	71,432	64,804
Accretion expense	28,464	79,006
Loss on disposal of property and equipment	8,432	27,914
Intangibles and fixed assets written off	-	51,181
Share-based compensation	-	54,633
Reversals of provisions for ARO and remediation and demolition costs	-	(17,536)
Interest income	(3,142)	(977)
Share in profit of associates	(22,870)	(8,395)
(Reversal)/Provision for legal case, net	(1,379,168)	18,738
Operating income before working capital changes	6,931,610	9,156,089
Increase in assets other than cash	(1,960,174)	(3,006,343)
Increase in liabilities other than provisions, dividends payable, short-term borrowings and loans payable	2,953,709	132,140
Cash generated from operations	7,925,145	6,281,886
Pension contributions paid	(82,268)	(81,954)
Net cash from operating activities	7,842,877	6,199,932
Cash flows from investing activities		
Additions to property and equipment	(2,066,209)	(1,691,090)
Increase in long-term receivables and rentals, net	(149,062)	(138,045)
Proceeds from sale of property and equipment	6,156	8,147
Dividend received	19,040	13,530
Interest received	3,142	977
Net cash used in investing activities	(2,186,933)	(1,806,481)
Cash flows from financing activities		
Repayment of long term loan	-	(5,000,000)
Dividends paid	(2,662,183)	-
Net (settlements of) proceeds from short-term borrowings	(3,306,000)	2,113,000
Interest and finance charges paid	(233,890)	(276,389)
Net cash used in financing activities	(6,202,073)	(3,163,389)

(Forward)

	June 2017	June 2016
Net (decrease) increase in cash for the year	(546,129)	1,230,062
Cash at the beginning of the period	4,274,266	3,576,802
Effect of exchange rate changes on cash	29,412	8,139
Cash at the end of the period	**3,757,549**	**4,815,003**

Certified by:	JOSE JEROME R. PASCUAL III
	Vice President – Finance and Treasurer

(All amounts in table are shown in thousand Philippine Peso
except per share data and unless otherwise stated)

Note 1 - General information

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

Prior to its public listing, the Company was 68% owned by Shell Overseas Investments BV ("SOIBV"), a corporation registered under the laws of the Netherlands and 32% owned by Filipino and other foreign shareholders. The ultimate parent of the Company is Royal Dutch Shell plc. ("RDS"), incorporated in the United Kingdom. The Company conducted its initial public offering to list in Philippine Stock Exchange on 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 Over-allotment Option of up to 16,000,000 Common Shares, with an Offer Price of P67.0 (USD1.39) per Share. After the IPO, Shell Overseas Investments BV owns 55% of the total outstanding shares of the Company. The Company intends to use the net proceeds from the Primary Offer to fund capital expenditure, working capital and general corporate expenses. Net proceeds amounted to P1.36 billion (USD 0.03 billion).

The Company's registered office, which is also its principal place of business, is located at Shell House, 156 Valero Street, Salcedo Village, Makati City. The Company owns an oil refinery in Tabangao, Batangas and various oil depots and installations all over the Philippines. The Company has 702 regular employees as at 30 June 2017 (31 December 2016 - 698).

Note 2 - Cash

The account as at 30 June 2017 and 31 December 2016 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 2017 and 31 December 2016 is maintained with the following type of financial institutions:

	30 June 2017	31 December 2016
Universal banks	2,144,258	2,263,032
Commercial banks	1,613,291	2,011,234
	3,757,549	4,274,266

Note 3 - Receivables, net

The account as at 30 June 2017 and 31 December 2016 consists of:

	30 June 2017	31 December 2016
Trade receivables		
Third parties	6,982,694	7,535,929
Related parties	127,009	295,124
Provision for impairment of trade receivables from third parties	(128,698)	(123,844)
	6,981,005	7,707,209
Non-trade receivables from related parties	54,980	87,628
Other receivables		
Claims from government agencies		
Duty drawback and other claims	94,439	125,541
Miscellaneous	902,882	947,326
	997,321	1,072,867
Provision for impairment of other receivables	(34,337)	(46,127)
	962,984	1,026,740
	7,998,969	8,821,577

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

The Company holds collaterals for trade receivables from third parties as at 30 June 2017 valued at P3.3 billion (31 December 2016 – P3.3 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 P3.8 billion as at 30 June 2017 (31 December 2016 – P4.5 billion) (see Note 20.1.2). These balances relate to a number of independent customers for whom there is no recent history of default.

(a) Past due receivables but not impaired

The aging of past due but not impaired trade receivables from third parties as at 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Less than 30 days	132,314	186,666
31 - 60 days	21,801	72,537
61 - 90 days	21,797	7,078
91 - 180 days	76,079	39,199
	251,991	305,480

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
At 1 January 2016	119,096	383,251	502,347
Provisions (Reversals)	4,748	3,787	8,535
Provision reclassified to long term	-	(340,911)	(340,911)
At 31 December 2016	123,844	46,127	169,971
Provisions (Reversals), net	4,854	(11,790)	6,936
At 30 June 2017	128,698	34,337	163,035

For the six-month period ended 30 June 2017, total trade receivables written-off directly to statement of income amounted to P4.6 million (30 June 2016 – P2.0 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 2017 and 31 December 2016 that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates:

Trade receivables (counterparties with internal credit rating)	30 June 2017	31 December 2016
A	1,365,505	1,485,105
B	1,827,597	1,645,166
C	2,326,752	2,203,418
D	1,082,151	1,772,916
Total trade receivables	6,602,005	7,106,605

A Customers with strong financial performance and with low probability of default.
B Customers with good financial strength but with some elements of risk in one or more financial or non-financial inputs.
C Customers with low credit risk and balance is secured with post-dated checks and other collaterals.
D Customers with a medium risk of default, however, concerned group of customers have been historically able to faithfully settle their balances. The receivables are deemed performing hence impairment provision is not necessary.

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

There are no receivables that are neither past due nor impaired that have been renegotiated for the six month periods ended 30 June 2017 and for the year ended 31 December 2016.

Note 4 - Inventories, net

The account as at 30 June 2017 and 31 December 2016 consists of:

	30 June 2017	31 December 2016
Crude oil and finished products, net	18,497,384	16,075,472
Materials and supplies, net	293,188	305,925
	18,790,572	16,381,397

Details of and changes in allowance for inventory write-down and obsolescence as at and for the six-month period ended 30 June 2017 and for the year ended 31 December 2016 are as follows

	Crude oil and finished products	Materials and supplies	Total
At 1 January 2016	1,041,129	10,967	1,052,096
Provisions (reversals), net	(1,012,509)	11,360	(1,001,149)
Write off	-	(10,858)	(10,858)
At 31 December 2016	28,620	11,469	40,089
Provisions, net	91,624	7,473	99,097
At 30 June 2017	120,244	18,942	139,186

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

The provisions for inventory resulting from the write-down of crude oil and finished goods to arrive at the net realizable value amounted to P120.2 million for the six month periods ended 30 June 2017 (31 December 2016 – P28.6 million).

Cost of inventories included as part of cost of sales amounted to P64.2 billion for the six month periods ended 30 June 2017 (30 June 2016 – P46.6 billion).

<u>Note 5 - Prepayments and other current assets</u>

The account as at 30 June 2017 and 31 December 2016 consists of:

	30 June 2017	31 December 2016
Input VAT, net of output VAT (a)	3,790,311	4,560,448
Prepaid corporate income tax (b)	2,641,998	3,686,180
Advance rentals	440,171	422,353
Derivatives (c)	150,827	222,336
Prepaid specific tax	144,159	97,082
Prepaid duties and taxes	23,801	5,261
Prepaid insurance	1,209	60,373
Others	478,712	325,075
	7,671,188	9,379,108

(a) Input VAT, net of output VAT

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

(b) Prepaid corporate income tax

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

(c) Derivatives

The Company enters into commodity forward contracts to hedge the commodity price risks arising from its crude oil and other oil products requirements. As at 30 June 2017, the notional principal amount of the outstanding commodity forward contracts amounted to P3.5 billion (31 December 2016 – P1.5 billion). As at 30 June 2017, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P150.8 million (31 December 2016 – P222.3 million).

During the 30 June 2017, the Company's fair value of settled derivatives amounted to gain of P31.7 million (30 June 2016 – loss of P 102.3 million).

For the period ended 30 June 2017, net fair value changes of the outstanding commodity forward contracts amounting to a loss of P156.5 million (30 June 2016 – gain of P159.4 million) were recognized in 'Other operating income, net'.

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

The account as at 30 June 2017 and 31 December 2016 consists of:

	30 June 2017	31 December 2016
Advance rentals	846,406	792,075
Market investment loans (b)	89,982	93,417
Investments in associates (c)	51,654	47,823
	988,042	933,315
Long term receivables (a)	3,516,015	3,481,750
Provision for impairment of long-term receivables	(358,836)	(359,036)
	3,157,179	3,122,714
	4,145,221	4,056,029

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

Long-term receivables include claims from government agencies amounting to P3.4 billion as at 30 June 2017 (31 December 2016 - P3.4 billion) representing the amount to be recovered from the government on various taxes paid. Management has assessed that its recoverability is beyond 12 months from the reporting date and hence reclassified as non-current for the six-month periods ended 30 June 2017 and 31 December 2016.

As at 30 June 2017, long-term receivables of P358.8 million (31 December 2016 – P359.0 million) were impaired and fully provided.

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

	Advances to a related party	Other long-term receivables	Total
At 1 January 2016	137,000	18,575	155,575
Provision	60	-	60
Reclassification	-	340,911	340,911
Reversal	(137,060)	(450)	(137,510)
At 31 December 2016	-	359,036	359,036
Reversal	-	(200)	(200)
At 30 June 2017	-	358,836	358,836

Reversal of provision of advances to related party during 2016 is due to payment received from the related party during the year.

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

As at 30 June 2017 and 31 December 2016, there are no other long-term receivables that are past due but not impaired. The other classes and balances within long-term receivables, rental and investments are fully performing.

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

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

(b) Market investments loans

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

(c) Investments in associates

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

	Interest	Assets	Liabilities	Net Assets	Income
June 2017					
Bonifacio Gas Corporation	44%	166,062	85,738	80,324	33,859
Kamayan Realty Corporation	40%	46,298	13,519	32,779	4,884
December 2016					
Bonifacio Gas Corporation	44%	141,814	55,985	85,829	39,252
Kamayan Realty Corporation	40%	22,951	7,785	15,166	3,959

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

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

Note 7 - Provision for income tax and deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts at 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Deferred income tax assets (liabilities)		
Asset retirement obligation	400,932	377,621
Unamortized past service cost, net	354,253	396,722
Operating lease - effect of straight lining	293,226	286,811
Provision for remediation costs	220,829	232,389
Provision for doubtful debts	156,561	158,702
Share-based compensation	51,978	51,978
Provision for inventory losses	41,755	12,027
Unrealized foreign exchange losses/(gains)	12,362	(24,248)
Unrealized mark-to-market gain	(18,651)	(65,592)
Prepaid duties and taxes	(724,277)	(724,277)
Retirement benefit asset	(1,049,164)	(1,049,164)
Other provisions	232,074	677,341
	(28,122)	330,310
NOLCO	-	-
MCIT	-	-
Deferred income tax (liabilities) assets, net	(28,122)	330,310

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

	30 June 2017	31 December 2016
At 1 January	330,310	3,712,251
Credited to profit and loss	(358,432)	(2,509,289)
Credited to other comprehensive income	-	(337,108)
Application of excess MCIT	-	(535,544)
At 30 June 2017 and 31 December 2016	(28,122)	330,310

Realization of the future benefits related to the deferred income tax assets is dependent on many factors, including the Company's ability to generate taxable income in the future. The Company's management has considered these factors in arriving at its conclusion that the deferred income tax assets at 31 December 2016 are fully realised. There is no NOLCO and MCIT as at 30 June 2017.

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

The details of provision for income tax for the six-month periods ended 30 June 2017 and 2016 are as follows:

	30 June 2017	30 June 2016
Current	1,486,163	270,024
Deferred	358,432	1,804,986
	1,844,595	2,075,010

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 2017	30 June 2016
Income tax at statutory income tax rate at 30%	1,810,687	2,144,170
Income tax effect of:		
Non-deductible expenses	40,372	-
Limitation on deductible interest expense	50	95
Interest income subjected to final tax	(150)	(287)
Non-taxable income	(6,987)	(73,132)
Income subjected to 8% final tax	(9,534)	(4,961)
Provision for income tax before final taxes	1,834,438	2,065,885
Final taxes on interest and other charges	10,157	9,125
Provision for income tax at effective tax rate	1,844,595	2,075,010

Note 8 - Other assets, net

The account as at 30 June 2017 and 31 December 2016 consists of:

	30 June 2017	31 December 2016
Pension asset	3,440,202	3,497,215
Available-for-sale financial assets (a)	346,146	333,087
Deferred input VAT (b)	133,396	147,334
Program software (c)	6,891	8,633
Others	56,085	1,977
	3,982,720	3,988,246

(a) Available-for-sale financial assets

Available-for-sale financial assets mainly represent equity securities and proprietary club shares which are carried at fair value. Details of the account as at 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Cost	27,994	27,994
Fair value adjustments recognized directly in other comprehensive income		
1 January	307,457	279,172
Change during the period	13,089	28,285
	320,546	307,457
30 June 2017 and 31 December 2016	348,540	335,451
Current portion	(2,394)	(2,364)
Non-current portion	346,146	333,087

The Company intends to sell equity instrument with fair value of P2.4 million within 12 months from the six-month period ended June 2017 (31 December 2016 - P2.4 million). Correspondingly, such amount was reclassified to current assets.

(b) Deferred Input VAT

Deferred input VAT will be recovered 12 months after reporting date. Hence, the same is reclassified to non-current asset as at 30 June 2017 and 31 December 2016.

(c) Program software

Program software as at 30 June 2017 and 31 December 2016 and the movements in the accounts for the years consist of:

	30 June 2017	31 December 2016
At cost		
1 January	891,291	888,787
Reclassifications from Asset Under Construction	-	2,504
	891,291	891,291
Accumulated amortization		
1 January	(882,658)	(878,706)
Amortization for the year	(1,742)	(3,952)
	(884,400)	(882,658)
Net book value	6,891	8,633

Note 9 - Accounts payable and accrued expenses

The account as at 30 June 2017 and 31 December 2016 consists of:

	30 June 2017	31 December 2016
Trade payables		
Third parties	5,018,702	4,944,514
Related parties	10,406,294	6,804,439
	15,424,996	11,748,953
Non-trade payables from related parties	232,508	439,605
Other payables		
Rent and utilities	1,490,113	1,281,678
Project-related costs and advances	758,839	969,493
Employee benefits	406,189	622,510
Provision for remediation	294,709	332,976
Duties and taxes	273,531	158,716
Advertising and promotions	230,456	236,457
Derivatives (a)	88,658	3,696
Supply and distribution	79,847	172,650
IT-related costs	40,901	31,783
Outside services	-	203,450
Interest	-	935
Others (b)	690,592	818,262
	20,011,339	17,021,164

(a) As at 30 June 2017, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P88.7 million (31 December 2016 – P3.7 million).

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

Note 10 - Short-term borrowings

The account as at 30 June 2017 consists of an unsecured short-term loan from banks as per below intended for working capital requirements and corporate expenses.

Bank	Loan Value	Maturity date	Tenure
Bank of The Philippine Islands	2,064,000	3 July 2017	3 days
	2,064,000		

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

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

The average interest rate on local borrowings for the six month periods ended 30 June 2017 was 2.49% (30 June 2016 – 2.41%). Total interest expense charged to operations for the six month periods ended 30 June 2017 arising from short-term loans amounted to P45.1 million (30 June 2016 – P38.0 million).

Note 11 - Loans payable

Details of the loan agreements with Bank of the Philippine Islands (BPI) as at 30 June 2017 and 31 December 2016 follow:

30 June 2017	31 December 2016	Interest	Terms
6,000,000	6,000,000	3.70% as at 30 June 2017 effective until next re-pricing	Due and payable within 12 months after 30 June 2017, thirty-six (36) months from the drawdown date on 2 March 2015. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months. Original amount of the loan was P11.0 billion but a principal prepayment of P5.0 billion was made on 01 July 2015.
5,000,000	5,000,000	3.86% as at 30 June 2017 effective until next re-pricing.	Payable after sixty (60) months reckoned from the drawdown date on 02 March 2015. Principal is payable in lump sum at maturity date. Interest is re-priced every three (3) months.

As at 30 June 2017, P6 Billion is classified as current portion of loan payable since it is due to be paid within 12 months from the balance sheet date.

Total interest expense charged to operations for the six-month period ended 30 June 2017 arising from these loans amounted to P193.6 million (30 June 2016 – P210.2 million).

There are no borrowings related to acquisition, construction or production of a qualifying asset in 2017 and 2016. The borrowings are intended solely for working capital requirements.

There are no collaterals pledged as security against these borrowings.

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

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

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

Note 12 - Provisions and other liabilities

The account as at 30 June 2017 and 31 December 2016 consists of:

	30 June 2017	31 December 2016
Asset retirement obligation (ARO) (a)	1,485,094	1,458,759
Provision for remediation and demolition costs (b)	441,387	441,655
Cash security deposits	307,163	302,208
Provision for legal cases (c)	256,806	1,635,974
Accrued operating lease	23,684	23,684
Other liabilities	375,715	417,866
	2,889,849	4,280,146

(a) Asset retirement obligation

Movements in the provision for asset retirement obligation follow:

	30 June 2017	31 December 2016
1 January	1,458,759	1,383,126
Additions/(Reduction)	-	93,535
Accretion	26,335	50,447
Transferred to short term	-	(16,566)
Reversals	-	(51,783)
30 June 2017 and 31 December 2016	1,485,094	1,458,759

Asset retirement obligation represents the future estimated dismantling costs of various assets used in retail, depot and commercial operations.

(b) Provision for remediation and demolition costs

Movements in the provision for remediation and demolition costs follow:

	30 June 2017	31 December 2016
1 January	441,655	863,538
Accretion	2,129	45,591
Transferred to short term	(2,397)	(367,866)
Reversals	-	(99,608)
30 June 2017 and 31 December 2016	441,387	441,655

Provision for environmental liabilities (remediation and demolition) is recorded where there is a constructive or legal obligation to remediate any known environmental damages arising in the ordinary course of business. The amount recorded is generally based on independent evaluation of environmental firms.

(c) Provision for legal case

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

	30 June 2017	31 December 2016
1 January	1,635,974	1,598,498
Provisions, net	18,738	37,476
Reversal	(1,397,906)	-
30 June 2017 and 31 December 2016	256,806	1,635,974

Following the finality of the favourable Resolution of the Supreme Court dated June 19, 2017 on the abandonment case, docketed as ***Pilipinas Shell Petroleum Corporation vs. Commissioner of Customs (G.R. No. 195876),*** the Company reversed P1,397.9 million provision on the dutiable value of imported crude oil, including legal interest.

Note 13 - Share capital; Treasury shares; Share premium

Capital stock and treasury shares as at 30 June 2017 and 31 December 2016 consist of:

	30 June 2017		31 December 2016	
	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

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

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

As at 30 June 2017, the Company has 310 shareholders (31 December 2016 - 35), 280 of whom hold at least 100 shares of the Company's common shares (31 December 2016 - 33).

Note 14 - Retained earnings; Dividends

Retained earnings as at 30 June 2017 and 31 December 2016 consist of:

	30 June 2017	31 December 2016
Unappropriated retained earnings	5,714,941	4,186,095
Re-measurement gains on net defined benefit obligation, net of tax, closed to retained earnings	925,773	925,773
Unappropriated retained earnings	6,640,714	5,111,868

Cash dividends declared and paid in 2017 and 2016

Date				
Declared	Paid	Per share	2017	2016
15 August 2016	19 September 2016	2.08	-	3,300,000
20 April 2017	18 May 2017	1.65	2,662,183	-
			2,662,183	3,300,000

As at 30 June 2017, cost of treasury shares and the accumulated earnings of its associates are not available for dividend declaration.

Note 15 - Earnings per share

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

	YTD 2Q 2017	YTD 2Q 2016
Earnings available to stockholders:		
Profit for the period	4,191,029	5,072,223
Weighted average number of shares	1,681,058,291	1,653,558,291
Treasury shares	(67,614,089)	(67,614,089)
	1,613,444,202	1,585,944,202
Basic and diluted EPS	2.60	3.20

As at 30 June 2017 and 2016, the Company does not have any potentially dilutive stocks.

Trailing Earnings per share

	2017 (Trailing 12 months)	2016 (Trailing 12 months)
Earnings available to stockholders:		
Profit for the period	6,562,280	4,662,840
Weighted average number of shares	1,671,941,853	1,533,779,695
Treasury shares	(67,614,089)	(67,614,089)
	1,604,327,764	1,466,165,606
Basic and diluted EPS	4.09	3.18

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 16 – Classification of Other operating and non-operating income and finance expense

	YTD 2Q 2017	YTD 2Q 2016
Other operating income	317,637	371,615
Other operating expense	(279,904)	(171,375)
Other operating income, net	**37,733**	**200,241**
Finance income	3,142	101,212
Finance expenses	(614,340)	(410,797)
Finance expenses, net	**(611,198)**	**(309,584)**
Other non-operating income	-	497
Other non-operating income, net	**-**	**497**

Note 17 – Contingencies

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

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

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

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

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

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

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

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

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

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

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

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

In its 28 September 2015 decision, the CTA en banc reversed the CTA Third Division, ruled partially in favor of the BOC and the BIR and held that the Company is liable to pay excise taxes and VAT on the importation of CCG and LCCG but only for the period from 2006 to 2009. The CTA en banc recognized the Company's defense of amnesty applied for periods from 2004 to 2005, thereby partially reducing the liability to shipments made from 2006 to 2009. Both parties filed motions for reconsideration of the CTA en banc decision. The BIR and BOC filed an Omnibus Motion for Partial Reconsideration and Clarification to question the decision of the CTA en banc in relation to the assessment of the unpaid excise taxes, VAT and penalties for the years 2004 and 2005. The Company, in turn, filed an Opposition to the said motion. The Company likewise filed a motion for reconsideration of the CTA en banc decision in relation to the assessment of the unpaid excise taxes, VAT and penalties for the years 2006 to 2009. 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 P5.72 billion.

Status:

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

Management believes that provision should not be recognized as at 30 June 2017 and 31 December 2016 since it is the Company's assessment that liability arising is not probable because the Company's factual and legal positions are strong. The Company continues to take appropriate legal action and remediation with respect to such case.

(b) *Excise tax on Importations of Alkylate*

Pilipinas Shell Petroleum Corporation vs. Commissioner of Internal Revenue et al.
CTA Case No. 8535, Court of Tax Appeals, 1st Division
Filed 24 August 2012

Matter Summary:
Following the ruling of the BIR authorizing the collection of excise taxes on CCG/LCCG importations, the Company began importing Alkylate as its blending component. The COC issued Customs Memorandum Circular No. 164-2012 directing the BOC and its officers to take the "appropriate action" in relation to BIR Ruling dated 29 June 2012 (Ruling No. M-059-2012) issued by the BIR Commissioner. In the ruling dated 29 June 2012, the BIR Commissioner held that Alkylate is also subject to excise tax upon importation. The BIR Ruling further held that the Company is liable for the amount of P1.9 billion representing the unpaid taxes, on the importations of Alkylate from 2010. A Petition for Review of the BIR Ruling was filed with the CTA. On 18 September 2012, the Company filed a Motion for the Issuance of a Suspension Order to stop the implementation of Ruling No. M-059-2012.

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

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

On 2 June 2014, the Company filed a Petition for Certiorari with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the SC questioning the denial of its application for the issuance of a suspension order against the assessment and collection of excise taxes on its March 2014 alkylate shipment. On 7 July 2014, the SC issued a temporary restraining order enjoining the CTA and the tax-collecting agencies of the government from imposing excise taxes on incoming alkylate importations of the Company.

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

Status:
Trial continues with the presentation of the Company's witnesses.

Management believes that provision should not be recognized as at 30 June 2017 and 31 December 2016 since it is the Company's assessment that liability arising is not probable because the Company's factual and legal positions are strong.

(c) *Abandonment Case*

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

In a Decision issued on 05 December 2016 (a copy of which was served on the Company on 09 January 2017), the Supreme Court granted the Company's Petition and accordingly reversed and set aside the decisions of the lower courts (i.e. the Decision dated 13 May 2010 and Resolution dated 22 February 2011 of the Court of Tax Appeals Former En Banc In CTA EB 472).

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

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

Status:
In the Resolution dated 19 June 2017, the Supreme Court denied with finality the Bureau of Customs' Omnibus Motion for Reconsideration and Referral to the Supreme Court En Banc dated 20 January 2017.

Upon receipt of final decision, the Company reversed the relevant provision in the amount of P1,397.9 million (including legal interest).

(d) *Tax Credit Certificates Cases*

Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation
SC GR No. 204119-20, Supreme Court 2nd Division
Filed 05 December 2012

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

Status:
Awaiting action by the Supreme Court.

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

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

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

Status:
Awaiting further action by the court.

Republic of the Philippines rep. by Bureau of Customs vs. Pilipinas Shell Petroleum Corporation & Filipino Way Industries
SC G.R. No. 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 favor of the company. The Company then utilized said TCCs to settle its customs duties and taxes on oil importations. According to the government, it was discovered that the said credit memos were fake and

spurious as they did not conform to the records. Thus, the TCCS were cancelled and BOC is demanding anew for the payment of custom duties and taxes for the Company's importations.

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 (SC) 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:
On 04 February 2016, the Company filed a Motion for Reconsideration from the decision of the Supreme Court. Meanwhile, the RTC is expected to set the case for trial.

(e) *Excise Tax Refund Case*

There are also tax cases filed by the Company for its claims from the government amounting to P745.9 million that are pending as at 30 June 2017 and 31 December 2016 in the CTA and SC. Management believes that the ultimate outcome of such cases will not have a material impact on the Company's financial statements.

(f) Other significant cases

(i) Cases Filed by the West Tower Condominium Corporation

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

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

Status:
In a Decision dated 30 June 2014, the Court of Appeals affirmed the ruling of the Regional Trial Court requiring the payment of filing fees. FPIC and its Board of Directors and Officers asked the Court of Appeals to reconsider the part of its Decision retaining the party-complainants previously dropped as parties to the case arguing that the court has no jurisdiction to reinstate these party-complainants. West Tower Condominium Corporation, et al. filed its Motion for Reconsideration arguing that they have satisfied all the requirements in order that this case may be treated as an environmental case which does not necessitate the payment of the filing fees. On 26 September 2014, the Company asked the Court of Appeals to deny the motion for reconsideration filed by West Tower Condominium Corporation, et al. for lack of merit. In its resolution dated 11 December 2014, the Court of Appeals denied the motion for reconsideration filed by the West Tower Condominium Corporation, et al. West Tower Condominium Corporation, et al.'s filed with the Supreme Court the present petition dated 11 February 2015 seeking a review of the decision of the Court of Appeals. The Company has filed its Comment with Opposition dated 18 September 2015 asking the Supreme Court to dismiss the petition and to deny the application for a temporary restraining order.

(b) *West Tower Condominium Corp. vs. Garde, et al (Criminal Negligence)*
PS No. XV-05-INV-11J-02709 , Department of Justice
***Filed* 02 *October* 2011**

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

and Officers of FPIC, also charged were Directors of First Gen Corp. and Directors of Chevron.

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

Status:
The case is pending resolution.

(ii) Desalination ordinance

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

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

(iii) Others

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

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

In August 2009, a Davao City trial court issued a Notice of Garnishment of the Company's funds in a bank. The Company sought and obtained protective relief from the Court of Appeals on the basis that it was not a party to the case nor to the compromise agreement subject of the case. The Court of Appeals further ordered the judge who issued the execution and garnishment against the Company's assets to recuse himself from further presiding in the proceedings in the trial court.

Status:
Two separate petitions for review of the Court of Appeals' decision were filed by the claimants with the Supreme Court. One of the petitions was dismissed by the Supreme Court 1st Division (SC G.R. No. 202295). The other petition is still pending with the 2nd Division (SC G.R. No. 199182-89) but management believes that the ultimate outcome of this contingency will not have a material impact on the Company's financial statements, given that it is similar to the previous petition which will most probably have the same result.

Note 18 - Deregulation Law

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

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

The Company conducted its initial public offering and officially listed with the Philippine Stock Exchange on 03 November 2016.

Note 19 - Summary of significant accounting policies

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

19.1 Basis of preparation

Basis of Preparation:

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

Statement of Compliance:

The interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Company since the last annual financial statements as at and for the year ended 31 December 2016. The interim financial statements do not include all the information required for full annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the audited financial statements as at and for the year ended 31 December 2016. The audited financial statements are available upon request from the Company's registered office, located at Shell House, 156 Valero Street, Salcedo Village, Makati City.

Changes in Accounting Policies and Disclosures:

- Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception
- Amendments to PFRS 11, Accounting for Acquisitions of Interests in Joint Operations
- PFRS 14, Regulatory Deferral Accounts
- Amendments to PAS 1, Disclosure Initiative
- Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses
- Amendments to PAS 16 and PAS 38, Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants
- Amendments to PAS 27, Equity Method in Separate Financial Statements
- Annual Improvements to PFRSs 2012 - 2014 Cycle
    - Amendment to PFRS 5, Changes in Methods of Disposal
    - Amendment to PFRS 7, Servicing Contracts
    - Amendment to PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements

- Amendment to PAS 19, Discount Rate: Regional Market Issue
- Amendment to PAS 34, Disclosure of Information 'Elsewhere in the Interim Financial Report'

Standards Issued But Not Yet Effective

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

Effective beginning on or after 1 January 2018

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

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

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

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

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

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

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

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

- PFRS 15, Revenue from Contracts with Customers

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

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

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

- PFRS 9, Financial Instruments

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

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

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

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

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

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

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

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

Effective beginning on or after 1 January 2019

- PFRS 16, Leases

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

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

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

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On 13 January 2016, the Financial Reporting Standards Council postponed the original effective date of 01 January 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

19.2 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 2017 and 31 December 2016, there are no financial assets and financial liabilities that were offset.

Note 20 - Financial risk management

20.1 Financial risk factors

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

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

20.1.1 Market risk

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

i. Foreign exchange risk

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

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

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 issued at variable rates expose the Company to cash flow interest-rate risk. As at 30 June 2017 and 31 December 2016, the Company's short-term borrowings and loans payable carry floating rates based on a certain index plus applicable premium.

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

For the year ended 30 June 2017, if interest rates on Philippine peso-denominated borrowings had been 100 basis points (assessment threshold used by management) higher/lower with all other variables held constant, post-tax profit for the year would have been P91.4 million (31 December 2016 – P114.6 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. Management uses 100 basis points as threshold in assessing the potential impact of interest rate movements in its operations.

iii. Commodity and Other Price risks

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

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

20.1.2 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 2017 and 31 December 2016, the Company has the following:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
30 June 2017					
Financial assets:					
Receivables	7,035,985	-	7,035,985	3,259,857	3,776,128
31 December 2016					
Financial assets:					
Receivables	7,794,837	-	7,794,837	3,318,201	4,476,636

20.1.3 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 of P72.8 billion as at 30 June 2017 (31 December 2016 – P75.3 billion) and undrawn borrowing facilities at floating rate amounting to P72.8 billion (31 December 2016 – P75.3 billion), which is expiring within one year.

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

20.2 Capital management

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

i. Cash flow from operating activities

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

ii. Gearing ratio

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

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings less cash and cash equivalents.

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

The gearing ratios at 30 June 2017 and 31 December 2016 are as follows:

	Note	30 June 2017	31 December 2016
Total loans and borrowings	10,11	13,064,000	16,370,000
Less: Cash	2	3,757,549	4,274,266
Net debt		9,306,451	12,095,734
Total equity (excluding other reserves)	13,14	33,976,402	32,447,556
Total capital		43,282,590	44,543,290
Gearing ratio		22%	27%

The Company is not subject to externally imposed capital requirement.

20.3 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 2017 and 31 December 2016:

	Note	30 June 2017	31 December 2016
Financial assets			
Loans and receivables			
Cash	2	3,757,549	4,274,266
Receivables	3	7,035,985	7,794,837
Derivatives	5	150,827	222,336
Market investment loans	6	89,982	93,417
Long-term receivables	6	67,734	64,365
Available-for-sale financial assets	8	348,541	335,451
Total financial assets		11,450,618	12,784,672

(Forward)

	Note	30 June 2017	31 December 2016
Financial liabilities			
Other financial liabilities			
Accounts payable and accrued expenses	9	19,649,150	16,858,752
Dividends payable		14,589	9,668
Derivatives	9	88,658	3,696
Cash security deposits	12	307,163	302,208
Short-term borrowings	10	2,064,000	5,370,000
Current portion of loans payable	11	6,000,000	-
Loans payable	11	5,000,000	11,000,000
Total financial liabilities		33,123,560	33,544,324

Receivables in the table above exclude miscellaneous receivables and Long term receivables exclude claims from the government while accounts payable and accrued expenses exclude amounts payable to the government and its related agencies.

The following methods and assumptions were used to estimate the value of each class of financial instrument for which it is practicable to estimate such value:

i. Current financial assets and liabilities

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

ii. Financial assets and liabilities carried at cost

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

iii. Financial assets and liabilities carried at fair value

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

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

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

iv. Loans payable

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

Note 21 –Changes in estimates of amounts

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 22 – Issuances, repurchases, and repayments of debt and equity securities

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

Note 23 – 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 24 – 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 25 – 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 26 – 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 27 – Other Matters

a. There were no seasonal aspects during the interim period that have a material effect on the financial results of operations.

b. 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.

c. There were no material or significant events during the reporting period that will trigger direct or contingent financial obligations that are material to PSPC except for the cases enumerated under Note 17 - Contingencies.

d. 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.

e. For the year 2017, a budget of P4.7 billion has been approved for capital expenditures. Bulk of the capital expenditures will be allocated mainly for establishment of new retail service stations, planned 2017 shutdown of the Tabangao Refinery and growth projects, and the improvement of existing supply and distribution sites.

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

g. There were no significant elements of income or loss that did not arise from the Company’s continuing operations.

h. There have been reclassifications in the Statement of Income made to the comparative balances to conform with the current year presentations.

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

The Statements of Financial Position and Statements of Income for the years ended 2017 and 2016, are shown in Million Philippine Pesos.

Financial condition as of the period ended 30 June 2017 compared with the period ended 30 December 2016

	30 June 2017	31 December 2016	%Increase (decrease)
Current assets	38,218.3	38,856.3	(1.6%)
Non-Current assets	32,259.8	31,752.9	1.6%
Total assets	70,478.1	70,609.2	(0.2%)
Current Liabilities	28,089.9	22,400.8	25.4%
Non-Current Liabilities	7,918.0	15,280.1	(48.2%)
Total Liabilities	36,007.9	37,681.0	(4.4%)
Equity	34,470.2	32,928.3	4.7%

Current assets

PSPC's current assets decreased from P38,856.3 million as of 31 December 2016 to P38,218.3 million as of 30 June 2017 primarily due to the following:

Cash decreased by P516.8 million, or 12.1% from P4,274.3 million as of 31 December 2016 to P3,757.5 million as of 30 June 2017 primarily as a result of cash used in financing dividends and settlement of short-term borrowings. This was partially offset by increased cash flow from operations.

Receivables decreased by P822.6 million, or 9.3% from P8,821.6 million as of 31 December 2016 to P7,999.0 million as of 30 June 2017 primarily as a result of decrease in trade receivables.

Prepayments and other current assets decreased by P1,707.9 million, or 18.2% from P9,379.1 million as of 31 December 2016 to P7,671.2 million as of 30 June 2017. This is primarily due to decrease in prepaid corporate taxes and utilization of input VAT.

Inventories increased by P2,409.2 million, or 14.7% from P16,381.4 million as of 31 December 2016 to P18,790.6 million as of 30 June 2017 primarily as a result of higher finished product imports to ensure supply continuity during planned refinery preventive maintenance shutdown.

Non-Current Assets

PSPC's non-current assets increased from P31,752.9 million as of 31 December 2016 to P32,259.8 as of 30 June 2017 million primarily due to the following:

Property and equipment, net marginally increased by P753.6 million, or 3.2% from P23,378.3 million as of 31 December 2016 to P24,131.9 million as of 30 June 2017 primarily due to the increase in refinery capital spend and additional retail stations.

Long term receivables, rentals and investments, net marginally increased by P89.2 million, or 2.2% from P4,056.0 million as of 31 December 2016 to P4,145.2 million as of 30 June 2017 primarily due to the increase in advance rentals from the additional retail sites.

Deferred income tax assets, net decreased by P330.3 million, or 100% from P330.3 million as of 31 December 2016 to nil as of 30 June 2017 mainly due to the favorable decision received in abandonment case resulting in reversal of its provision and related deferred tax assets.

Current Liabilities

PSPC's current liabilities increased from P22,400.8 million as of 31 December 2016 to P28,089.9 million as of 30 June 2017 primarily due to the following:

Current portion of loans payable increased in 2017 by P6,000.0 million, or 100% as of 30 June 2017 mainly due to the transfer of the current portion of the long-term loan which is due to be paid in 1Q 2018.

Accounts payable and accrued expenses increased by P2,990.2 million, or 17.6% from P17,021.2 million as of 31 December 2016 to P20,011.3 million as of 30 June 2017 primarily due to increase in trade payables as a result of higher imports due to planned refinery shutdown.

Short-term borrowings decreased by P3,306.0 million, or 61.6% from P5,370.0 million as of 31 December 2016 to P2,064.0 million as of 30 June 2017 primarily due to lower short-term borrowings for working capital requirements.

Dividends payable increased by P4.9 million, or 50.9% from P9.7 million as of 31 December 2016 to P14.6 million as of 30 June 2017 primarily due to cash dividend issued in 2016 which remain uncollected at 30 June 2017.

Non-Current Liabilities

PSPC's non-current liabilities decreased from P15,280.1 million as of 31 December 2016 to P7,918.0 million as of 30 June 2017 primarily due to the following:

Loans payable decreased by P6,000.0 million or 54.5% from P11,000.00 million as of 31 December 2016 to P5,000.0 million as of 30 June 2017 mainly due to transfer of the current portion of the long-term loan due to be paid in 1Q 2018.

Deferred income tax liabilities, net increased by P28.1 million or 100% from a deferred income tax asset position of P330.3 million as of 31 December 2016 primarily due to reversal of the deferred tax asset of P419.4 million pertaining to the tax impact from reversal of abandonment case provision resulting in a net deferred tax liability.

Provisions and other Liabilities decreased by P1,390.3 million or 32.5% from P4,280.1 million as of 31 December 2016 to P2,889.8 million as of 30 June 2017 mainly due to favorable decision in the abandonment case resulting in reversal of the corresponding provision.

Equity

PSPC's total equity increased from P32,928.3 million as of 31 December 2016 to P34,470.2 million as of 30 June 2017 primarily due to the increase in retained earnings from P5,111.9 million as of 31 December 2016 to P6,640.7 million as of 30 June 2017. The 29.9% or P1,528.8 increase in retained earnings is mainly driven by profits earned during the year, net of dividends paid in 2Q 2017 amounting to P2,662 million.

Financial Performance

	YTD 2Q 2017	YTD 2Q 2016	%Increase (decrease)
Net Sales	82,240.1	66,008.6	24.6%
Sales Volumes (M liters)	2,760.5	2,948.5	(6.4%)
Cost of sales	70,389.9	52,691.6	33.6%
Gross profit	11,850.2	13,317.0	(11.0%)
Selling, general and administrative expenses	5,241.1	6,060.9	(13.5%)
Other operating income, net	37.7	200.2	(81.2%)
Finance expenses, net	611.2	309.6	97.4%
Provision for income tax	1,844.6	2,075.0	(11.1%)
Net Income	4,191.0	5,072.2	(17.4%)
EBITDA	7,246.2	8,315.3	(12.9%)
EBITDA Adjusted for COSA	6,809.0	6,259.4	8.8%

Results of operations for the period ended 30 June 2017 compared to the period ended 30 June 2016

Net sales increased by P16,231.5 million, or 24.6%, from P66,008.6 million for the period ended 30 June 2016 to P82,240.1 million for the period ended 30 June 2017, primarily as a result of higher product prices driven by the increase in average global oil prices as against YTD 2Q 2016 and growth from retail sales volume driven by successful marketing promotions and growth from new retail stations.

Sales volumes decreased by 188 million litres or 6.4% from 2,948.5 million litres for the period ended 30 June 2016 to 2,760.5 million litres for the period ended 30 June 2017. Overall Retail volume grew by 4% against YTD 2Q 2016 as a result of competitive marketing promotions, contribution of new retail stations while sustaining growth from differentiated fuels, and mitigating the impact of very aggressive competitor activity in Mindanao. This partially offsets the 7% volume decline in commercial business driven by lower demand from the power sector.

Cost of sales increased by P17,698.3 million, or 33.6%, from P52,691.6 million for the period ended 30 June 2016 to P70,389.9 million for the period ended 30 June 2017, primarily as a result of the higher purchase cost due to increase in average crude prices. This was partially offset by lower logistics and transhipment costs as enabled by NMIF in Cagayan de Oro.

Gross profit decreased by P1,466.8 million, or 11.0% from P13,317.0 million for the period ended 30 June 2016 to P11,850.2 million for the period ended 30 June 2017. The decrease was mainly due to impact of planned refinery shutdown and lower benefit from inventory holding gain influenced by the declining crude oil prices. This was partially offset by 1Q 2017 strong margins, better refinery reliability and growth from retail business.

Selling, General and Administrative expenses decreased by P819.8 million, or 13.5% from P6,060.9 million for the period ended 30 June 2016 to P5,241.1 million for the period ended 30 June 2017 mainly due to the reversal of legal provision arising from the favorable decision of the abandonment case. This is partially offset by the increase in NMIF depreciation, retail site improvements and increase in employee benefits.

Other operating income, net decreased significantly by P162.5 million, or 81.2%, from P200.2 million for the period ended 30 June 2016 to P37.7 million for the period ended 30 June 2017. This decrease is driven by unrealised mark to market losses in 2017 as compared to mark to market gain in 2016 due to decrease in average floating prices.

Finance expenses, net increased significantly by P301.6 million, or 97.4%, from P309.6 million for the period ended 30 June 2016 to P611.2 million for the period ended 30 June 2017. This increase is driven by realised foreign exchange losses in 2017 as compared to realised foreign exchange gain in 2016 due to weakening of Philippine Peso by P3.4 per US dollar against YTD 2Q 2016.

Provision for income tax decreased by P230.4 million, or 11.1% from P2,075.0 million for the period ended 30 June 2016 to P1,844.6 million for the period ended 30 June 2017, substantially due to decrease in pre-tax income.

Net Profit for the period decreased by P881.2 million or 17.4% from P5,072.2 million for the period ended 30 June 2017 to P4,191.0 million for the period ended 30 June 2017. Decrease in Net income was mainly driven by the impact of the planned refinery shutdown and lower benefit from inventory holding gain due to declining crude oil prices. This was partially offset by the strong refinery performance in 1Q 2017, growth from retail business and favourable effect of the abandonment case provision reversal.

EBITDA decreased by P1,069.1 million or 12.9% from P8,315.3 million for the period ended 30 June 2016 to P7,246.2 million for the period ended 30 June 2017 mainly due to pre-tax inventory holding gains of P437.2 million in YTD 2Q 2017 as against pre-tax inventory holding gain of P2,055.9 million in YTD 2Q 2016.

EBITDA Adjusted for COSA increased by P549.6 million or 8.8% from P6,259.4 million for the period ended 30 June 2016 to P6,809.0 million for the period ended 30 June 2017 mainly due to strong refinery performance in 1Q 2017, growth from retail business and the favourable effect of the abandonment case provision reversal that offset the impact of the planned refinery shutdown.

Key financial ratios

	YTD 2Q 2017 (Unaudited)	FY 2016 (Audited)
Current Ratio (a)	1.36	1.73
Debt Ratio (b)	0.13	0.17
Debt to Equity (c)	0.27	0.37
Asset to Equity Ratio (d)	2.07	2.18
Interest Coverage Ratio (e)	26.28	21.57
Return on Assets (f)	5.95%	10.54%
Return on Equity (g)	12.34%	22.94%
Return on average capital employed (h)	13.01%	24.20%

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 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 2017 are only for YTD 2Q 2017 while those for 2016 are for the full year, as audited).

OTHER FINANCIAL DATA

Reconciliation from statutory profit for the year to EBIT and EBITDA

	YTD 2Q 2017	YTD 2Q 2016
Profit for the period	4,191.0	5,072.2
Add:		
Provision for income tax	1,844.6	2,075.0
Finance expense	267.2	329.5
Depreciation and amortization	946.5	839.6
Less:		
Finance income	3.1	1.0
EBITDA[1]	**7,246.2**	**8,315.3**
Less:		
Depreciation and amortization	946.5	839.6
EBIT[1]	**6,299.7**	7,475.7

	YTD 2Q 2017	YTD 2Q 2016
EBITDA	**7,246.2**	**8,315.3**
Less:		
Cost of Sales Adjustment (COSA)[2]	437.2	2,055.9
EBITDA (adjusted for COSA)[3]	**6,809.0**	**6,259.4**
Less:		
Depreciation and amortization	946.5	839.6
EBIT (adjusted for COSA**)**[3]	**5,862.5**	**5,419.8**

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1 EBIT indicates profit for the period excluding interest income, interest and finance charges (and accretion) expense and benefit from (provision for) income tax. EBITDA indicates profit for the period excluding interest income, interest and finance charges (and accretion) expense, benefit from (provision for) income tax and depreciation and amortization. EBIT and EBITDA are not measurements of financial performance under PFRS and investors should not consider them in isolation or as an alternative to profit or loss for the period, income or loss from operations, an indicator of PSPC's operating performance, cash flow from operating, investing and financing activities, or as a measure of liquidity or any other measures of performance under PFRS. Because there are various EBIT and EBITDA calculation methods, PSPC's presentation of this measure may not be comparable to similarly titled measures used by other companies. EBIT and EBITDA above are both unaudited figures for YTD 2Q 2017.

2 The COSA provides an approximate measure of PSPC's performance on a current cost of supplies basis, and is a financial measure used by PSPC in managing its day-to-day operations such as (but not limited to) allocating resources and assessing performance. The COSA is an adjustment that reflects PSPC's cost of sales using the current cost of supplies sold, rather than FIFO inventory accounting which is the actual standard applied by PSPC in preparing its PFRS financial statements. As such, the COSA excludes the accounting effect of changes in the oil price on inventory carrying amounts. The COSA as applied to EBIT and EBITA is applied on a pre-tax basis to arrive at adjusted EBIT and adjusted EBITDA. Prospective investors are cautioned that COSA, EBITDA, and EBIT (and any adjustments thereto) are in all cases not measurements of financial performance under PFRS and investors should not consider them in isolation or as an alternative to profit or loss for the year, income or loss from operations, or as an indicator of PSPC's operating performance, cash flow from operating, investing and financing activities, or as a measure of liquidity or any other measures of performance under PFRS. Although other oil refiners use similar measures, prospective investors are cautioned that there are various calculation methods, and PSPC's presentation of COSA may not be comparable to similarly titled measures used by other companies.

3 These figures have been adjusted to remove the effects of changes in oil prices on inventory carrying amounts, which adjustment is referred to herein as the cost of sales adjustment.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of PSPC Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on 11th[th] day of August 2017.

Issuer:

Signature and Title: ______________________
ATTY. ELLIE CHRIS C. NAVARRA
Asst. Corporate Secretary

Signature and Title: ______________________
JOSE JEROME R. PASCUAL III
Vice President – Finance and Treasurer

Signature and Title: ______________________
ANGELICA M. CASTILLO
Corporate Controller