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: March 31, 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	38,078,182

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 [ ]

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	3		3	1

Month

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
312	17,012,000,000	

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

Confidential

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PART II – OTHER INFORMATION

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

PART I – FINANCIAL INFORMATION

ITEM 1

PILIPINAS SHELL PETROLEUM CORPORATION
Statement of Financial Position
As at 31 March 2017 and 31 December 2016
(All amounts in thousands Philippine Peso, except par value per share)

	Note	March 2017 Unaudited	December 2016 Audited
Current assets			
Cash	**2**	6,685,341	4,274,266
Receivables, net	**3**	9,726,121	8,821,577
Inventories, net	**4**	17,176,847	16,381,397
Prepayments and other current assets	**5**	8,502,231	9,379,108
Total current assets		42,090,540	38,856,348
Non-current assets			
Long-term receivables, rentals and investments, net	**6**	4,032,175	4,056,029
Property and equipment, net		23,525,212	23,378,318
Deferred income tax assets, net	**7**	258,955	330,310
Other assets, net	**8**	4,000,199	3,988,246
Total non-current assets		31,816,541	31,752,903
Total assets		**73,907,081**	**70,609,251**
Current liabilities			
Accounts payable and accrued expenses	**9**	16,787,059	17,021,164
Dividends payable		14,589	9,668
Short-term borrowings	**10**	6,012,000	5,370,000
Current portion of loans payable	**11**	6,000,000	-
Total current liabilities		28,813,648	22,400,832
Non-current liabilities			
Loans payable	**11**	5,000,000	11,000,000
Provisions and other liabilities	**12**	4,264,534	4,280,146
Total non-current liabilities		9,264,534	15,280,146
Total liabilities		**38,078,182**	**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**	8,004,034	5,111,868
Other reserves		489,177	480,717
Total equity		35,828,899	32,928,273
Total liabilities and equity		**73,907,081**	**70,609,251**

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

PILIPINAS SHELL PETROLEUM CORPORATION
Unaudited Statement of Income
For the period ended 31 March 2017 and 2016
(All amounts in thousands Philippine Peso, except earnings per share)

1Q 2017	**1Q 2016**		**YTD 1Q 2017**	**YTD 1Q 2016**
41,642,919	31,222,537	Net Sales	**41,642,919**	31,222,537
(34,384,993)	(25,119,961)	Cost of Sales	**(34,384,993)**	(25,119,961)
7,257,926	6,102,576	Gross Profit	**7,257,926**	6,102,576
(2,977,368)	(2,725,471)	Selling, General and Administrative Expenses	**(2,977,368)**	(2,725,471)
1,962	31,567	Other operating income (expense), net	**1,962**	31,567
4,282,520	3,408,672	Income from Operations	**4,282,520**	3,408,672
(154,988)	(148,461)	Finance expense, net	**(154,988)**	(148,461)
4,127,532	3,260,211	Income Before Provision for Income Tax	**4,127,532**	3,260,211
(1,235,366)	(986,006)	Provision for income tax	**(1,235,366)**	(986,006)
2,892,166	2,274,205	Net Income	**2,892,166**	2,274,205
1.79	1.43	Earnings per share* (basic and diluted)	**1.79**	1.43

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

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

PILIPINAS SHELL PETROLEUM CORPORATION
Unaudited Statement of Comprehensive Income
For the period ended 31 March 2017 and 2016
(All amounts in thousands Philippine Peso)

1Q 2017	1Q 2016		YTD 1Q 2017	YTD 1Q 2016
2,892,166	2,274,205	**Net Income (Loss)**	**2,892,166**	2,274,205
		Other comprehensive income (loss)		
-	-	Re-measurement gains on retirement benefits, net of tax	**-**	-
8,460	9,410	Increase (Decrease) in fair value of available-for-sale financial assets	**8,460**	9,410
2,900,626	2,283,615	**Total Comprehensive Income for the period**	**2,900,626**	2,283,615
		Total comprehensive income attributable to:		
2,900,626	2,283,615	Equity holders of the company	**2,900,626**	2,283,615
		Non-controlling interest		
2,900,626	2,283,615		**2,900,626**	2,283,615

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

PILIPINAS SHELL PETROLEUM CORPORATION
Unaudited Statement of Cash Flows
For the period ended 31 March 2017 and 2016
(All amounts in thousands Philippine Peso)

	March 2017	March 2016
Cash flows from operating activities		
Income (loss) before income tax	4,127,532	3,260,211
Adjustments:		
Amortization of prepaid lease payments	371,119	395,240
Depreciation and amortization	478,689	417,335
Interest and finance charges	114,708	137,800
Unrealized mark to market loss (gain), net	75,020	(38,925)
Unrealized foreign exchange loss (gain), net	(45,758)	(69,722)
Loss on disposal of property and equipment	9,026	2,913
Pension expense	36,175	32,221
Accretion expense	13,550	24,077
Provision for legal case, net	9,369	-
Share in loss (profit) of associates	(4,270)	(3,519)
Interest income	(62)	(217)
Operating income (loss) before working capital changes	5,185,098	4,157,414
Decrease (increase) in assets other than cash	(2,412,875)	2,038,779
Increase (decrease) in liabilities other than provisions, dividends payable, short-term borrowings and loans payable	115,674	(3,172,588)
Cash generated from operations	2,887,897	3,023,605
Pension contributions paid	(51,891)	(170)
Net cash from operating activities	2,836,006	3,023,435
Cash flows from investing activities		
Additions to property and equipment	(976,051)	(868,203)
Decrease (increase) in long-term receivables and rentals, net	(28,306)	101,281
Proceeds from sale of property and equipment	1,999	1,152
Interest received	62	217
Net cash used in investing activities	(1,002,296)	(765,553)
Cash flows from financing activities		
Repayment of long term loan	-	(10,000,000)
Dividends payable	4,922	-
Net proceeds from short-term borrowings	642,000	2,499,000
Interest and finance charges paid	(108,538)	(163,918)
Proceeds from long-term loan	-	5,000,000
Net cash used in financing activities	538,384	(2,664,918)
Net increase (decrease) in cash for the year	2,372,094	(407,036)
Cash at the beginning of the period	4,274,266	3,576,802
Effect of exchange rate changes on cash	38,981	(35,788)
Cash at the end of the period	**6,685,341**	**3,133,978**

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 31 March 2017 and 2016
(All amounts in thousands Philippine Peso)

	Share capital	Share premium	Treasury stock	Retained earnings	Other reserves: Share-based reserve	Other reserves: Fair value reserve	Total equity
Notes	**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	-	-	-	2,274,205	-	-	2,274,205
Other comprehensive income							
Adjusted to retained earnings	-	-	-	10,944	-	-	10,944
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	9,410	9,410
Total comprehensive income	-	-	-	2,285,149	-	9,410	2,294,559
Balances at 31 March 2016	**1,653,558**	**24,395,991**	**(507,106)**	**2,466,657**	**92,007**	**288,582**	**28,389,689**
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	-	-	-	2,892,166	-	-	2,892,166
Other comprehensive income							
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	8,460	8,460
Total comprehensive income	-	-	-	2,892,166	-	8,460	2,900,626
Balances at 31 March 2017	**1,681,058**	**26,161,736**	**(507,106)**	**8,004,034**	**173,260**	**315,917**	**35,828,899**

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

PILIPINAS SHELL PETROLEUM CORPORATION
NOTES TO FINANCIAL STATEMENTS
As at 31 March 2017 and 31 December 2016 and for the
three month periods ended 31 March 2017 and 2016
(In Pesos '000 unless otherwise stated, except per share amounts)

Note 1 - General information

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

Prior to its planned initial public offering, the Company is 68% owned by Shell Overseas Investments BV ("SOIBV"), a corporation registered under the laws of the Netherlands and 32% owned by Filipino and other foreign shareholders. The ultimate parent of the Company is Royal Dutch Shell plc. ("RDS"), incorporated in the United Kingdom. The Company conducted its initial public offering to list in Philippine Stock Exchange on 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 31 March 2017 (31 December 2016 - 698).

Note 2 - Cash

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

	31 March 2017	**31 December 2016**
Universal banks	1,903,921	2,263,032
Commercial banks	4,781,420	2,011,234
	6,685,341	4,274,266

Note 3 - Receivables, net

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

	31 March 2017	31 December 2016
Trade receivables		
Third parties	8,799,593	7,535,929
Related parties	131,137	295,124
Provision for impairment of trade receivables from third parties	(126,884)	(123,844)
	8,803,846	7,707,209
Non-trade receivables from related parties	45,671	87,628
Other receivables		
Claims from government agencies		
Duty drawback and other claims	125,538	125,541
Miscellaneous	797,024	947,326
	922,562	1,072,867
Provision for impairment of other receivables	(45,958)	(46,127)
	876,604	1,026,740
	9,726,121	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 31 March 2017 valued at P3.6 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 P5.2 billion as at 31 March 2017 (31 December 2016 – P4.5 billion) (see Note 19.1.2). These balances relate to a number of independent customers for whom there is no recent history of default.

(a) Past due receivables but not impaired

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

	31 March 2017	31 December 2016
Less than 30 days	50,074	186,666
31 - 60 days	66,534	72,537
61 - 90 days	10,178	7,078
91 - 180 days	38,684	39,199
	165,470	305,480

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

(b) Impaired receivables

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

	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	3,040	(169)	2,871
At 31 March 2017	126,884	45,958	172,842

For the three month periods ended 31 March 2017, total trade receivables written-off directly to statement of income amounted to P4.8 million (31 March 2016 – P0.8 million) based on the Company's assessment of recoverability.

(c) Neither past due nor impaired

The credit quality of trade receivables from third parties at 31 March 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)	**31 March 2017**	**31 December 2016**
A	1,544,523	1,485,105
B	2,981,005	1,645,166
C	2,810,625	2,203,418
D	1,171,086	1,772,916
Total trade receivables	8,507,239	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 three month periods ended 31 March 2017 and for the year ended 31 December 2016.

Note 4 - Inventories, net

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

	31 March 2017	**31 December 2016**
Crude oil and finished products	16,881,117	16,075,472
Materials and supplies	295,730	305,925
	17,176,847	16,381,397

Details of and changes in allowance for inventory write-down and obsolescence as at and for the three month periods ended 31 March 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 (Reversals), net	(22,911)	7,967	(14,944)
At 31 March 2017	5,709	19,436	25,145

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 P5.7 million for the three month periods ended 31 March 2017 (31 December 2016 – P28.6 million).

Cost of inventories included as part of cost of sales amounted to P31.3 billion for the three month periods ended 31 March 2017 (31 March 2016 – P22.2 billion).

Note 5 - Prepayments and other current assets

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

	31 March 2017	**31 December 2016**
Input VAT, net of output VAT (a)	4,544,643	4,560,448
Prepaid corporate income tax (b)	2,883,715	3,686,180
Advance rentals	521,725	422,353
Derivatives (c)	144,241	222,336
Prepaid specific tax	106,263	97,082
Prepaid insurance	30,174	60,373
Prepaid duties and taxes	18,594	5,261
Others	252,876	325,075
	8,502,231	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 31 March 2017, the notional principal amount of the outstanding commodity forward contracts amounted to P 1.9 billion (31 December 2016 – P 1.5 billion). As at 31 March 2017, the fair value of the derivative assets from outstanding commodity forward contracts amounted to P 144.2 million (31 December 2016 – P 222.3 million).

During the 31 March 2017, the Company's fair value of settled derivatives amounted to gain of P 7.8 million (31 March 2016 – loss of P 47.9 million).

For the period ended 31 March 2017, net fair value changes of the outstanding commodity forward contracts amounting to a loss of P 67.2 million (31 March 2016 – loss of P 9.0 million) were recognized in other operating income, net'.

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

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

	31 March 2017	31 December 2016
Advance rentals	771,532	792,075
Market investment loans (b)	91,401	93,417
Investments in associates (c)	52,094	47,823
	915,027	933,315
Long term receivables (a)	3,475,984	3,481,750
Provision for impairment of long-term receivables	(358,836)	(359,036)
	3,117,14	3,122,714
	4,032,175	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 31 March 2017 (31 December 2016 - P3.4 billion) representing the amount to be recovered from the government on various taxes paid. The management has assessed that the recoverability of the same is beyond 12 months from the reporting date and hence the same has been reclassified from current to non-current for the three month periods ended 31 March 2017.

As at 31 March 2017, long-term receivables of P359.0 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 (write-off)	(137,060)	(450)	(137,510)
At 31 December 2016	-	359,036	359,036
At 31 March 2017	-	359,036	359,036

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

As at 31 March 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
March 2017					
Bonifacio Gas Corporation	44%	159,200	95,587	63,613	17,148
Kamayan Realty Corporation	40%	28,673	12,430	16,243	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; deferred income tax

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

	31 March 2017	**31 December 2016**
Deferred income tax assets (liabilities)		
Asset retirement obligation	391,329	377,621
Unamortized past service cost, net	375,487	396,722
Operating lease - effect of straight lining	277,094	286,811
Provision for remediation costs	231,896	232,389
Provision for doubtful debts	156,077	158,702
Share-based compensation	51,978	51,978
Provision for inventory losses	7,543	12,027
Unrealized foreign exchange gain	(37,975)	(24,248)
Unrealized mark-to-market gain	(43,086)	(65,592)
Prepaid duties and taxes	(724,277)	(724,277)
Retirement benefit asset	(1,047,066)	(1,049,164)
Other provisions	619,955	677,341
	258,955	330,310
NOLCO	-	-
MCIT	-	-
Deferred income tax assets, net	258,955	330,310

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

	31 March 2017	31 December 2016
At 1 January	330,310	3,712,251
Credited to profit and loss	(71,355)	(2,509,289)
Credited to other comprehensive income	-	(337,108)
Application of excess MCIT	-	(535,544)
At 31 March 2017 and 31 December 2016	258,955	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 March 2017 and 31 December 2016 are fully realizable.

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

The details of provision for income tax for the three month periods ended 31 March 2017 and 2016 are as follows:

	31 March 2017	31 March 2016
Current	1,164,011	5,452
Deferred	71,355	980,554
	1,235,366	986,006

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:

	31 March 2017	31 March 2016
Income tax at statutory income tax rate at 30%	1,238,259	978,063
Income tax effect of:		
Non-deductible expenses	1,488	5,224
Limitation on deductible interest expense	5	20
Interest income subjected to final tax	(16)	(62)
Non-taxable income	(1,344)	(1,072)
Income subjected to 8% final tax	(5,268)	(1,619)
Provision for income tax before final taxes	1,233,124	980,554
Final taxes on interest and other charges	2,242	5,452
Provision for income tax at effective tax rate	1,235,366	986,006

Note 8 - Other assets, net

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

	31 March 2017	31 December 2016
Pension asset	3,490,219	3,497,215
Available-for-sale financial assets (a)	341,517	333,087
Deferred input VAT (b)	139,193	147,334
Program software (c)	7,762	8,633
Others	21,508	1,977
	4,000,199	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 31 March 2017 and 31 December 2016 are as follows:

	31 March 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	8,460	28,285
	315,917	307,457
31 March 2017 and 31 December 2016	343,911	335,451
Current portion	(2,394)	(2,364)
Non-current portion	341,517	333,087

The Company intends to sell equity instrument with fair value of P2.4 million within 12 months from the three month periods ended March 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 31 March 2017 and 31 December 2016.

(c) Program software

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

	31 March 2017	31 December 2016
At cost		
1 January	891,291	888,787
Reclassifications from AUC	-	2,504
	891,291	891,291
Accumulated amortization		
1 January	(882,658)	(878,706)
Amortization for the year	(871)	(3,952)
	(883,529)	(882,658)
Net book value	7,762	8,633

Note 9 - Accounts payable and accrued expenses

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

	31 March 2017	31 December 2016
Trade payables		
Third parties	4,580,519	4,944,514
Related parties	8,154,106	6,804,439
	12,734,625	11,748,953
Non-trade payables from related parties	273,372	439,605
Other payables		
Rent and utilities	1,313,883	1,281,678
Project-related costs and advances	635,266	969,493
Provision for remediation	330,266	332,976
Employee benefits	319,470	622,510
Duties and taxes	155,041	158,716
Supply and distribution	151,981	172,650
Outside services	150,657	203,450
Advertising and promotions	123,404	236,457
IT-related costs	30,705	31,783
Derivatives (a)	621	3,696
Interest	204	935
Others (b)	567,564	818,262
	16,787,059	17,021,164

(a) As at 31 March 2017, the fair value of the derivative liabilities from outstanding commodity forward contracts amounted to P0.6 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 31 March 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	3,129,000	3 April 2017	4 days
Bank of The Philippine Islands	2,883,000	4 April 2017	4 days
	6,012,000		

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 three month periods ended 31 March 2017 was 2.47% (31 March 2016 – 2.42%). Total interest expense charged to operations for the three month periods ended 31 March 2017 arising from short-term loans amounted to P26.4 million (31 March 2016 – P12.1 million)

Note 11 - Loans payable

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

31 March 2017	31 December 2016	Interest	Terms
6,000,000	6,000,000	2.93% as at 31 March 2017 effective until next re-pricing	Due and payable within 12 months after 31 March 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. Classified as current liability as of 31 March 2017.
5,000,000	5,000,000	3.06% as at 31 March 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 31 March 2017, Php 6 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 three month periods ended 31 March 2017 arising from these loans amounted to P89.0 million (31 March 2016 – P120.9 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 31 March 2017 and 31 December 2016 consists of:

	31 March 2017	31 December 2016
Provision for legal cases (a)	1,645,343	1,635,974
Asset retirement obligation (ARO) (b)	1,471,245	1,458,759
Provision for remediation and demolition costs (c)	442,719	441,655
Cash security deposits	307,192	302,208
Accrued operating lease	23,684	23,684

Other liabilities	374,351	417,866
	4,264,534	4,280,146

(a) Provision for legal case

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

	31 March 2017	**31 December 2016**
1 January	1,635,974	1,598,498
Provisions, net	9,369	37,476
31 March 2017 and 31 December 2016	1,645,343	1,635,974

(b) Asset retirement obligation

Movements in the provision for asset retirement obligation follow:

	31 March 2017	**31 December 2016**
1 January	1,458,759	1,383,126
Additions/(Reduction)	-	93,535
Accretion	12,486	50,447
Transferred to short term	-	(16,566)
Reversals	-	(51,783)
Charges	-	-
31 March 2017 and 31 December 2016	1,471,245	1,458,759

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

(c) Provision for remediation and demolition costs

Movements in the provision for remediation and demolition costs follow:

	31 March 2017	**31 December 2016**
1 January	441,655	863,538
Accretion	1,064	45,591
Transferred to short term	-	(367,866)
Reversals	-	(99,608)
31 March 2017 and 31 December 2016	442,719	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.

Note 13 - Share capital; Treasury shares; Share premium

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

	31 March 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

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

As at 31 March 2017, the Company has 312 shareholders (31 December 2016 - 35), 284 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 31 March 2017 and 31 December 2016 consist of:

	31 March 2017	**31 December 2016**
Unappropriated retained earnings	7,078,261	4,186,095
Re-measurement losses on net defined benefit obligation, net of tax, closed to retained earnings	925,773	925,773
Unappropriated retained earnings	8,004,034	5,111,868

Cash dividends declared and paid in 2016

Date			
Declared	Paid	Per share	2016
15 August 2016	19 September 2016	2.08	3,300,000
			3,300,000

At the regular meeting of the Board held on 15 August 2016, the Board approved the distribution of a cash dividend to stockholders of record as of 15 August 2016 of the unrestricted retained earnings available for cash dividends amounting to P3.3 billion as of 30 June 2016.

As at 31 March 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 three month periods ended 31 March follow:

	31 March 2017	31 December 2016
Earnings available to stockholders:		
Profit for the period	2,892,166	2,274,205
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	1.79	1.43

As at 31 March 2017 and 2016, the Company does not have any potentially dilutive stocks.

Note 16 – Contingencies

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

Pilipinas Shell Petroleum Corporation vs. Commissioner of Customs, Collector of Customs of the Port of Batangas, Bureau of Customs and Bureau of Internal Revenue
CTA Case Nos. 8004 and 8121, Court of Tax Appeals, 2nd Division
CTA Case No. EB 1007/1003, Court of Tax Appeals En Banc
Filed 03 December 2009

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

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

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

The COC denied the appeal of the Company and demanded the payment of excise tax and VAT for the Company's CCG and LCCG importations this time from 2004 to 2009. The Company filed a motion for reconsideration of the Letter-Decision, which was denied by the COC. The COC then ordered the Company to pay the principal amount of P7.35 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 31 March 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.

As disclosed in Note 6, the Company has excise duties paid under protest amounting to P1.1 billion for certain Alkylate shipments.

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

Management believes that provision should not be recognized as at 31 March 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. Awaiting further action by the court.

(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. UDK 14908, SC G.R. No. 209324 Supreme Court

Matter Summary:
Sometime in March 1996, TCCs were issued to Filway Industries for customs duties and taxes allegedly paid on raw materials used in the manufacture, processing or production of knitted fabrics. In 1997, Filway executed a deed of assignment over the TCCs in favor of the company. The Company then utilized said TCCs to settle its customs duties and taxes on oil importations. According to the government, it was discovered that the said credit memos were fake and spurious as they did not conform to the records. Thus, the TCCS were cancelled and BOC is demanding anew for the payment of custom duties and taxes for the Company's importations.

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

Status:
In its Decision dated 09 December 2015, the Supreme Court (SC) remanded the case to the lower court for the conduct of the trial proceedings so that the Bureau of Customs could attempt to prove the alleged fraudulent acquisition and use of TCCs amounting. The Company filed a Motion for Reconsideration from this decision on 04 February 2016.

(e) *Excise Tax Refund Case*

There are also tax cases filed by the Company for its claims from the government amounting to P745.9 million that are pending as at 31 March 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. The SC has declared the dismissal of one of the two petitions filed for failure of petitioners to sufficiently show that the Court of Appeals committed any reversible error in the decision and resolution. The SC has not yet resolved the remaining petition but the management believes that the ultimate outcome of this contingency will not have a material impact on the Company's financial statements, given that it is similar to the previous petition which will most probably have the same outcome.

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

Note 17 - 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 18 - 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.

18.1 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 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 01 January 2017

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

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

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

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

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

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

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

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

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

Effective beginning on or after 1 January 2018

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

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

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

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

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

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

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

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

- PFRS 15, Revenue from Contracts with Customers

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

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

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

- PFRS 9, Financial Instruments

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

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

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

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

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

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

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

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

Effective beginning on or after 1 January 2019

- PFRS 16, Leases

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

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

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

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On 13 January 2016, the Financial Reporting Standards Council postponed the original effective date of 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.

18.2 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 31 March 2017 and 31 December 2016, there are no financial assets and financial liabilities that were offset.

Note 19 - Financial risk management

19.1 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.

19.1.1 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 31 March 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 31 March 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 P119.1 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.

19.1.2 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 31 March 2017 and 31 December 2016, the Company has the following:

	Gross amounts before offset	Amounts offset	Net Amounts as presented	Credit enhancement	Net amount
31 March 2017					
Financial assets:					
Receivables	8,849,517	-	8,849,517	3,639,245	5,210,272
31 December 2016					
Financial assets:					
Receivables	7,794,837	-	7,794,837	3,318,201	4,476,636

19.1.3 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 P67.6 billion as at 31 March 2017 (31 December 2016 – P75.3 billion) and undrawn borrowing facilities at floating rate amounting to P67.6 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.

19.2 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 31 March 2017 and 31 December 2016 are as follows:

	Note	**31 March 2017**	**31 December 2016**
Total loans and borrowings	10,11	17,012,000	16,370,000
Less: cash	2	6,685,341	4,274,266
Net debt		10,326,659	12,095,734
Total equity (excluding other reserves)	13,14	35,339,722	32,447,556
Total capital		45,666,381	44,543,290
Gearing ratio		23%	27%

The Company is not subject to externally imposed capital requirement.

19.3 Fair value estimation

The table below presents the carrying amounts of the Company's financial assets and financial liabilities, which approximates its fair values, as at 31 March 2017 and 31 December 2016:

	Note	**31 March 2017**	**31 December 2016**
Financial assets			
Loans and receivables			
Cash	2	6,685,341	4,274,266
Receivables	3	8,849,517	7,794,837
Derivatives	5	144,241	222,336
Market investment loans	6	91,401	93,417
Long-term receivables	6	58,799	64,365
Available-for-sale financial assets	8	341,517	335,451
Total financial assets		16,170,816	12,784,672
Financial liabilities			
Other financial liabilities			
Accounts payable and accrued expenses	9	16,631,397	16,858,752
Dividends payable		14,589	9,668
Derivatives	9	621	3,696
Cash security deposits	12	307,192	302,208
Short-term borrowings	10	6,012,000	5,370,000
Current portion of loans payable	11	6,000,000	-
Loans payable	11	5,000,000	11,000,000
Total financial liabilities		33,965,799	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 20 –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 21 – Issuances, repurchases, and repayments of debt and equity securities

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

Note 22 – 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 23 – 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 24 – 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 25 – 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 26 – 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 16 - 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 turnaround 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.

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

Key Performance Indicators

	YTD 1Q 2017 (Unaudited)	**FY 2016 (Audited)**
Current Ratio (a)	1.46	1.73
Debt Ratio (b)	0.14	0.17
Debt to Equity (c)	0.29	0.37
Asset to Equity Ratio (d)	2.09	2.18
Interest Coverage Ratio (e)	36.78	21.57
Return on Assets (f)	3.91%	10.54%
Return on Equity (g)	8.18%	22.94%

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).

(Please note that the numbers for 2017 are only for 1Q 2017 while those for 2016 are for the full year).

Financial Performance

	YTD 1Q 2017	**YTD 1Q 2016**	%Increase (decrease)
Net Sales	41,642.9	31,222.5	33.4%
Sales Volumes (M Liters)	1,322	1,501	(11.9%)
Cost of sales	34,385.0	25,120.0	36.9%
Gross profit	7,257.9	6,102.6	18.9%
Selling, general and administrative expenses	2,977.4	2,725.4	9.2%
Other operating income	2.0	31.6	(93.7%)
Provision for income tax	1,235.4	986.0	25.3%
Net Income	2,892.2	2,274.2	27.2%
EBITDA	4,733.4	3,839.2	23.3%
EBITDA Adjusted for COSA	3,692.3	4,466.9	(17.3%)

Results of operations for the year ended 31 March 2016 compared to the year ended 31 March 2017

Net sales increased by P10,420.4 million, or 33.4%, from P31,222.5 million for the period ended 31 March 2016 to P41,642.9 million for the period ended 31 March 2017, primarily as a result of higher product prices driven by the increase in global oil prices as against 1Q 2016 and increase in retail sales volumes.

Sales Volumes decreased by 179 million litres or 11.9% from 1,501 million litres for the period ended 31 March 2016 to 1,322 million litres for the period ended 31 March 2017. Retail volume grew by 2% from 1Q 2016 as a result of competitive marketing promotions, contribution of new retail sites while sustaining growth from differentiated fuels, and mitigating the impact of very aggressive competitor activity in Mindanao. This partially offsets the 11% volume decline in commercial business driven by lower demand from the power sector and resellers.

Cost of sales increased by P9,265.0 million, or 36.9%, from P25,120.0 million for the period ended 31 March 2016 to P34,385.0 million for the period ended 31 March 2017, primarily as a result of the higher purchase cost due to increase in global crude prices. This was partially offset by lower logistics and transhipment costs and inventory holding gains.

Gross profit increased by P1,155.3 million, or 18.9% from P6,102.6 million for the period ended 31 March 2016 to P7,257.9 million for the period ended 31 March 2017. The increase in gross profit was driven mainly by increase in market prices, strong refinery performance, lower logistics and transhipment costs and growth in retail volumes. Increase was partially offset by the reduction in sales volume due to lower fuel demand from the power sector.

Selling, general and administrative expenses increased by P251.9 million, or 9.2% from P2,725.4 million for the period ended 31 March 2016 to P2,977.4 million for the period ended 31 March 2017 mainly due to increase in NMIF depreciation, retail site improvements, and increase in employee benefits.

Other operating income, net decreased significantly by P29.6 million, or 93.8%, from P31.6 million for the period ended 31 March 2016 to P2.0 million for the period ended 31 March 2017. This decrease is driven by unrealised mark to market losses in 2017 as compared to mark to market gain in 2016.

Provision for income tax increased by P249.5 million, or 25.3% from P986.0 million for the period ended 31 March 2016 to P1,235.4 million for the period ended 31 March 2017, substantially due to increase in pre-tax income.

Net Income increased by P618.0 million or 27.2% from P2,274.2 million for the period ended 31 March 2016 to P2,892.2 million for the period ended 31 March 2017. Increase in Net Income was primarily driven by strong refinery performance due to improved plant reliability, and increased premium fuel penetration. Higher 1Q 2017 earnings also included an element of inventory holding gains due to the general increase in oil prices in the period.

EBITDA increased by P894.2 million or 23.3% from P3,839.2 million for the period ended 31 March 2016 to P4,733.4 million for the period ended 31 March 2017 mainly due to pre-tax inventory holding gains of P1,041.1 million in YTD 1Q 2017 as against pre-tax inventory holding losses of P627.7 million in YTD 1Q 2016.

EBITDA Adjusted for COSA decreased by 774.6 million or 17.3% from P4,466.9 million for the period ended 31 March 2016 to P3,692.3 million for the period ended 31 March 2017 mainly contributed by the overall 12% decrease in sales volume driven by lower demand from power sector and resellers. This was partially offset by the growth in retail volume, increased premium fuel penetration, and strong refinery performance.

Financial condition as of the year ended 31 December 2016 compared with the year ended 31 March 2017

	31 March 2017	**31 December 2016**	%Increase (decrease)
Current assets	42,090.5	38,856.3	8.3%
Non-Current assets	31,816.5	31,752.9	0.2%
Total assets	73,907.0	70,609.2	4.7%
Current Liabilities	28,813.6	22,400.8	28.6%
Non-Current Liabilities	9,264.5	15,280.1	(39.4%)
Total Liabilities	38,078.1	37,680.9	1.0%
Equity	35,828.9	32,928.3	8.8%

Current assets The Company's current assets increased from P38,856.3 million as of 31 December 2016 to P42,090.5 million as of 31 March 2017 primarily due to the following:

Cash increased by P2,411.1 million, or 56.4% from P4,274.3 million as of 31 December 2016 to P6,685.3 million as of 31 March 2017 primarily as a result of increased cash flow from operations.

Receivables increased by P904.5 million, or 10.3% from P8,821.6 million as of 31 December 2016 to P9,726.1 million as of 31 March 2017 primarily as a result of increase in trade receivable which is in line with increase in sales.

Inventories increased by P795.4 million, or 5.0% from P16,381.4 million as of 31 December 2016 to P17,176.8 million as of 31 March 2017 primarily as a result of increase in oil prices.

Prepayments and other current assets decreased by P876.8 million, or 9.3% from P9,379.1 million as of 31 December 2016 to P8,502.2 million as of 31 March 2017. This is primarily due to decrease in prepaid corporate taxes and derivative assets.

Non-Current Assets The Company's non-current assets increased from P31,752.9 million as of 31 December 2016 to P31,816.5 as of 31 March 2017 million primarily due to the following:

Property and equipment, net marginally increased by P146.9 million, or 0.6% from P23,378.3 million as of 31 December 2016 to P23,525.2 million as of 31 March 2017 primarily due to the increase in refinery capital spend and additional retail stations.

Deferred income tax assets, net decreased by P71.3 million, or 21.6% from P330.3 million as of 31 December 2016 to P258.9 million as of 31 March 2017 primarily as a result of utilization of deferred tax assets as a result of profits delivered during the first three months of 2017.

Current Liabilities The Company's current liabilities increased from P22,400.8 million as of 31 December 2016 to P28,813.6 million as of 31 March 2017 primarily due to the following:

Current portion of loans payable increased in 2017 by P6,000.0 million as of 31 March 2017 mainly due to a transfer of the current portion of the long term loan which is due to be repaid in 1Q 2018.

Short-term borrowings increased by P642.0 million, or 12.0% from P5,370.0 million as of 31 December 2016 to P6,012.0 million as of 31 March 2017 primarily due to higher 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 31 March 2017 primarily due to cash dividend issued in 2016 which remain uncollected at 31 March 2017.

Non-Current Liabilities The Company's non-current liabilities decreased from P15,280.1 million as of 31 December 2016 to P9,264.5 million as of 31 March 2017 primarily due to the following:

Loans payable, net of current portion 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 31 March 2017 mainly due to a transfer of the current portion of the long term loan which is due to be repaid in 1Q 2018.

Equity The Company's total equity increased from P32,928.3 million as of 31 December 2016 to P35,828.9 million as of 31 March 2017 primarily due to the increase in retained earnings from P5,111.9 million as of 31 December 2016 to P8,004.0 million as of 31 March 2017. The 56.6% or P2,892.2 million increase in retained earnings is mainly driven by increase in net income for the quarter.

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 day of May 2017.

Issuer:

Signature and Title: ________________________
ATTY. ERWIN R. OROCIO
Corporate Secretary

Principal Financial/Accounting Officer/Controller:

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

Signature and Title: ________________________
Angelica Castillo
Corporate Controller