

**PETRON CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2018, 2017 and 2016**



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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Petron Corporation**  
SMC Head Office Complex  
40 San Miguel Avenue  
Mandaluyong City

### *Opinion*

We have audited the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### *Revenue Recognition (P557,386 million)*

Refer to Note 3, *Significant Accounting Policies* and Note 37, *Segment Information* to the consolidated financial statements.

#### *The risk*

Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when the sales transactions have been completed and control over the goods and services has been transferred to the customer. Revenue generated from the sale of petroleum and related products is susceptible to manipulation as the pricing may vary in response to different market conditions. Whilst revenue recognition and measurement is not complex for the Group, voluminous sales transactions and the sales target which form part of the Group's key performance measure may provide venue to improperly recognize revenue.

#### *Our response*

We performed the following audit procedures, among others, on revenue recognition:

- We tested operating effectiveness of the key controls over revenue recognition. We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls between different information technology applications for the evaluation of relevant information technology systems and the design and operating effectiveness of controls over the recording of revenue transactions.
- We checked on a sampling basis, the sales transactions to the delivery documents for the year.
- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess whether these transactions are recorded in the correct financial year.
- We tested journal entries posted to revenue accounts, including any unusual or irregular items.
- We tested credit notes recorded after the financial year to identify potential reversals of revenue which were inappropriately recognized in the current financial year.

*Adoption of PFRS 15, Revenue from Contracts with Customers (P557,386 million)*  
Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 37, *Segment Information* to the consolidated financial statements.

*The risk*

PFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The core principle of PFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the considerations to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the new five-step model. PFRS 15 also requires extensive disclosures. The Group was required to review its contracts which involved, among others, the identification of performance obligations other than selling petroleum and related products. There is judgment involved in the application of the new standard, including the assessment of performance obligations and estimation of the stand-alone selling price of each performance obligation.

*Our response*

We performed the following audit procedures, among others, on the adoption of PFRS 15:

- We evaluated the appropriateness of the Group's accounting policies under PFRS 15 based on our understanding of the Group's revenue transactions.
- We obtained understanding of the transition approach and any practical expedients applied by the Group.
- We assessed the appropriateness of the Group's revenue recognition under PFRS 15 across significant revenue streams by testing the implementation of the requirements of PFRS 15 for a sample of contracts.
- We assessed the sufficiency and appropriateness of the disclosures in the consolidated financial statements based on the requirements of PFRS 15.



*Valuation of Inventories (P63,873 million)*

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 9, *Inventories* to the consolidated financial statements.

*The risk*

There is a risk over the recoverability of the Group's inventories due to market price volatility of crude and petroleum products. Such volatility can lead to potential issues over the full recoverability of inventory balances. In addition, determining the net realizable values of inventories is subject to management's judgment and estimation. This includes estimating the selling price of finished goods and the cost of conversion of raw materials based on available market price forecasts and current costs.

*Our response*

We performed the following audit procedures, among others, on the valuation of inventories:

- We obtained and reviewed the calculation of write-down of the Group's raw materials and finished goods based on the net realizable values of finished goods at yearend.
- For raw materials, projected production yield was used to estimate the cost of conversion for the raw materials as at yearend. We assessed the projected yield by comparing it to the actual yield achieved from crude oil production runs during the year. We then compared the estimated costs of finished goods to the net realizable values to determine any potential write-down.
- For finished goods, we assessed the reasonableness of estimated selling prices by checking various products' sales invoices issued around and after yearend. Any write-down is computed based on the difference between the net realizable value and the cost of inventory held at yearend.

*Valuation of Goodwill (P8,532 million)*

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 13, *Investment in Shares of Stock of Subsidiaries, Goodwill and Non-Controlling Interests* to the consolidated financial statements.

*The risk*

The Group has significant amount of goodwill arising from several business acquisitions. We particularly focused on the valuation of goodwill allocated to Petron Oil and Gas International Sdn. Bhd. Group (Petron Malaysia Group) which accounts for 99% of total goodwill. The annual impairment test was significant to our audit as the assessment process is complex by nature and is based on management's judgment and assumptions on future market and/or economic conditions. The assumptions used include future cash flow projections, growth rates and discount rates.



*Our response*

We performed the following audit procedures, among others, on the valuation of goodwill:

- We tested the integrity of the discounted cash flow model used by the Group. This involved using our own valuation specialist to assist us in evaluating the models used and assumptions applied and comparing these assumptions to external data, where applicable. The key assumptions include sales volume, selling price and gross profit margin.
- We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, cost of inflation and discount rates, as well as performing break-even analysis on the assumptions.
- We also assessed the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions used in the valuation of goodwill.

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.



*Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Darwin P. Virocel.

**R.G. MANABAT & CO.**



DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. MKT 7333639

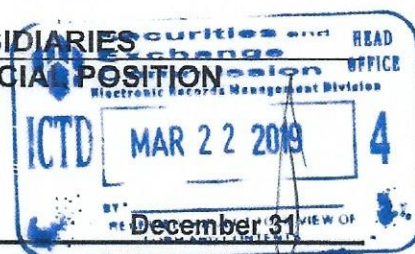
Issued January 3, 2019 at Makati City

March 12, 2019

Makati City, Metro Manila



**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Million Pesos)



	<i>Note</i>	2018	2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5, 34, 35	P17,405	P17,014
Financial assets at fair value	6, 14, 34, 35	1,126	336
Investments in debt instruments	7, 34, 35	40	199
Trade and other receivables - net	4, 8, 28, 34, 35	42,497	38,159
Inventories	4, 9	63,873	56,604
Other current assets	10, 14, 28	37,081	33,178
<b>Total Current Assets</b>		<b>162,022</b>	<b>145,490</b>
<b>Noncurrent Assets</b>			
Investments in debt instruments	7, 34, 35	338	332
Property, plant and equipment - net	4, 11, 12, 37	163,984	177,690
Investment property - net	4, 11, 12	16,536	75
Deferred tax assets - net	4, 27	257	207
Goodwill - net	4, 13	8,532	8,277
Other noncurrent assets - net	4, 6, 14, 34, 35	6,485	5,959
<b>Total Noncurrent Assets</b>		<b>196,132</b>	<b>192,540</b>
		<b>P358,154</b>	<b>P338,030</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	15, 33, 34, 35	P82,997	P69,583
Liabilities for crude oil and petroleum products	16, 28, 31, 34, 35	25,991	36,920
Trade and other payables	17, 28, 30, 33, 34, 35, 39	28,471	11,604
Derivative liabilities	34, 35	614	1,791
Income tax payable		146	808
Current portion of long-term debt - net	18, 33, 34, 35	17,799	3,789
<b>Total Current Liabilities</b>		<b>156,018</b>	<b>124,495</b>
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	18, 33, 34, 35	100,201	97,916
Retirement benefits liability	30	2,433	4,885
Deferred tax liabilities - net	27	8,450	7,397
Asset retirement obligation	4, 19	3,592	2,681
Other noncurrent liabilities	20, 34, 35	1,274	1,037
<b>Total Noncurrent Liabilities</b>		<b>115,950</b>	<b>113,916</b>
<b>Total Liabilities</b>		<b>271,968</b>	<b>238,411</b>

Forward

		December 31	
	Note	2018	2017
<b>Equity Attributable to Equity Holders of the Parent Company</b>	<b>21</b>		
Capital stock		P9,485	P9,485
Additional paid-in capital		19,653	19,653
Capital securities		24,881	30,546
Retained earnings		49,491	49,142
Equity reserves		(14,031)	(5,171)
Treasury stock		(10,000)	(10,000)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>79,479</b>	<b>93,655</b>
<b>Non-controlling Interests</b>	<b>13</b>	<b>6,707</b>	<b>5,964</b>
<b>Total Equity</b>		<b>86,186</b>	<b>99,619</b>
		<b>P358,154</b>	<b>P338,030</b>

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
(Amounts in Million Pesos, Except Per Share Data)

	<i>Note</i>	<b>2018</b>	2017	2016
<b>SALES</b>	28, 31, 37	<b>P557,386</b>	P434,624	P343,840
<b>COST OF GOODS SOLD</b>	22	<b>522,824</b>	391,969	306,125
<b>GROSS PROFIT</b>		<b>34,562</b>	42,655	37,715
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>	23	<b>(15,641)</b>	(15,017)	(13,918)
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	26, 37	<b>(9,689)</b>	(8,487)	(7,557)
<b>INTEREST INCOME</b>	26, 37	<b>706</b>	535	507
<b>SHARE IN NET INCOME OF AN ASSOCIATE</b>	10	-	63	66
<b>OTHER INCOME (EXPENSES) - Net</b>	26	<b>517</b>	(907)	(2,435)
		<b>(24,107)</b>	(23,813)	(23,337)
<b>INCOME BEFORE INCOME TAX</b>		<b>10,455</b>	18,842	14,378
<b>INCOME TAX EXPENSE</b>	27, 36, 37	<b>3,386</b>	4,755	3,556
<b>NET INCOME</b>		<b>P7,069</b>	P14,087	P10,822
<b>Attributable to:</b>				
Equity holders of the Parent Company	32	<b>P6,218</b>	P12,739	P10,100
Non-controlling interests	13	<b>851</b>	1,348	722
		<b>P7,069</b>	P14,087	P10,822
<b>BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	32	<b>P0.28</b>	P0.86	P0.60

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
(Amounts in Million Pesos)

	<i>Note</i>	2018	2017	2016
<b>NET INCOME</b>		<b>P7,069</b>	P14,087	P10,822
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Items that will not be reclassified to profit or loss</i>				
Equity reserve for retirement plan	30	(1,133)	(1,142)	2,647
Share in other comprehensive income of an associate and a joint venture	10	-	3	3
Income tax benefit (expense)	27	339	346	(794)
		<b>(794)</b>	(793)	1,856
<i>Items that may be reclassified to profit or loss</i>				
Net loss on cash flow hedges	35	(110)	-	-
Exchange differences on translation of foreign operations		1,372	3,303	523
Unrealized fair value losses on investments in debt instruments at FVOCI	7	(10)	(4)	(2)
Share in other comprehensive loss of a joint venture		-	(1)	-
Income tax benefit	27	36	1	1
		<b>1,288</b>	3,299	522
<b>OTHER COMPREHENSIVE INCOME - Net of tax</b>		<b>494</b>	2,506	2,378
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR - Net of tax</b>		<b>P7,563</b>	P16,593	P13,200
<b>Attributable to:</b>				
Equity holders of the Parent Company		<b>P6,570</b>	P14,772	P12,742
Non-controlling interests		<b>993</b>	1,821	458
		<b>P7,563</b>	P16,593	P13,200

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
(Amounts in Million Pesos)

	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Total		
<b>As of December 31, 2017</b>	P9,485	P19,653	P30,546	P15,160	P33,982	(P2,146)	(P3,025)	(P10,000)	P93,655	P6,964	P99,619	
Adjustment due to adoption of Philippine Financial Reporting Standard (PFRS) 9	-	-	-	-	42	-	-	-	42	(2)	40	
<b>As of January 1, 2018, as adjusted</b>	<b>9,485</b>	<b>19,653</b>	<b>30,546</b>	<b>15,160</b>	<b>34,024</b>	<b>(2,146)</b>	<b>(3,025)</b>	<b>(10,000)</b>	<b>93,697</b>	<b>5,962</b>	<b>99,659</b>	
Net loss on cash flow hedges - net of tax instruments	-	-	-	-	-	-	(77)	-	(77)	-	(77)	
Unrealized fair value losses on investments in debt instruments	-	-	-	-	-	-	(8)	-	(8)	-	(8)	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,231	-	1,231	141	1,372	
Equity reserve for retirement plan - net of tax	-	-	-	-	-	(794)	-	-	(794)	1	(793)	
Other comprehensive income (loss)	-	-	-	-	-	(794)	1,146	-	352	142	494	
Net income for the year	-	-	-	-	6,218	-	-	-	6,218	851	7,069	
Total comprehensive income (loss) for the year	-	-	-	-	6,218	(794)	1,146	-	6,570	993	7,563	
Cash dividends	21	-	-	-	(2,052)	-	-	-	(2,052)	(237)	(2,289)	
Distributions paid	21	-	-	-	(3,839)	-	-	-	(3,839)	-	(3,839)	
Redemption of undated subordinated capital securities	21	-	(30,546)	-	-	-	(9,223)	-	(39,769)	-	(39,769)	
Issuance of senior perpetual capital securities	21	-	24,881	-	-	-	-	-	24,881	-	24,881	
Acquisition of additional interest in a subsidiary	73	-	-	-	(20)	-	11	-	(9)	(11)	(20)	
Transactions with owners	-	-	(5,665)	-	(5,911)	-	(9,212)	-	(20,788)	(248)	(21,036)	
<b>As of December 31, 2018</b>	<b>P9,485</b>	<b>P19,653</b>	<b>P24,881</b>	<b>P15,160</b>	<b>P34,331</b>	<b>(P2,940)</b>	<b>(P11,091)</b>	<b>(P10,000)</b>	<b>P79,479</b>	<b>P6,707</b>	<b>P86,186</b>	

Forward

	Equity Attributable to Equity Holders of the Parent Company											
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings			Equity Reserves			Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total		
As of January 1, 2017		P9,485	P19,653	P30,546	P15,160	P26,851	(P1,345)	(P5,859)	(P10,000)	P84,491	P4,329	P88,820
Unrealized fair value loss on investments in debt instruments - net of tax		-	-	-	-	-	-	(3)	-	(3)	-	(3)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	2,838	-	2,838	465	3,303
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(804)	-	-	(804)	8	(796)
Share in other comprehensive income (loss) of an associate and a joint venture		-	-	-	-	-	3	(1)	-	2	-	2
Other comprehensive income (loss)		-	-	-	-	-	(801)	2,834	-	2,033	473	2,506
Net income for the year		-	-	-	-	12,739	-	-	-	12,739	1,348	14,087
Total comprehensive income (loss) for the year		-	-	-	-	12,739	(801)	2,834	-	14,772	1,821	16,593
Cash dividends	21	-	-	-	-	(1,584)	-	-	-	(1,584)	(186)	(1,770)
Distributions paid	21	-	-	-	-	(4,024)	-	-	-	(4,024)	-	(4,024)
Transactions with owners		-	-	-	-	(5,608)	-	-	-	(5,608)	(186)	(5,794)
As of December 31, 2017		P9,485	P19,653	P30,546	P15,160	P33,982	(P2,146)	(P3,025)	(P10,000)	P93,655	P5,964	P99,619

Forward

	Equity Attributable to Equity Holders of the Parent Company											
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings			Equity Reserves			Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total		
As of January 1, 2016		P9,485	P19,653	P30,546	P25,082	P16,630	(P3,204)	(P5,563)	(P10,000)	P82,629	P471	P83,100
Unrealized fair value loss on investments in debt instruments - net of tax		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	784	-	784	(261)	523
Equity reserve for retirement plan - net of tax		-	-	-	-	-	1,856	-	-	1,856	(3)	1,853
Share in other comprehensive income of an associate and a joint venture		-	-	-	-	-	3	-	-	3	-	3
Other comprehensive income (loss)		-	-	-	-	-	1,859	783	-	2,642	(264)	2,378
Net income for the year		-	-	-	-	10,100	-	-	-	10,100	722	10,822
Total comprehensive income for the year		-	-	-	-	10,100	1,859	783	-	12,742	458	13,200
Cash dividends	21	-	-	-	-	(1,584)	-	-	-	(1,584)	(168)	(1,752)
Distributions paid	21	-	-	-	-	(3,807)	-	-	-	(3,807)	-	(3,807)
Reversal of appropriations - net	21	-	-	-	(9,922)	9,922	-	-	-	-	-	-
Acquisition of additional interest in a subsidiary	13	-	-	-	-	-	-	(570)	-	(570)	570	-
Purchase of non-controlling interest in a subsidiary	13	-	-	-	-	-	-	(509)	-	(509)	(1,412)	(1,921)
Transfer from non-controlling interests		-	-	-	-	(4,410)	-	-	-	(4,410)	4,410	-
Transactions with owners		-	-	-	(9,922)	121	-	(1,079)	-	(10,880)	3,400	(7,480)
As of December 31, 2016		P9,485	P19,653	P30,546	P15,160	P26,851	(P1,345)	(P5,859)	(P10,000)	P84,491	P4,329	P88,820

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
(Amounts in Million Pesos)

	<i>Note</i>	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>P10,455</b>	P18,842	P14,378
Adjustments for:				
Depreciation and amortization	25	<b>11,543</b>	10,979	9,505
Interest expense and other financing charges	26	<b>9,689</b>	8,487	7,557
Retirement benefits costs	30	<b>523</b>	508	579
Share in net income of an associate	10	-	(63)	(66)
Interest income	26	<b>(706)</b>	(535)	(507)
Unrealized foreign exchange losses (gains) - net		<b>2,484</b>	(880)	529
Other losses (gains) - net		<b>(1,738)</b>	594	538
Operating income before working capital changes		<b>32,250</b>	37,932	32,513
Changes in noncash assets, certain current liabilities and others	33	<b>(15,616)</b>	(13,043)	4,550
Cash generated from operations		<b>16,634</b>	24,889	37,063
Contribution to retirement fund	30	<b>(1,068)</b>	(100)	(135)
Interest paid		<b>(9,035)</b>	(7,492)	(7,014)
Income taxes paid		<b>(1,980)</b>	(1,920)	(902)
Interest received		<b>496</b>	376	257
Net cash flows provided by operating activities		<b>5,047</b>	15,753	29,269
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	11	<b>(10,416)</b>	(13,142)	(19,122)
Proceeds from sale of property and equipment		<b>58</b>	1,195	336
Acquisition of investment property	12	<b>(852)</b>	-	-
Proceeds from sale of investment property		-	16	18
Increase in other noncurrent assets		<b>(79)</b>	(969)	(536)
Proceeds from disposal (acquisition) of:				
Investment in shares of stock of an associate	10	-	1,750	-
Investments in debt instruments		<b>148</b>	(61)	139
Net cash flows used in investing activities		<b>(11,141)</b>	(11,211)	(19,165)

Forward



	<i>Note</i>	2018	2017	2016
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from availment of loans	33	<b>P339,581</b>	P298,669	P226,360
Payments of:				
Loans	33	<b>(312,564)</b>	(298,199)	(230,924)
Cash dividends and distributions	21, 33	<b>(6,160)</b>	(5,773)	(5,537)
Issuance of senior perpetual capital securities	21	<b>24,881</b>	-	-
Redemption of undated subordinated capital securities	21	<b>(39,769)</b>	-	-
Acquisition of additional interest in a subsidiary	13	<b>(20)</b>	-	-
Purchase of non-controlling interest in a subsidiary	13	-	-	(1,921)
Increase (decrease) in other noncurrent liabilities		-	588	(3)
Net cash flows provided by (used in) financing activities		<b>5,949</b>	(4,715)	(12,025)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		<b>536</b>	(145)	372
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>391</b>	(318)	(1,549)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>17,014</b>	17,332	18,881
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	5	<b>P17,405</b>	P17,014	P17,332

See Notes to the Consolidated Financial Statements.

## PETRON CORPORATION AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Data, Exchange Rates and Commodity Volumes)

#### 1. Reporting Entity

Petron Corporation (the "Parent Company" or "Petron") was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the Parent Company's corporate term to December 22, 2066. The accompanying consolidated financial statements comprise the financial statements of Petron Corporation and Subsidiaries (collectively referred to as the "Group") and the Group's interests in an associate and joint ventures.

Petron is the leading oil refining and marketing company in the Philippines. Petron is committed to its vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates the Philippines' largest and most modern refinery in Bataan, with a rated capacity of 180,000 barrels a day. Petron's Integrated Management Systems (IMS) - certified refinery processes crude oil into a full range of world-class petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, and petrochemicals. From the refinery, Petron moves its products mainly by sea to more than 30 terminals strategically located across the country. Through this network, Petron supplies fuels to its service stations and various essential industries such as power-generation, transportation, manufacturing, agriculture, etc. Petron also supplies jet fuel at key airports to international and domestic carriers.

With over 2,400 service stations and hundreds of industrial accounts, Petron remains the leader in all the major segments of the market. Petron retails gasoline and diesel to motorists and public transport operators. Petron also sells its LPG brands "Gasul" and "Fiesta" to households and other industrial consumers through an extensive dealership network.

Petron sources its fuel additives from its blending facility in Subic Bay. This gives Petron the capability to formulate unique additives for Philippine driving conditions. It also has a facility in Mariveles, Bataan where the refinery's propylene production is converted into higher-value polypropylene resin.

In line with efforts to increase its presence in the regional market, Petron exports various products to Asia-Pacific countries. Today, Petron is one of the leading oil companies in Malaysia with an integrated business which includes an 88,000 barrel-per-day refinery, 10 terminals, and a network of over 600 service stations.

The Parent Company is a public company under Section 17.2 of Securities Regulation Code and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). As of December 31, 2018, the Parent Company's public float stood at 26.73%.

The intermediate parent company of Petron is San Miguel Corporation (SMC) while its ultimate parent company is Top Frontier Investments Holdings, Inc. Both companies are incorporated in the Philippines.

The registered office address of Petron is SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

## 2. Basis of Preparation

### Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 12, 2019.

### Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis of accounting except for the following which are measured on an alternative basis at each reporting date:

<u>Items</u>	<u>Measurement Bases</u>
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Investments in debt instruments at fair value through other comprehensive income (FVOCI)	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information presented in Philippine peso is rounded off to the nearest million (P000,000), except when otherwise indicated.

### Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. These subsidiaries are:

Name of Subsidiary	Percentage of Ownership		Country of Incorporation
	2018	2017	
Overseas Ventures Insurance Corporation Ltd. (Ovincor)	100.00	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	100.00	100.00	Philippines
Petron Freeport Corporation (PFC)	100.00	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	100.00	100.00	Singapore
Petron Marketing Corporation (PMC)	100.00	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	85.55	40.00	Philippines
Limay Energen Corporation (LEC)	100.00	100.00	Philippines
Petron Global Limited (PGL)	100.00	100.00	British Virgin Islands
Petron Finance (Labuan) Limited (PFL)	100.00	100.00	Malaysia
Petron Oil and Gas Mauritius Ltd. (POGM) and Subsidiaries	100.00	100.00	Mauritius
Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries	100.00	100.00	Hong Kong

Petrogen and Ovincor are both engaged in the business of non-life insurance and re-insurance.

The primary purpose of PFC and PMC is to, among others, sell on wholesale or retail and operate service stations, retail outlets, restaurants, convenience stores and the like.

PSTPL's principal activities are those relating to the procurement of crude oil, ethanol, catalysts, additives, coal and various petroleum finished products; crude vessel chartering and commodity risk management.

NVRC's primary purpose is to acquire real estate and derive income from its sale or lease.

As of December 31, 2018 and 2017, NVRC owns 100% of Las Lucas Construction and Development Corporation (LLCDC), Parkville Estates & Development Corporation (PEDC), South Luzon Prime Holdings, Inc. (SLPHI), Abreco Realty Corporation (ARC) and 60% of Mariveles Landco Corporation (MLC). As of December 31, 2017, NVRC also owns 100% of MRGVeloso Holdings, Inc. (MHI) which was merged with LLCDC as approved by the SEC on May 10, 2018 (Note 13).

The primary purpose of LEC is to build, operate, maintain, sell and lease power generation plants, facilities, equipment and other related assets and engage in the business of power generation.

PGL is a holding company incorporated in the British Virgin Islands.

POGM is a holding company incorporated under the laws of Mauritius. POGM owns an offshore subsidiary Petron Oil and Gas International Sdn. Bhd. (POGI).

As of December 31, 2018 and 2017, POGI owns 73.4% of Petron Malaysia Refining & Marketing Bhd (PMRMB) and 100% of both Petron Fuel International Sdn Bhd (PFISB) and Petron Oil (M) Sdn Bhd (POMSB), collectively hereinafter referred to as "Petron Malaysia".

Petron Malaysia is involved in the refining and marketing of petroleum products in Malaysia.

PFL is a holding company incorporated under the laws of Labuan, Malaysia.

PAHL is a holding company incorporated in Hong Kong in March 2008. As of December 31, 2018 and 2017, PAHL owns 100% of Robinsons International Holdings Limited (RIHL) which owns 100% of Philippine Polypropylene, Inc. (PPI) and 40% of MLC.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights. For NVRC and PAHL, the basis of consolidation is discussed in Note 4.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Parent Company in NVRC and PMRMB in 2018 and 2017.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income (OCI) to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, except for the changes in accounting policies as explained below.

Certain comparative amounts in the consolidated statements of financial position and consolidated statements of comprehensive income have been reclassified or re-presented, either as a result of changes in the presentation of items or changes in the classification of certain accounts during the current year.

#### Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Group has adopted the following new or revised standards, amendments to standards and interpretations starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements:

- *PFRS 9 Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39 *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013).

PFRS 9 includes revised guidance on the classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group has applied the requirements of PFRS 9 cumulatively and has not restated the comparative information. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the expected credit loss model in estimating impairment which resulted to the decrease in the allowance for impairment of receivables and non-controlling interests amounting to P60, before tax, and P2, respectively, and increase in retained earnings by P42 as of January 1, 2018 (Note 8).

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group's financial assets as of January 1, 2018. The effect of adopting PFRS 9 on the carrying amounts of financial assets as of January 1, 2018 relates solely to the new impairment requirements.

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	P17,014	P17,014
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	38,159	38,219
Derivative assets not designated as cash flow hedge	Financial assets at FVPL	Financial assets at FVPL	165	165
Proprietary membership shares	Financial assets at FVPL	Financial assets at FVPL	171	171
Investments in debt instruments	Available-for-sale (AFS) financial assets	Financial assets at FVOCI	330	330
Investments in debt instruments	AFS financial assets	Financial assets at amortized cost	201	201
Noncurrent receivables and deposits	Loans and receivables	Financial assets at amortized cost	318	318

The change in the classification of investment in debt instruments from AFS financial assets to financial assets at amortized cost did not have a material impact on the carrying amount of the financial asset as of January 1, 2018. The change in fair value that would have been recognized in OCI in 2018 if the financial asset had not been recognized is immaterial.

- Applying PFRS 9 Financial Instruments with PFRS 4 *Insurance Contracts (Amendments to PFRS 4)*. The amendments permit to defer application of PFRS 9 in 2018 and continue to apply PAS 39 *Financial Instruments: Recognition and Measurement* if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021.

The amendments also provide an overlay approach to presentation when applying PFRS 9 for designated financial assets where an entity is permitted to reclassify between profit or loss and OCI the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

- PFRS 15 *Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*.

The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the Group expects to be entitled.

PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer.

The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. Except for the required disclosure, the adoption of the new standard has no material impact on the Group's consolidated financial statements (Note 37).

- *Transfers of Investment Property (Amendments to PAS 40 Investment Property)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.
- *Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration.* The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.
- *Annual Improvements to PFRS Cycles 2014 - 2016* contain changes to three standards, of which only the *Amendments to PAS 28 Investments in Associates and Joint Venture* on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at FVPL. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.



### New and Amended Standards, Interpretation and Framework Not Yet Adopted

A number of new and amended standards, interpretation and framework are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

The Group will adopt the following new and amended standards, interpretation and framework on the respective effective dates:

#### *To be Adopted 2019*

- *PFRS 16 Leases* supersedes *PAS 17 Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. 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 Group is currently performing its initial assessment of the impact of adopting PFRS 16 on its consolidated financial statements using Modified Retrospective Approach. The option elected allows the Group to recognize lease liabilities at the present value of outstanding lease obligations at transition date, to recognize corresponding right-of-use assets based on carrying amounts as if the standard has been applied from the beginning of the lease term, and to charge any difference to retained earnings. The option also allows the Group to use its incremental borrowing rate of 5.99% to 8.10% at transition date in determining the present value of lease obligations.

Based on the initial assessment, as of January 1, 2019, the Group is to set up right-of-use assets, recognize corresponding lease liabilities and charge retained earnings for the difference. Prepaid leases are also to be reclassified to right-of-use assets. The resulting right-of-use assets would include leases, which meet the definition of investment property, and would subsequently be reclassified to investment property in 2019.

The actual impact of applying PFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate of the Group as of January 1, 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

- *Philippine Interpretation IFRIC 23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The interpretation can be initially applied retrospectively applying PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

- *Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28 Investments in Associates)*. The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9).* The amendments cover the following areas: (a) Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits).* The amendments clarify that: (a) current service cost and net interest for the period are determined using the actuarial assumptions when amendment, curtailment or settlement occurs; and (b) the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI.

The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which the amendments are first applied, with earlier application permitted.

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- *Annual Improvements to PFRS Cycles 2015 – 2017.* This cycle of improvements contain changes to three standards:
  - *Previously Held Interest in a Joint Operation (Amendments to PFRS 3 Business Combinations and PFRS 11 Joint Arrangements).* The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

- *Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12 Income Taxes).* The amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, OCI or equity.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

- *Borrowing Costs Eligible for Capitalization (Amendments to PAS 23 Borrowing Costs)*. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The amendments are applied to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies the amendments.

#### *To be Adopted 2020*

- *Amendments to References to Conceptual Framework* in PFRS Standards sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- *Definition of a Business (Amendments to PFRS 3 Business Combinations)*. The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:
  - confirmed that a business must include inputs and a process, and clarified that:
    - the process must be substantive; and
    - the inputs and process must together significantly contribute to creating outputs;

- narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements, and PAS 8)* refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general-purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

#### *To be Adopted 2021*

- PFRS 17 *Insurance Contracts* replaces the interim standard, PFRS 4 *Insurance Contracts*. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:
  - (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
  - (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
  - (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in OCI.

Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2021. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 Financial Instruments and PFRS 15 Revenue from Contracts with Customers on or before the date of initial application of PFRS 17.

#### Deferral of the local implementation of Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 Consolidated Financial Statements, and PAS 28)*. The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB 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.

### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and non-current classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within twelve months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is current when: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is due to be settled within twelve months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

### Financial Assets and Financial Liabilities

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction costs.

*'Day 1' Profit.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

*Classification and Subsequent Measurement. Policy Applicable from January 1, 2018*

### Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at FVOCI and financial assets at FVPL. The classification depends on the business model of the Group for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

*Financial Assets at Amortized Cost.* A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, investments in debt instruments, and noncurrent receivables and deposits are included under this category.

*Financial Assets at FVOCI.* Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in OCI. This election is made on an instrument-by-instrument basis.

After initial measurement, financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in OCI.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in profit or loss. When investment in debt instruments at FVOCI is derecognized the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in profit or loss.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in profit or loss when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to profit or loss.

The Group's investments in debt instruments are classified under this category.



*Financial Assets at FVPL.* All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative assets not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, a financial asset may be irrevocably designated as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Changes in fair value and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in OCI. Any interest earned from investment in debt instrument is recognized in profit or loss. Any dividend income from investment in equity instrument is recognized in profit or loss when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of investment.

The Group's derivative assets not designated as cash flow hedge and investments in proprietary membership shares are classified under this category.

*Classification and Subsequent Measurement. Policy Applicable before January 1, 2018*

*Financial Assets*

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and Held to Maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

*Financial Assets at FVPL.* A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group uses commodity price swaps to protect its margin on petroleum products from potential price volatility of international crude and product prices. It also enters into short-term forward currency contracts to hedge its currency exposure on crude oil importations. In addition, the Parent Company has identified and bifurcated embedded foreign currency derivatives from certain non-financial contracts.

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the consolidated statements of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Unrealized gains and losses from changes in fair value of forward currency contracts, commodity price swaps and embedded derivatives are recognized under "Other expenses - net" in the consolidated statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized as part of "Cost of goods sold" in the consolidated statements of income.

The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current exchange rates for contracts with similar maturity profiles. The fair values of commodity swaps are determined based on quotes obtained from counterparty banks.

The Group's derivative assets and proprietary membership shares are classified under this category.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables, due from related parties, long-term receivables and noncurrent deposits are included under this category.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in OCI and presented in the consolidated statements of changes in equity. The effective yield component of AFS debt instruments is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investment in equity and debt instruments included under "Available-for-sale financial assets" account are classified under this category.

*HTM Investments.* HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial recognition, these investments are measured at amortized cost using the effective interest method, less impairment in value. Any interest earned on the HTM investments is recognized as part of "Interest income" account in the separate statements of comprehensive income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the separate statements of comprehensive income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired.

#### Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

*Financial Liabilities at FVPL.* Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss.

The Group's derivative liabilities are classified under this category.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Group's liabilities arising from its short-term loans, liabilities for crude oil and petroleum products, trade and other payables, long-term debt, cash bonds, cylinder deposits and other noncurrent liabilities are included under this category.

#### Derecognition of Financial Assets and Financial Liabilities

*Financial Assets.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

*Impairment of Financial Assets. Policy Applicable from January 1, 2018*

#### Impairment of Financial Assets

The Group recognizes allowance for impairment losses on receivables, other financial assets at amortized cost and investments in debt instruments at FVOCI.

Expected credit losses (ECLs) are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime ECL for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Financial assets are written off when identified to be worthless after exhausting all collection efforts.

*Impairment of Financial Assets. Policy Applicable before January 1, 2018*

Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

*AFS Financial Assets.* For equity instruments carried at fair value, the Group assesses at each reporting date whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

#### Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

### Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

### Derivative Financial Instruments and Hedge Accounting

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Changes in fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

*Freestanding Derivatives.* The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

*Cash Flow Hedge.* When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in OCI is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and deferred in OCI. The cost of hedging is removed from OCI and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects profit or loss if the hedge is transaction related.



When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is retained until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the cost of non-financial item on initial recognition or, for other cash flow hedges, it is reclassified to profit or loss as a reclassification adjustment in the same period or periods as the hedged cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

*Embedded Derivatives.* The Group assess whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if the host contract is not a financial asset and all of the following conditions are met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

#### Inventories

Inventories are carried at the lower of cost or net realizable value (NRV). For petroleum products and crude oil, the NRV is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

For financial reporting purposes, the Group uses the first-in, first-out method in costing petroleum products and crude oil. Cost is determined using the moving-average method in costing lubes and greases, blending components, polypropylene, materials and supplies inventories. For income tax reporting purposes, cost of all inventories is determined using the moving-average method.

For financial reporting purposes, duties and taxes related to the acquisition of inventories are capitalized as part of inventory cost. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

### Business Combination

Business combinations are accounted for using the acquisition method as of the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair values and any resulting gain or loss is recognized in profit or loss.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

*Goodwill in a Business Combination.* Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

*Intangible Assets Acquired in a Business Combination.* The cost of an intangible asset acquired in a business combination is the fair value as of the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in profit or loss.

#### Business Combinations under Common Control

The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflect the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

### Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

### Investment in Shares of Stock of an Associate

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but not control over those policies.

The Group's investment in shares of stock of an associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in the profit or loss of the associate is recognized as "Share in net income of an associate" account in the Group's consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's OCI. The Group's share of those changes is recognized in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. Such impairment loss is recognized as part of "Share in net income of an associate" account in the consolidated statements of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in shares of stock of an associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

### Interest in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI) and 50.00% joint venture interest in Terminal Bersama Sdn Bhd (TBSB), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, are accounted for under the equity method of accounting. The interest in joint ventures is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in net income (loss) of the joint ventures, less any impairment in value. The consolidated statements of income reflect the Group's share in the results of operations of the joint ventures presented as part of "Other expenses" account. As of December 31, 2018, the Group has capital commitments amounting to P2 and nil for TBSB and PDSI, respectively. The Group has no contingent liabilities in relation to its interest in these joint ventures.

Results of operations as well as financial position balances of PDSI and TBSB were less than 1% of the consolidated balances of the Group and as such are assessed as not material; hence, not separately disclosed.

#### Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as an expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, depreciation and amortization, which commences when the assets are available for its intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Buildings and improvements and related facilities	7 - 50
Refinery and plant equipment	4 - 33
Service stations and other equipment	2 - 33
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

For financial reporting purposes, duties and taxes related to the acquisition of property, plant and equipment are capitalized. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

For income tax reporting purposes, depreciation and amortization are computed using the double-declining balance method.

The remaining useful lives and depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such useful lives and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement or disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

#### Investment Property

Investment property consists of buildings and improvements and land and leasehold improvements held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost which is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire the investment property at the time of its acquisition or construction. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

For financial reporting purposes, depreciation of investment property is computed on a straight-line basis over the estimated useful lives of the assets similar to property, plant and equipment. For income tax reporting purposes, depreciation is computed using the double-declining balance method.

The useful lives and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

	<u>Number of Years</u>
Buildings and improvements	7 - 50
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as of the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization periods and amortization method used for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Software	5 - 10
Franchise fee	3 - 10
Other intangibles	10 - 16

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

As of December 31, 2018 and 2017, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and two flames, Powerburn 2T and Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after creator's death.

The amount of intangible assets is included as part of "Other noncurrent assets - net" in the consolidated statements of financial position.

Expenses incurred for research and development of internal projects and internally developed patents and copyrights are expensed as incurred and are part of "Selling and administrative expenses" account in the consolidated statements of income.

#### Asset Held for Sale

The Group classifies noncurrent assets as held for sale, if their carrying amounts will be recovered primarily through sale rather than through continuing use. The assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes will be made or that the decision on sale will be withdrawn. Management must be committed to the sale within one year from date of classification.

Equity accounting of equity-accounted investees ceases once classified as held for sale.

Assets held for sale are presented under "Other current assets" account in the consolidated statements of financial position.

#### Impairment of Nonfinancial Assets

The carrying amounts of property, plant and equipment, investment property, intangible assets with finite useful lives, investment in shares of stock of an associate and interest in joint ventures are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. The fair value less costs of disposal is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.



### Cylinder Deposits

The Parent Company purchases LPG cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 80% of the acquisition cost of the cylinders.

The Parent Company maintains the balance of cylinder deposits at an amount equivalent to three days' worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in profit or loss.

### Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy, as explained above.

### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

The Group recognizes provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property, plant and equipment and restoring the site where it is located, the obligation for which the Group incurs either when the asset is acquired or as a consequence of using the asset during a particular year for purposes other than to produce inventories during the year.

### Capital Stock

*Common Shares.* Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects and any excess of the proceeds over the par value of shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

*Preferred Shares.* Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

### Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

### Treasury Stock

Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

### Capital Securities

*Undated Subordinated Capital Securities (USCS)* are classified as equity instruments in the consolidated financial statements since there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or liabilities with another person or entity that is potentially unfavorable to the issuer (Note 21).

*Senior Perpetual Capital Securities (SPCS)* are classified as equity instruments in the consolidated financial statements since SPCS are perpetual securities in respect of which there is no fixed redemption date and the redemption is at the option of the Parent Company. Also, the Parent Company has the sole and absolute discretion to defer payment of any or all of the distribution (Note 21).

Incremental costs directly attributable to the issuance of capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to capital securities.

### Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

### Revenue Recognition

The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Goods.* Revenue is recognized at the point in time when control of petroleum and related products is transferred to the customer, which is normally upon delivery of the goods. The Group provides trade discounts and volume rebates to certain customers based on the level of their purchases which may be applied against the amount of their existing or future payables to the Group. Trade discounts and volume rebates do not result to significant variable consideration and are generally being determined based on concluded sales transactions as at the end of each month. The general payment terms with customers are combination of prepayments and credit terms on an average of 45 days from invoice date.

The Group identified several performance obligations related to the sale of goods and accounted for them separately:

- *Use of Loaned Equipment.* The Group provides equipment such as pumps, tanks, signage and other ancillary equipment necessary for the operation of the business. These are loaned to the customers for the duration of the contract for the sole purpose of storing, handling and selling our products and shall, at all times, remain the property of Petron. The Group allocates portion of the revenue to the use of loaned equipment based on adjusted market assessment approach. Lease revenue from the use of loaned equipment is contingent to, and recognized at the same time as, the sale of goods.
- *Provisions of Technical Support.* The Group provides technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs. Revenue is recognized upon rendering of services to the customer. The Group allocates portion of the revenue to the technical support based on expected cost plus a margin approach.

*Consumer Loyalty Program.* Revenue is allocated between the consumer loyalty program and the other component of the sale. This allocation is based on the relative stand-alone selling price of the points. The amount allocated to the consumer loyalty program is deducted from revenue at the time points are awarded to the consumer. A deferred liability account is set up until the Group has fulfilled its obligations to supply the discounted products under the terms of the program or when it is no longer probable that the points under the program will be redeemed.

*Service Income.* Revenue is recognized when the performance of contractually agreed task has been rendered and control over the services has been transferred to the customer. General payment terms is on an average of 45 days from invoice date.

*Interest.* Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

*Dividend.* Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

*Rent.* Revenue from operating leases (net of any incentives given to the lessees), other than from the use of loaned equipment, is recognized on a straight-line basis over the lease term.

*Other Income.* Other income is recognized when there is incidental economic benefit, other than the usual business operations, that will flow to the Group and that can be measured reliably.

#### Cost and Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

*Group as Lessee.* Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

*Group as Lessor.* Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

### Research and Development Costs

Research costs are expensed as incurred. Product development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

### Employee Benefits

*Short-term Employee Benefits.* Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Retirement Benefits Costs and Other Employee Benefit Costs.* Petron has a tax qualified and funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Some of its subsidiaries have separate unfunded, noncontributory, retirement plans.

The Group's net retirement benefits liability is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit retirement obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

Remeasurements of the net defined retirement obligation or asset, excluding net interest, are recognized immediately in OCI under "Equity reserve for retirement plan". Such remeasurements are also immediately recognized in equity under "Equity reserves" and are not reclassified to profit or loss in subsequent periods. Net defined retirement benefit obligation or asset comprise actuarial gains and losses, the return on plan assets, excluding interest and the effect of the asset ceiling, if any. The Group determines the net interest expense or income on the net defined retirement obligation or asset for the period by applying the discount rate used to measure the defined benefit retirement obligation at the beginning of the annual period to the then-net defined retirement obligation or asset, taking into account any changes in the net defined benefit retirement obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

The Group also provides other benefits to its employees as follows:

*Corporate Performance Incentive Program.* The Group has a corporate performance incentive program that aims to provide financial incentives for the employees, contingent on the achievement of the Group's annual business goals and objectives. The Group recognizes achievement of its business goals through key performance indicators (KPIs) which are used to evaluate performance of the organization. The Group recognizes the related expense when the KPIs are met, that is when the Group is contractually obliged to pay the benefits.

*Savings Plan.* The Group established a Savings Plan wherein eligible employees may apply for membership and have the option to contribute 5% to 15% of their monthly base pay. The Group, in turn, contributes an amount equivalent to 50% of the employee-member's contribution. However, the Group's 50% share applies only to a maximum of 10% of the employee-member's contribution. The Savings Plan aims to supplement benefits upon employees' retirement and to encourage employee-members to save a portion of their earnings. The Group accounts for this benefit as a defined contribution pension plan and recognizes a liability and an expense for this plan as the expenses for its contribution fall due. The Group has no legal or constructive obligations to pay further contributions after payments of the equivalent employer-share. The accumulated savings of the employees plus the Group's share, including earnings, will be paid in the event of the employee's: (a) retirement, (b) resignation after completing at least five years of continuous services, (c) death, or (d) involuntary separation not for cause.

*Land/Home Ownership Plan.* The Group established the Land/Home Ownership Plan, an integral part of the Savings Plan, to extend a one-time financial assistance to Savings Plan members in securing housing loans for residential purposes.

#### Foreign Currency

*Foreign Currency Translations.* Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the translation of financial assets at FVOCI, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in OCI.

*Foreign Operations.* The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in OCI, and presented in the "Other reserves" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in OCI, and presented in the "Other reserves" account in the consolidated statements of changes in equity.

#### Taxes

*Current Tax.* Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

*Deferred Tax.* Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and



- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Value-added Tax (VAT).* Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Trade and other payables" accounts in the consolidated statements of financial position.

### Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

### Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of capital securities, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to owners of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive debt or equity instruments.

### Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 37 to the consolidated financial statements. The Chief Executive Officer (the "chief operating decision maker") reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

### Events After the Reporting Date

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

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#### 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

##### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Determining Functional Currency.* The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates. It is the currency that mainly influences the sales price of goods and services and the costs of providing these goods and services.

*Operating Lease Commitments - Group as Lessor/Lessee.* The Group has entered into various lease agreements either as lessor or lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P1,403, P1,243 and P1,139 in 2018, 2017 and 2016, respectively (Notes 23 and 26). Revenues from the customers' use of loaned equipment amounted to P1,117 in 2018 (Note 37).

Rent expense recognized in the consolidated statements of income amounted to P1,806, P1,702 and P1,293 in 2018, 2017 and 2016, respectively (Notes 22 and 23).

*Determining Whether the Group is acting as a Principal or Agent in a Revenue Transaction.* The determination whether the Group is a principal or agent in a contract is made by identifying each specified goods or services promised to the customers in the contract and evaluating whether the Group obtains control of the specified goods and services before it is transferred to the customer.

For the sale of petroleum products to dealers, the Group transfers the control of the goods upon delivery, hence, the Group has determined that it is acting as principal in the sales transactions with dealers. The dealers are likewise acting as principal in the sales transactions to end consumers on the basis of the following: (a) the dealers have the primary responsibility to provide specified goods to the end consumers; (b) the dealers bear inventory risk before the goods are transferred to end consumers; and (c) the dealers have discretion to establish prices for specified goods.

For the Group's fleet card transactions, the Group has likewise determined that it is acting as principal in the sales transactions with the customers since the Group has the primary responsibility for providing goods purchased through fleet cards and the Group has discretion to establish prices for specified goods in a fleet card transaction.

*Identification of Distinct Performance Obligation.* The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The Group has determined that it has distinct performance obligations other than the sale of petroleum products such as the provision of technical support and lease of equipment to its customers and allocates the transaction price into these several performance obligations.

*Evaluating Control over its Investees.* Determining whether the Parent Company has control in an investee requires significant judgment. Although the Parent Company owns less than 50% of the voting rights of NVRC and PAHL, even before the Parent Company acquired the remaining equity interest in PAHL in 2016 and increased its equity interest in NVRC to 85.55% in 2018 (Note 13), management has determined that the Parent Company controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Parent Company has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Parent Company controls NVRC since it is exposed, and has rights, to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Parent Company assessed it has control over PAHL, even prior to the Parent Company's acquisition of the remaining equity interest in 2016, by virtue of the extent of the Parent Company's participation in the BOD and management of PAHL, of which the Parent Company established it has: (i) power over PAHL, (ii) it is exposed and has rights to variable returns from its involvement with PAHL, and (iii) it has ability to use its power over PAHL to affect the amount of PAHL's returns. Accordingly, the Parent Company considered PAHL a subsidiary beginning January 1, 2013. As of December 31, 2018 and 2017, the Parent Company owns 100% of PAHL.

*Classification of Financial Instruments.* The Group exercises judgment in classifying financial instruments in accordance with PFRS 9. The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group exercises judgment in classifying financial instruments in accordance with PFRS 9. The Group determines the classification at initial recognition. The classification and fair values of financial assets and financial liabilities are presented in Note 35.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics.

*Business Model.* The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future salary activity.

*Cash Flow Characteristics - Payments of Principal and Interest.* For the purposes of this assessment, "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basis lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet these conditions. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

The Group determines that the business model for financial assets at amortized cost is held to collect contractual cash flows and meets the solely principal and interest criterion as of December 31, 2018. Other financial assets are classified as financial assets at FVPL or FVOCI based on the characteristics of the contractual cash flows of the instruments.

*Distinction between Property, Plant and Equipment and Investment Property.* The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

*Determining Impairment Indicators of Other Non-financial Assets.* PFRS requires that an impairment review be performed on property, plant and equipment, investment in shares of stock of an associate and interest in joint ventures, investment property and intangible assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on financial performance.

*Determining whether an Arrangement Contains a Lease.* The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change of contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; and
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*Taxes.* Significant judgment is required in determining current and deferred tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax expenses in the year in which such determination is made.

Beginning July 2008, in the determination of the Group's current taxable income, entities within the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. Entities within the Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2018, 2017 and 2016, majority of the entities within the Group opted to continue claiming itemized standard deductions except for Petrogen and certain subsidiaries of NVRC such as LLCDC and PEDC, as they opted to apply OSD. Starting 2017, certain subsidiaries of NVRC such as MLC, SLPHI and MHI also opted to apply OSD (Note 27).

*Contingencies.* The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

#### Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

*Assessment for ECL on Trade and Other Receivables.* The Group, applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other receivables. The Group also uses appropriate groupings if its historical credit loss experience show significantly different loss patterns for different customer segments. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer segment to reflect the effects of current and forecasted economic conditions.

The Group adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment. The Group regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience. The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate.

The Group has assessed that the forward-looking default rate component of its ECL on trade and other receivables is not material because substantial amount of receivables are normally collected within one year. Moreover, based on Management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade receivables.

Impairment losses on trade and other receivables amounted to P261, P10 and P68 in 2018, 2017 and 2016, respectively (Notes 8 and 23). Receivables written-off amounted to P68 in 2018, P89 in 2017 and P97 in 2016 (Note 8).

The carrying amount of trade and other receivables amounted to P42,497 and P38,159 as of December 31, 2018 and 2017, respectively (Note 8).

*Assessment for ECL on Other Financial Assets at Amortized Cost.* The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks, the Government of the Philippines and companies with good credit standing and relatively low risk of defaults. Accordingly, no impairment losses on other financial assets at amortized cost was recognized in 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	<i>Note</i>	<b>2018</b>	2017
Cash in banks and cash equivalents	5	<b>P14,143</b>	P14,313
Investments in debt instruments	7	<b>226</b>	-
Long-term receivables - net	14	<b>253</b>	228
Noncurrent deposits	14	<b>94</b>	90
		<b>P14,716</b>	P14,631



*Accounting Policy Applicable before January 1, 2018*

*Allowance for Impairment Losses on Trade and Other Receivables.* Allowance for impairment is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of receivables, designed to identify potential changes to allowance, is performed regularly throughout the year. Specifically, in coordination with the Trade Sales divisions, the Finance Division ascertains customers who are unable to meet their financial obligations. In these cases, the Group's management uses sound judgment based on the best available facts and circumstances including but not limited to, the length of relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience. The amount of impairment loss differs for each year based on available objective evidence for which the Group may consider that it will not be able to collect some of its accounts. Impaired accounts receivable are written off when identified to be worthless after exhausting all collection efforts. An increase in allowance for impairment of trade and other receivable would increase the Group's recorded selling and administrative expenses and decrease current assets.

*Net Realizable Values of Inventories.* In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P63,873 and P56,604 as of the end of 2018 and 2017, respectively (Note 9), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

The Group recognized inventory write-down in 2018 amounting to P742 while nil in 2017 and 2016 (Note 9).

*Allowance for Inventory Obsolescence.* The allowance for inventory obsolescence consists of collective and specific valuation allowance. A collective valuation allowance is established as a certain percentage based on the age and movement of stocks. In case there is write-off or disposal of slow-moving items during the year, a reduction in the allowance for inventory obsolescence is made. Review of allowance is done every quarter, while a revised set-up or booking is posted at the end of the year based on evaluations or recommendations of the proponents. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

In 2018, 2017 and 2016, the Group provided an additional loss on inventory obsolescence amounting to nil, P81 and P327, respectively (Note 9).

*Fair Values of Financial Assets and Financial Liabilities.* The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (e.g., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Fair values of financial assets and financial liabilities are discussed in Note 35.

*Estimated Useful Lives of Property, Plant and Equipment, Intangible Assets with Finite Useful Lives and Investment Property.* The Group estimates the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property would increase recorded cost of goods sold and selling and administrative expenses and decrease noncurrent assets.

There is no change in estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on management's review at the reporting date.

Accumulated depreciation and amortization of property, plant and equipment, intangible assets with finite useful lives and investment property amounted to P95,101 and P85,204 as of December 31, 2018 and 2017, respectively (Notes 11, 12 and 14). Property, plant and equipment, net of accumulated depreciation, amounted to P163,984 and P177,690 as of December 31, 2018 and 2017, respectively (Note 11). Investment property, net of accumulated depreciation, amounted to P16,536 and P75 as of December 31, 2018 and 2017, respectively (Note 12). Intangible assets with finite useful lives, net of accumulated amortization, amounted to P138 and P162 as of December 31, 2018 and 2017, respectively (Note 14).

*Fair Value of Investment Property.* The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be sold, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering: (a) the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation; or (b) the depreciated replacement cost of the asset, which estimates the current replacement cost of new assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

Estimated fair values of investment property amounted to P30,420 and P162 as of December 31, 2018 and 2017, respectively (Note 12).

*Impairment of Goodwill.* The Group determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The recoverable amount of goodwill arising from the acquisition of Petron Malaysia has been determined based on the value in use using discounted cash flows (DCF). Assumptions used in the DCF include terminal growth rate of 3.0% in 2018 and 2017 and discount rates of 7.4% and 6.3% in 2018 and 2017, respectively (Note 13).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

No impairment losses were recognized in 2018, 2017 and 2016 in relation to the goodwill arising from the acquisition of Petron Malaysia which accounts for almost 99% of goodwill in the consolidated statements of financial position as of December 31, 2018 and 2017.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other expenses - net" in the 2016 consolidated statement of income (Notes 13 and 26).

*Realizability of Deferred Tax Assets.* The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carry forward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P257 and P207 as of December 31, 2018 and 2017, respectively (Note 27).

*Present Value of Defined Benefit Retirement Obligation.* The present value of defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 30 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement benefits liability.

Other key assumptions for retirement benefits liability are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement benefits liability.

Retirement benefits costs recognized in profit or loss amounted to P523, P508 and P579 in 2018, 2017 and 2016, respectively. Remeasurement gains (losses) of the net defined retirement obligation recognized in OCI amounted to (P1,133), (P1,142) and P2,647 in 2018, 2017 and 2016, respectively. The retirement benefits liability amounted to P2,500 and P4,989 as of December 31, 2018 and 2017, respectively (Note 30).

*Asset Retirement Obligation (ARO).* The Group has ARO arising from the refinery, leased service stations, terminals and blending plant. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 7.542% to 8.295% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P3,592 and P2,681 as of December 31, 2018 and 2017, respectively (Note 19).

## 5. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	<b>2018</b>	2017
Cash on hand		<b>P3,262</b>	P2,701
Cash in banks		<b>5,026</b>	4,106
Short-term placements		<b>9,117</b>	10,207
	<b>34, 35</b>	<b>P17,405</b>	P17,014

Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn annual interest at the respective short-term placement rates ranging from 0.20% to 7.00% in 2018, 0.05% to 4.50% in 2017 and 0.03% to 4.50% in 2016 (Note 26).

## 6. Financial Assets at Fair Value

This account consists of:

	<i>Note</i>	<b>2018</b>	2017
Proprietary membership shares		<b>P254</b>	P171
Derivative assets not designated as cash flow hedge		<b>857</b>	165
Derivative assets designated as cash flow hedge		<b>222</b>	-
	<b>34, 35</b>	<b>1,333</b>	336
Less noncurrent portion	<b>14</b>	<b>207</b>	-
		<b>P1,126</b>	P336

The fair values presented have been determined directly by reference to published market prices, except for derivative assets which are based on inputs other than quoted prices that are observable (Note 35).

The noncurrent portion pertains to derivative assets designated as cash flow hedge due after 12 months, which is included in "Other noncurrent assets - net" account in the consolidated statements of financial position (Note 14).

Changes in fair value of assets at FVPL recognized in profit or loss in 2018, 2017 and 2016 amounted to P84, P14 and P10, respectively (Note 26) while changes in fair value of derivative assets designated as cash flow hedge was recognized in OCI.

## 7. Investments in Debt Instruments

This account consists of:

	<b>Note</b>	<b>2018</b>	2017
Government securities		<b>P196</b>	P201
Other debt instruments		<b>182</b>	330
	<i>34, 35</i>	<b>378</b>	531
Less current portion		<b>40</b>	199
		<b>P338</b>	P332

Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 3.88% to 7.02% in 2018, 2.13% to 5.30% in 2017 and 2.13% to 7.75% in 2016 (Note 26).

Ovincor's outstanding corporate bond as of December 31, 2017 is maintained at the Bank of N. T. Butterfield and carried at fair value with fixed annual interest rate of 6.75% (Note 26). The breakdown of investments in debt instruments by contractual maturity dates as of December 31 follows:

	<b>Note</b>	<b>2018</b>	2017
Due in one year or less		<b>P40</b>	P199
Due after one year through six years		<b>338</b>	332
	<i>34, 35</i>	<b>P378</b>	P531

The breakdown of investments in debt instruments by classification and measurement as of December 31 follows:

	<b>Note</b>	<b>2018</b>	2017
Financial assets at FVOCI		<b>P152</b>	P531
Financial assets at amortized cost		<b>226</b>	-
	<i>34, 35</i>	<b>P378</b>	P531

The reconciliation of the carrying amounts of investments in debt instruments as of December 31 follows:

	<i>Note</i>	2018	2017
<b>Financial Assets at FVOCI</b>			
Balance as of January 1, 2018		P531	P479
Reclassification to financial assets at amortized cost		(201)	-
Balance as of January 1, 2018, as adjusted		330	479
Additions		-	131
Disposals		(173)	(70)
Amortization of premium		(2)	(5)
Unrealized fair value losses on assets at FVOCI		(10)	(4)
Currency translation adjustment		7	-
Balance as of December 31, 2018		152	531
<b>Financial Assets at Amortized Cost</b>			
Balance as of January 1, 2018		-	-
Reclassification from AFS		201	-
Balance as of January 1, 2018, as adjusted		201	-
Additions		55	-
Disposal		(30)	-
Balance as of December 31, 2018		226	-
	34, 35	P378	P531

## 8. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2018	2017
Trade	34	P27,136	P26,199
Related parties - trade	28, 34	1,970	726
Allowance for impairment loss on trade receivables		(1,104)	(776)
		28,002	26,149
Government		10,456	6,151
Related parties - non-trade	28	2,435	5,273
Others		1,837	991
Allowance for impairment loss on non-trade receivables		(233)	(405)
		14,495	12,010
	34, 35	P42,497	P38,159

Trade receivables are non-interest bearing and are generally on a 45-day term. Penalties are charged when the account becomes overdue.

Government receivables pertain to duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism. The amount includes receivables over 30 days but less than one year amounting to P4,714 and P767 as of December 31, 2018 and 2017, respectively. The filing and the collection of claims is a continuous process and is closely monitored.

Related parties - non-trade consists of advances made by the Parent Company to Petron Corporation Employee Retirement Plan (PCERP) and other receivables from SMC and its subsidiaries.

Others mainly consist of receivables from various non-trade customers and counterparties for matured hedging transactions.

A reconciliation of the allowance for impairment losses at the beginning and end of 2018 and 2017 is shown below:

	<i>Note</i>	<b>2018</b>	2017
Balance at beginning of year		<b>P1,271</b>	P1,227
Adjustment due to adoption of PFRS 9	3	<b>(60)</b>	-
Balance at beginning of year, as adjusted		<b>1,211</b>	1,227
Additions	23	<b>261</b>	10
Write off	4	<b>(68)</b>	(89)
Currency translation adjustment		<b>6</b>	123
Balance at end of year		<b>1,410</b>	1,271
Less noncurrent portion for long-term receivables	14	<b>73</b>	90
		<b>P1,337</b>	P1,181

The Group computes impairment loss on trade and other receivables based on past collection experiences, current circumstances and the impact of future economic conditions, if any, available at the reporting period. Loss rates are based on actual credit loss experience over the past three years. Economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of the impact of future economic conditions, if any, over the expected lives of the trade and other receivables are also considered.

The following table provides information about the exposure to credit risk and ECL of trade and other receivables as of December 31, 2018:

	<b>Weighted Average Loss Rate</b>	<b>Gross Carrying Amount</b>	<b>ECL</b>
<b>December 31, 2018</b>			
Retail	<b>1.85%</b>	<b>P5,196</b>	<b>P96</b>
Lubes	<b>1.90%</b>	<b>580</b>	<b>11</b>
Gasul	<b>9.03%</b>	<b>1,273</b>	<b>115</b>
Industrial	<b>3.32%</b>	<b>16,121</b>	<b>536</b>
Others	<b>2.80%</b>	<b>20,664</b>	<b>579</b>
		<b>P43,834</b>	<b>P1,337</b>

As of December 31, 2017, the age of past due but not impaired trade accounts receivable is as follows (Note 34):

	Past Due but not Impaired				Total
	Within 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
December 31, 2017					
Retail	P95	P20	P7	P6	P128
Lubes	40	8	2	40	90
Gasul	67	26	20	-	113
Industrial	69	4	239	140	452
Others	17	27	29	90	163
	P288	P85	P297	P276	P946

As of December 31, 2017, no allowance for impairment losses is necessary as regards the past due but unimpaired trade receivables based on the current status of the receivables. There are no significant changes in credit quality. As such, these amounts are still considered recoverable.

## 9. Inventories

This account consists of:

	2018	2017
Petroleum	<b>P27,512</b>	P20,359
Crude oil and others	<b>26,765</b>	29,538
Materials and supplies	<b>5,504</b>	4,163
Lubes, greases and aftermarket specialties	<b>4,092</b>	2,544
	<b>P63,873</b>	P56,604

The cost of these inventories amounted to P65,124 and P57,478 as of December 31, 2018 and 2017, respectively.

If the Group had used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have decreased by P942 and increased by P61 as of December 31, 2018 and 2017, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P498,117, P369,695 and P283,169 in 2018, 2017 and 2016, respectively (Note 22).

Research and development costs on these products constituted the expenses incurred for internal projects in 2018, 2017 and 2016 (Note 23).



The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2018 and 2017 follow:

	<b>Note</b>	<b>2018</b>	2017
Balance at beginning of year		<b>P874</b>	P789
Loss on inventory obsolescence	4	-	81
Loss on inventory write-down	4	<b>742</b>	-
Reversals		<b>(369)</b>	-
Translation adjustment		<b>4</b>	4
<b>Balance at end of year</b>		<b>P1,251</b>	P874

The losses and reversals are included as part of "Cost of goods sold" account in the consolidated statements of income (Note 22).

Reversal of write-down corresponds to inventories sold during the year.

#### 10. Investment in Shares of Stock of an Associate

This account consists of:

	2017
<b>Acquisition Cost</b>	
Balance at beginning of year	P1,405
Disposal/reclassification	(1,405)
<b>Balance at end of year</b>	-
<b>Share in Total Comprehensive Income</b>	
Balance at beginning of year	478
Share in net income during the year	63
Share in OCI	3
Disposal/reclassification	(544)
<b>Balance at end of year</b>	-
	<b>P -</b>

Investment in shares of stock of an associate pertains to 35% investment in Manila North Harbour Port Inc. (MNHPI), a company incorporated in the Philippines, prior to its disposal in October 2017.

On September 21, 2017, the Parent Company signed the Share Purchase Agreement (SPA) with International Container Terminal Services, Inc. (ICTSI) for the sale by the Parent Company of its 10,449,000 shares in MNHPI equal to 34.83% of MNHPI's outstanding shares for a total consideration of P1,750. The completion of the SPA was subject to several conditions.

On October 30, 2017, all conditions for the completion of the sale of the Parent Company's shares in MNHPI had been complied with and accordingly, the purchase price had been paid. As a result of the transaction, the Group recognized loss on disposal of investments amounting to P189 included as part of "Other expenses - net" account in the 2017 consolidated statement of income (Note 26).

The remaining 51,000 shares representing 0.17% interest in MNHPI was also intended to be sold to a related party effectively rendering the remaining MNHPI shares as assets held for sale as of December 31, 2017. The proposed sale is still subject to negotiations as of December 31, 2018. Asset held for sale with carrying amount of P9 is recognized as part of "Other current assets" account in the consolidated statements of financial position as of December 31, 2018 and 2017 (Note 14).

Following are the condensed financial information of MNHPI as of and for the period ended September 30, 2017:

	September 30 2017
Percentage of ownership	35%*
Current assets	P2,098
Noncurrent assets	12,765
Current liabilities	(6,236)
Noncurrent liabilities	(4,078)
Net assets	P4,549
Sales	P2,504
Total comprehensive income	P179

\*The remaining 0.17% equity interest in MNHPI was classified as "Asset held for sale" as of December 31, 2018 and 2017 (Note 14).

## 11. Property, Plant and Equipment

The movements and balances as of and for the years ended December 31 follow:

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
<b>Cost</b>							
January 1, 2017	P28,903	P162,263	P16,172	P4,652	P14,004	P25,319	P251,313
Additions	583	1,307	405	232	237	6,954	9,698
Disposals/reclassifications	2,162	20,628	159	(68)	(315)	(24,983)	(2,417)
Currency translation adjustment	876	1,106	700	135	705	139	3,661
December 31, 2017	32,504	185,304	17,436	4,951	14,631	7,429	262,255
Additions	694	446	424	209	45	8,598	10,416
Disposals/reclassifications	1,661	2,117	(299)	31	131	(3,738)	(97)
Reclassification to investment property (Note 12)	(15,244)	-	-	-	(10,207)	-	(25,451)
Currency translation adjustment	517	370	247	48	218	39	1,439
<b>December 31, 2018</b>	<b>20,132</b>	<b>188,237</b>	<b>17,808</b>	<b>5,239</b>	<b>4,818</b>	<b>12,328</b>	<b>248,562</b>
<b>Accumulated Depreciation and Amortization</b>							
January 1, 2017	18,736	38,251	11,987	3,529	2,204	-	74,709
Additions	1,315	7,200	868	416	162	-	9,961
Disposals/reclassifications	(380)	25	(1,064)	(241)	(342)	-	(2,002)
Currency translation adjustment	532	820	416	93	36	-	1,897
December 31, 2017	20,205	46,296	12,207	3,797	2,060	-	84,565
Additions	861	7,539	948	481	89	-	9,918
Disposals/reclassifications	(396)	(15)	(903)	(101)	(10)	-	(1,426)
Reclassification to investment property (Note 12)	(8,083)	-	-	-	(1,060)	-	(9,143)
Currency translation adjustment	240	258	127	27	12	-	664
<b>December 31, 2018</b>	<b>12,827</b>	<b>54,077</b>	<b>12,379</b>	<b>4,204</b>	<b>1,091</b>	<b>-</b>	<b>84,578</b>
<b>Carrying Amount</b>							
December 31, 2017	P12,299	P139,008	P5,229	P1,154	P12,571	P7,429	P177,690
<b>December 31, 2018</b>	<b>P7,305</b>	<b>P134,160</b>	<b>P5,429</b>	<b>P1,035</b>	<b>P3,727</b>	<b>P12,328</b>	<b>P163,984</b>

Certain property, plant and equipment were reclassified to investment property to reflect the usage of the assets (Note 12). The reclassification did not have an effect on the total noncurrent assets and total assets in the consolidated statements of financial position and in the consolidated statements of comprehensive income.

No interest was capitalized in 2018 and 2017 (Note 18). No impairment loss was required to be recognized in 2018, 2017 and 2016 based on management's assessment of impairment indicators.

#### Capital Commitments

As of December 31, 2018 and 2017, the Group has outstanding commitments to acquire property, plant and equipment amounting to P17,818 and P10,615, respectively.

## **12. Investment Property**

The movements and balances as of and for the years ended December 31 follow:

	Land	Land and Leasehold Improvements	Buildings and Improvements	Total
<b>Cost</b>				
January 1, 2017	P80	P -	P25	P105
Disposal	(15)	-	-	(15)
December 31, 2017	65	-	25	90
Additions	852	-	-	852
Reclassifications from property, plant and equipment (Note 11)	7,505	2,702	15,244	25,451
<b>December 31, 2018</b>	<b>8,422</b>	<b>2,702</b>	<b>15,269</b>	<b>26,393</b>
<b>Accumulated Depreciation</b>				
January 1, 2017	-	-	14	14
Depreciation	-	-	1	1
December 31, 2017	-	-	15	15
Depreciation	-	58	641	699
Reclassifications from property, plant and equipment (Note 11)	-	1,060	8,083	9,143
<b>December 31, 2018</b>	<b>-</b>	<b>1,118</b>	<b>8,739</b>	<b>9,857</b>
<b>Carrying Amount</b>				
December 31, 2017	P65	P -	P10	P75
<b>December 31, 2018</b>	<b>P8,422</b>	<b>P1,584</b>	<b>P6,530</b>	<b>P16,536</b>

The Group's investment property includes land, land and leasehold improvements, buildings and related improvements and facilities leased out for its service stations (Note 29) which were reclassified from property, plant and equipment to reflect the usage of the assets (Note 11). The carrying amount and fair value of these assets as of December 31, 2017 amounted to P16,308 and P30,104, respectively.

The Group's investment property also includes a property located in Tagaytay with carrying amount of P10 and P11 as of December 31, 2018 and 2017, respectively.

No impairment loss was required to be recognized in 2018, 2017 and 2016 based on management's assessment of impairment indicators.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2018, 2017 and 2016.

The fair value of investment property amounting to P30,420 and P162 as of December 31, 2018 and 2017, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques.

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

#### Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches below:

*Sales Comparison Approach.* The market value of land was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

*Depreciated Replacement Cost Method.* The fair value of land and leasehold improvements and buildings and related improvements and facilities were arrived at using the depreciated replacement cost method, which estimates the current replacement cost of new assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

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### **13. Investment in Shares of Stock of Subsidiaries, Goodwill and Non-controlling Interests**

#### Investment in Shares of Stock of Subsidiaries

The following are the major developments relating to the Parent Company's investment in shares of stock of subsidiaries:

a. *PAHL*

Although the Group owns less than half of the voting power of PAHL, prior to the acquisition of the remaining equity interest in 2016, management has assessed, in accordance with PFRS 10, that the Group has control over PAHL on a de facto basis. Accordingly, the Group consolidated PAHL beginning January 1, 2013 (Note 4).

On November 17, 2015, the Parent Company subscribed to additional 18,324,889 ordinary shares of PAHL for a total consideration of US\$11,746,724 which effectively increased the Parent Company's ownership interest by 1.40% to 47.25%.

On March 18, 2016, the Parent Company subscribed to additional 43,125,482 ordinary shares of PAHL for a total consideration of US\$27,644,540 which effectively increased the Parent Company's ownership interest from 47.25% to 50.26%.

On August 4, 2016, the Parent Company purchased the remaining 273,000,000 ordinary shares and 102,142,858 "B" ordinary shares in PAHL for a total of 375,142,858 shares owned by PCERP for a total purchase price of P1,921. Petron's ownership interest in PAHL has increased from 50.26% to 100%.

As a result of the foregoing transactions, non-controlling interest in PAHL has been derecognized in 2016.

b. *PGL*

On various dates in 2015, the Parent Company subscribed to additional common shares of PGL as follows:

Date	No. of Shares	Amount Per Share (in US\$)	Total (in US\$)
March 13, 2015	9,354,136	1.00	9,354,136
April 13, 2015	1,710,231	1.00	1,710,231
May 13, 2015	1,067,462	1.00	1,067,462

PGL has issued an aggregate of 73,559,188 common shares from 2012 to 2014 with a par value of US\$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US\$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US\$1.00 per share. Consequently, non-controlling interest in PGL has been transferred to retained earnings attributable to the equity holders of the Parent Company.

As of December 31, 2018 and 2017, the Parent Company holds a total of 85,691,017 common shares in PGL representing 100% of the voting capital stock of PGL.

c. *LLCDC and MHI*

On December 19, 2017, the BOD and stockholders of the subsidiaries of NVRC, LLCDC and MHI, approved the merger between LLCDC and MHI effective (to the extent allowed by applicable law or regulation) on the first day of the month following the issuance by the SEC of the certificate of merger, wherein LLCDC will be the surviving entity.

Upon the effective date of merger, all the respective rights, businesses, powers, privileges, immunities, franchises, assets and other properties of MHI including, but not limited to, all real and personal properties, contractual and property rights, licenses, privileges, property rights, claims, bank deposits, stocks, accounts receivable, retained earnings, credit lines, supplies, equipment, investments of whatever nature, including subscriptions to shares, choses in action, goodwill, intangible assets and such other assets, owned or which may have been acquired by MHI shall be conveyed, assigned, and transferred to, possessed and owned by, and vested in LLCDC .

The Plan of Merger was submitted with the SEC in January 2018 and the application for merger was approved by the SEC on May 10, 2018.

d. *NVRC*

On December 17, 2018, the Parent Company acquired additional 2,840,000 common shares of NVRC at P1,000.00 per share for a total consideration of P2,840 which was effected through debt to equity conversion of NVRC's advances from the Parent Company. The transaction effectively increased the Parent Company's ownership interest in NVRC from 40.00% to 85.55%.

Consequently, the proportionate share of the carrying amount of the net assets of NVRC amounting to P11 has been transferred to equity holders of the Parent Company.

Although the Group owns less than half of the ownership interest in NVRC, prior to the acquisition of the additional equity interest in 2018, management has assessed, in accordance with PFRS 10, that the Group has control over NVRC on a de facto basis (Note 4).

e. *Petrogen*

On November 29, 2018, Petrogen issued 15,000 common shares as stock dividends for P1,000.00 per share or a total of P15 in favor of the Parent Company. The Parent Company's ownership interest in Petrogen remains at 100% after the issuance.

Goodwill

The movements and balances of goodwill as of and for the years ended December 31 are as follows:

	2018	2017
<b>Cost</b>		
Balance at beginning of year	P8,277	P7,480
Translation adjustments	255	797
<b>Net carrying amount at end of year</b>	<b>P8,532</b>	<b>P8,277</b>

#### Impairment of Goodwill from Petron Malaysia

Goodwill arising from the acquisition of Petron Malaysia, which accounts for 99% of total goodwill in the consolidated statements of financial position as of December 31, 2018 and 2017, is allocated at the POGI Group cash generating unit (CGU) instead of each individual acquiree company's CGU as it is expected that the POGI Group CGU will benefit from the synergies created from the acquiree companies in combination.

The Group tested the goodwill for impairment. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the CGU and was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results. Management believes that this five-year forecast period was justified due to the long-term nature of the business.
- A discount rate of 7.4% in 2018 and 6.3% in 2017 was applied based on the weighted average cost of capital using the Capital Asset Pricing Model (CAPM).
- Terminal growth rate of 3.0% in 2018 and 2017 was applied as the Group is in the process of increasing its network of service stations and upgrading its facilities and hence foresees growth in cash flows generated perpetually.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on internal sources (historical data).

For purposes of terminal growth rate sensitivity, terminal growth rate scenarios of 2%, 3% and 4% in 2018 and 2017 are applied on the discounted cash flows analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill to exceed its recoverable amount.

No impairment losses were recognized in 2018, 2017 and 2016 in relation to the goodwill arising from the acquisition of Petron Malaysia.

#### Impairment of Goodwill from PAHL

For the goodwill allocated to PAHL, the recoverable amount of goodwill has been determined based on fair value less costs to sell. The fair value was calculated using market approach which has been categorized as Level 3 in the fair value hierarchy.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other expenses - net" in the 2016 consolidated statement of income (Note 26).

### Non-controlling Interests

The following table summarizes the financial information relating to each of the Group's subsidiaries that has material non-controlling interests:

	December 31, 2018		December 31, 2017	
	NVRC	PMRMB	NVRC	PMRMB
<b>Non-controlling Interests Percentage</b>	<b>14.45%</b>	<b>26.60%</b>	60.00%	26.60%
<b>Carrying amount of non-controlling interest</b>	<b>P605</b>	<b>P6,102</b>	P558	P5,406
Current assets	<b>P433</b>	<b>P23,694</b>	P350	P19,595
Noncurrent assets	<b>6,297</b>	<b>16,000</b>	5,521	13,844
Current liabilities	<b>(251)</b>	<b>(16,754)</b>	(237)	(13,274)
Noncurrent liabilities	<b>(2,156)</b>	<b>(1,812)</b>	(4,229)	(1,599)
<b>Net assets</b>	<b>P4,323</b>	<b>P21,128</b>	P1,405	P18,566
<b>Net income attributable to non-controlling interests</b>	<b>P58</b>	<b>P793</b>	P84	P1,264
<b>Other comprehensive income attributable to non-controlling interests</b>	<b>P -</b>	<b>P142</b>	P -	P473
<b>Sales</b>	<b>P685</b>	<b>P157,380</b>	P584	P121,701
Net income	<b>P97</b>	<b>P2,979</b>	P141	P4,754
Other comprehensive income	-	<b>5</b>	-	28
<b>Total comprehensive income</b>	<b>P97</b>	<b>P2,984</b>	P141	P4,782
Cash flows provided by (used in) operating activities	<b>P353</b>	<b>(P818)</b>	P292	P4,271
Cash flows used in investing activities	<b>(852)</b>	<b>(2,940)</b>	(82)	(389)
Cash flows provided by (used in) financing activities	<b>607</b>	<b>4,083</b>	(213)	(4,519)
Effects of exchange rate changes on cash and cash equivalents	-	<b>2</b>	-	(2)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>P108</b>	<b>P327</b>	(P3)	(P639)



#### 14. Other Assets

This account consists of:

	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Current:</b>			
Input VAT		<b>P17,562</b>	P12,337
Prepaid taxes		<b>16,664</b>	19,025
Prepaid expenses	28	<b>1,477</b>	1,383
Special-purpose fund		<b>154</b>	147
Asset held for sale	10	<b>9</b>	9
Tax recoverable		<b>145</b>	1
Others - net		<b>1,070</b>	276
		<b>P37,081</b>	P33,178
<b>Noncurrent:</b>			
Prepaid rent		<b>P3,038</b>	P2,600
Input VAT		<b>1,507</b>	1,832
Catalyst - net		<b>437</b>	503
Derivative assets designated as cash flow hedge	6, 34, 35	<b>207</b>	-
Long-term receivables - net	34, 35	<b>253</b>	228
Noncurrent deposits	34, 35	<b>94</b>	90
Others - net	4	<b>949</b>	706
		<b>P6,485</b>	P5,959

The "Others - net" under "Noncurrent" account pertains to software, marketing assistance to dealers, other prepayments, franchise fees, licenses and other intangible assets amounting to P915 and P693 as of December 31, 2018 and 2017, respectively, net of amortization amounting to P260, P282 and P349 in 2018, 2017 and 2016, respectively.

The amortization of prepaid rent amounted to P245, P195 and P207 in 2018, 2017 and 2016, respectively.

Amortization of software, marketing assistance to dealers, other prepayments, franchise fees, other intangibles and prepaid rent included as part of "Depreciation and amortization" under "Selling and administrative expenses" account in the consolidated statements of income amounted to P97, P138 and P214 in 2018, 2017 and 2016, respectively (Notes 23 and 25).

Amortization of catalyst, licenses and other prepayments included as part of "Depreciation and amortization" under "Cost of goods sold" account in the consolidated statements of income amounted to P584, P684 and P837 in 2018, 2017 and 2016, respectively (Notes 22 and 25).

#### 15. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 3 to 181 days and annual interest ranging from 2.65% to 7.00% in 2018, 2.35% to 6.02% in 2017 and 2.85% to 6.22% in 2016 (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 9) and working capital requirements.

Interest expense on short-term loans amounted to P3,165 in 2018 and P2,323 both in 2017 and 2016 (Note 26).

## 16. Liabilities for Crude Oil and Petroleum Products

This account pertains to liabilities to suppliers of crude oil, petroleum and other products that are non-interest bearing and generally settled on a 30-day term. Details of the supply agreements in relation to importations of crude oil requirements of the Group are disclosed in Note 31.

Liabilities for crude oil and petroleum products are payable to the following:

	<i>Note</i>	<b>2018</b>	2017
Third parties		<b>P25,908</b>	P36,895
Related parties	28	<b>83</b>	25
	34, 35	<b>P25,991</b>	P36,920

## 17. Trade and Other Payables

This account consists of:

	<i>Note</i>	<b>2018</b>	2017
Trade		<b>P19,856</b>	P5,540
Specific taxes and other taxes payable		<b>3,262</b>	1,358
Accrued payroll		<b>52</b>	52
Due to related parties	28	<b>831</b>	774
Accrued interest		<b>917</b>	533
Accrued rent		<b>833</b>	817
Dividends payable	33	<b>206</b>	239
Insurance liabilities		<b>58</b>	78
Retention payable		<b>845</b>	641
Deferred liability on consumer loyalty program		<b>1,183</b>	1,024
Retirement benefits liability	30	<b>67</b>	104
Others	39	<b>361</b>	444
	34, 35	<b>P28,471</b>	P11,604

Trade payables are liabilities to haulers, contractors and suppliers that are non-interest bearing and are generally settled on a 30-day term.

Others include provisions (Note 39), accruals of selling and administrative expenses, and advances which are normally settled within a year.

## 18. Long-term Debt

This account consists of:

	<i>Note</i>	2018	2017
<b>Unsecured Peso-Denominated (net of debt issue costs)</b>			
Fixed rate corporate notes of 6.3212% due until 2018 and 7.1827% due until 2021	<i>(a)</i>	<b>P2,696</b>	P3,369
Term loan of 5.4583% due until 2022	<i>(b)</i>	<b>3,991</b>	4,986
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	<i>(c)</i>	<b>19,870</b>	19,835
Term loan of 5.5276% due quarterly until 2024	<i>(e)</i>	<b>12,259</b>	14,380
Term loan of 5.7584% due until 2022	<i>(f)</i>	<b>9,965</b>	9,950
Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025	<i>(g)</i>	<b>19,768</b>	-
<b>Unsecured Foreign Currency-Denominated (net of debt issue costs)</b>			
Floating rate dollar loan - US\$1,000 million due until 2022	<i>(d)</i>	<b>49,451</b>	49,185
	33, 34, 35	<b>118,000</b>	101,705
Less current portion		<b>17,799</b>	3,789
		<b>P100,201</b>	P97,916

- a. The Parent Company issued Fixed Rate Corporate Notes (FXCN) totaling P3,600 on October 25, 2011. The FXCNs consisted of Series A Notes amounting to P690 having a maturity of up to 7 years from issue date and Series B Notes amounting to P2,910 having a maturity of up to 10 years from issue date. The FXCNs are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements. On October 28, 2018, the outstanding balance of Series A notes matured and was paid in full.
- b. On October 13, 2015, the Parent Company drew P5,000 from a P5,000 term loan which was signed and executed on October 7, 2015. The facility is amortized over 7 years with a 2-year grace period and is subject to a fixed rate of 5.4583% per annum. The net proceeds from the issuance were used to repay currently maturing obligations and for general corporate requirements. In 2018, the Parent Company settled matured interim principal payments aggregating to P1,000.
- c. On October 27, 2016, the Parent Company issued P20,000 retail bonds (the "Bonds") divided into Series A (P13,000) and Series B (P7,000). Series A Bonds is due on October 27, 2021 with interest rate of 4.0032% per annum. Series B Bonds will mature on October 27, 2023 with interest rate of 4.5219% per annum. Interests on these Bonds are payable quarterly on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance of the Bonds were used to partially settle the US\$475 million and US\$550 million Term Loan facilities, to repay short-term loans and for general corporate requirements. The Bonds were listed with the Philippine Dealing & Exchange Corp. on October 27, 2016.

- d. On June 16, 2017, the Parent Company signed and executed a US\$1,000 million term facility and has initially drawn US\$600 million on June 28, 2017. The proceeds were used to pay in full the outstanding balances of US\$115 million and US\$470 million loans under the US\$475 million (executed on September 29, 2014) and US\$550 million (executed on July 20, 2015) term loan facilities, respectively. On October 10, 2017, the Parent Company drew the remaining US\$400 million from the facility. The proceeds of which were used to settle the P20,000 Peso-denominated Notes issued on November 10, 2010 which matured on November 10, 2017. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a spread. On November 29, 2018, the Parent Company made a partial payment of US\$30 million and US\$20 million against the US\$600 million and US\$400 million drawdowns, respectively.
- e. On July 25, 2017, the Parent Company drew P15,000 from a P15,000 term loan facility which was signed on July 14, 2017 and executed on July 17, 2017. The facility is amortized over 7 years and is subject to a fixed interest rate of 5.5276% per annum. The proceeds were used to refinance the bridge loan availed on December 23, 2016 for the acquisition of the Refinery Solid Fuel-Fired Power Plant (the "Power Plant") as discussed in Note 28. As of December 31, 2018, the P2,679 portion of the facility has already been paid.
- f. On December 29, 2017, the Parent Company drew P10,000 from a P10,000 bilateral facility which was signed and executed on December 28, 2017. The facility is amortized quarterly for five years beginning on the fifth quarter and is subject to a fixed rate of 5.7584% per annum. The proceeds were used to fund permanent working capital requirements.
- g. On October 19, 2018, the Parent Company offered P20,000 fixed retail bonds (the "Offer Bonds") divided into Series C (P13,200) bearing interest at 7.8183% per annum and Series D (P6,800) bearing interest at 8.0551% per annum. The Series C Offer Bonds will mature on April 19, 2024 (5.5-year term) while the Series D Offer Bonds is due on October 19, 2025 (7-year term). Interests on these Offer Bonds are payable quarterly, commencing on January 19, 2019, and thereafter, on April 19, July 19, October 19 and January 19 of each year. The net proceeds from the issuance of the Offer Bonds were used primarily to settle short-term loans availed by the Parent Company to fund crude oil purchases and redeem a portion of the Parent Company's remaining USCS (Note 21), and the balance for general corporate purposes. The Offer Bonds were listed with the Philippine Dealing & Exchange Corp. on October 19, 2018.

The above-mentioned debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Group is required to comply with two financial covenants, net leverage ratio and consolidated gross debt to consolidated net worth not to exceed 6.50 and 2.75, respectively. As of December 31, 2018 and 2017, the Group has complied with the covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P5,198, P5,140 and P4,155 for the years ended 2018, 2017 and 2016, respectively (Note 26). No interest was capitalized in 2018 and 2017 (Note 11).

Movements in debt issue costs follow:

	<i>Note</i>	<b>2018</b>	2017
Balance at beginning of year		<b>P1,073</b>	P915
Additions		<b>237</b>	978
Amortization for the year	26	<b>(331)</b>	(820)
Balance at end of year		<b>P979</b>	P1,073

#### Repayment Schedule

As of December 31, 2018 and 2017, the annual maturities of long-term debt are as follows (Note 34):

#### **2018**

<b>Year</b>	<b>Gross Amount</b>	<b>Debt Issue Costs</b>	<b>Net</b>
2019	<b>P18,066</b>	<b>P267</b>	<b>P17,799</b>
2020	<b>20,695</b>	<b>197</b>	<b>20,498</b>
2021	<b>36,314</b>	<b>195</b>	<b>36,119</b>
2022	<b>13,154</b>	<b>30</b>	<b>13,124</b>
2023	<b>9,143</b>	<b>57</b>	<b>9,086</b>
2024 and beyond	<b>21,607</b>	<b>233</b>	<b>21,374</b>
	<b>P118,979</b>	<b>P979</b>	<b>P118,000</b>

#### **2017**

<b>Year</b>	<b>Gross Amount</b>	<b>Debt Issue Costs</b>	<b>Net</b>
2018	<b>P3,820</b>	<b>P31</b>	<b>P3,789</b>
2019	<b>19,938</b>	<b>602</b>	<b>19,336</b>
2020	<b>19,938</b>	<b>234</b>	<b>19,704</b>
2021	<b>35,557</b>	<b>150</b>	<b>35,407</b>
2022	<b>12,775</b>	<b>41</b>	<b>12,734</b>
2023 and beyond	<b>10,750</b>	<b>15</b>	<b>10,735</b>
	<b>P102,778</b>	<b>P1,073</b>	<b>P101,705</b>

### **19. Asset Retirement Obligation**

Movements in the ARO are as follows:

	<i>Note</i>	<b>2018</b>	2017
Balance at beginning of year		<b>P2,681</b>	P2,324
Additions		<b>40</b>	74
Effect of change in discount rate		<b>404</b>	98
Accretion for the year	26	<b>189</b>	182
Effect of change in lease term		<b>295</b>	7
Settlement		<b>(17)</b>	(4)
Balance at end of year		<b>P3,592</b>	P2,681

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## 20. Other Noncurrent Liabilities

This account consists of:

	<i>Note</i>	<b>2018</b>	2017
Cylinder deposits		<b>P573</b>	P577
Cash bonds		<b>434</b>	400
Derivative liabilities designated as cash flow hedge		<b>188</b>	-
Others		<b>79</b>	60
	<i>34, 35</i>	<b>P1,274</b>	P1,037

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“Others” account includes liability to a contractor and supplier.

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## 21. Equity

### a. Capital Stock

#### Common Shares

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Parent Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2018 and 2017, the Parent Company had 143,272 and 144,316 stockholders with at least one board lot at the PSE, respectively, for a total of 9,375,104,497 (P1.00 per share par value) issued and outstanding common shares.

#### Preferred Shares

On January 21, 2010, the SEC approved the Parent Company's amendment to its articles of incorporation to reclassify 624,895,503 unissued common shares into preferred shares with a par value of P1.00 per share, as part of its authorized capital stock. On February 12, 2010, the SEC issued an order permitting the Parent Company's offer and sale of 50,000,000 peso-denominated, cumulative, non-participating and non-voting preferred shares, with an oversubscription option of 50,000,000 preferred shares (collectively, the “2010 Preferred Shares”) to the public at an issue price of P100.00 per share. Proceeds from issuance in excess of par value less related transaction costs amounting to P9,764 was recognized as additional paid-in capital. Dividend rate of 9.5281% per annum computed in reference to the issue price was payable every March 5, June 5, September 5 and December 5 of each year, when declared by the Parent Company's BOD. The 2010 Preferred Shares were listed with PSE on March 5, 2010.

On October 17, 2014, the SEC issued an order permitting the Parent Company's public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") at an issue price of P1,000.00 per share.

On November 3, 2014, the Parent Company issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two (2) sub-series, (i) 7,122,320 Series 2A preferred shares (the "Series 2A Preferred Shares") and (ii) 2,877,680 Series 2B preferred shares (the "Series 2B Preferred Shares"). Proceeds from issuance in excess of par value less related transaction costs amounting to P9,889 was recognized as additional paid-in capital.

The Series 2A Preferred Shares may be redeemed by the Parent Company starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the Parent Company's BOD.

All shares rank equally as regards to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On March 5, 2015, the Parent Company redeemed the 2010 Preferred Shares at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company's articles of incorporation. On July 6, 2015, the SEC approved the amendment of the articles of incorporation of the Parent Company to provide a re-issuability feature of its preferred shares.

As of December 31, 2018 and 2017, the Parent Company had 10,000,000 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2017 and 2016 are as follows:

	<b>2018</b>	2017
Series 2A Preferred Shares	<b>47</b>	48
Series 2B Preferred Shares	<b>30</b>	31
	<b>77</b>	79

b. Retained Earnings

i. Declaration of Cash Dividends

On various dates in 2016, 2017 and 2018, the Parent Company's BOD approved the declaration of cash dividends for common and preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
<b>2016</b>				
Common	P0.10000	March 15, 2016	March 31, 2016	April 14, 2016
Series 2A	15.75000	March 15, 2016	April 15, 2016	May 3, 2016
Series 2B	17.14575	March 15, 2016	April 15, 2016	May 3, 2016
Series 2A	15.75000	March 15, 2016	July 15, 2016	August 3, 2016
Series 2B	17.14575	March 15, 2016	July 15, 2016	August 3, 2016
Series 2A	15.75000	August 8, 2016	October 14, 2016	November 3, 2016
Series 2B	17.14575	August 8, 2016	October 14, 2016	November 3, 2016
Series 2A	15.75000	August 8, 2016	January 13, 2017	February 3, 2017
Series 2B	17.14575	August 8, 2016	January 13, 2017	February 3, 2017
<b>2017</b>				
Common	P0.10000	March 14, 2017	March 28, 2017	April 12, 2017
Series 2A	15.75000	March 14, 2017	April 12, 2017	May 3, 2017
Series 2B	17.14575	March 14, 2017	April 12, 2017	May 3, 2017
Series 2A	15.75000	March 14, 2017	July 18, 2017	August 3, 2017
Series 2B	17.14575	March 14, 2017	July 18, 2017	August 3, 2017
Series 2A	15.75000	August 8, 2017	October 16, 2017	November 3, 2017
Series 2B	17.14575	August 8, 2017	October 16, 2017	November 3, 2017
Series 2A	15.75000	August 8, 2017	January 16, 2018	February 5, 2018
Series 2B	17.14575	August 8, 2017	January 16, 2018	February 5, 2018
<b>2018</b>				
Common	P0.15000	March 13, 2018	March 27, 2018	April 18, 2018
Series 2A	15.75000	March 13, 2018	April 12, 2018	May 3, 2018
Series 2B	17.14575	March 13, 2018	April 12, 2018	May 3, 2018
Series 2A	15.75000	March 13, 2018	July 16, 2018	August 3, 2018
Series 2B	17.14575	March 13, 2018	July 16, 2018	August 3, 2018
Series 2A	15.75000	August 7, 2018	October 10, 2018	November 5, 2018
Series 2B	17.14575	August 7, 2018	October 10, 2018	November 5, 2018
Series 2A	15.75000	August 7, 2018	January 11, 2019	February 4, 2019
Series 2B	17.14575	August 7, 2018	January 11, 2019	February 4, 2019

Total cash dividends declared by the Parent Company amounted to P2,052 in 2018 and P1,584 both in 2017 and 2016.

ii. Appropriation for Capital Projects

On May 11, 2011, the Parent Company's BOD approved the proposal to revise the current level of appropriated retained earnings of P15,372 to P25,000 for the Parent Company's Refinery Master Plan 2 (RMP-2) project. On January 1, 2016, RMP-2 Project commenced commercial operation, thus, on May 5, 2016, the Parent Company's BOD approved the reversal of P25,000 appropriation for the Parent Company's RMP-2 and the re-appropriation of retained earnings amounting to P15,000 for capital projects in 2016 and 2017 which are expected to be completed within five years from the date of the approval.

On August 23, 2016, LLCDC's BOD approved the reversal of appropriation made in 2010 amounting to P5 (P3 - attributable to non-controlling interest) which was aimed to fund its construction management service. On September 29, 2015, NVRC's BOD approved the appropriation of retained earnings of P200 (P120 - attributable to non-controlling interest) and on December 20, 2016, an additional appropriation of P200 (P120 - attributable to non-controlling interest) was approved, both for the programmed lot acquisitions which are expected to be completed in 2019.



The appropriated retained earnings attributable to the equity holders of the Parent Company as of December 31, 2018 and 2017 amounted to P15,160.

- c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint ventures and an associate amounting to P26,800, P20,539 and P15,040 as of December 31, 2018, 2017 and 2016, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.
- d. Equity reserves comprise of the following:

Reserve for retirement plan pertains to the cumulative remeasurements of the Group's defined benefit retirement plan.

Other reserves comprise the net loss on cash flows hedges, unrealized fair value losses on investments in debt instruments, exchange differences on translation of foreign operations, effect of redemption of USCS and others with details as follows:

	2018	2017	2016
<b>Balance at beginning of year</b>	<b>(P3,025)</b>	(P5,859)	(P5,563)
Net loss on cash flow hedges, net of tax	(77)	-	-
Changes in fair value of investment in debt instruments	(8)	(3)	(1)
Cumulative translation adjustment	<b>1,231</b>	2,838	784
Share in other comprehensive loss of an associate and a joint venture	-	(1)	-
Redemption of USCS	<b>(9,223)</b>	-	-
Changes in ownership interests in subsidiaries	<b>11</b>	-	(1,079)
<b>Balance at end of year</b>	<b>(P11,091)</b>	(P3,025)	(P5,859)

- e. USCS

In February 2013, the Parent Company issued US\$500 million USCS at an issue price of 100% ("Original Securities"). In March 2013, the Parent Company issued under the same terms and conditions of the Original Securities an additional US\$250 million at a price of 104.25% ("New Securities"). The New Securities constituted a further issuance of, were fungible with, and were consolidated and formed a single series with the Original Securities (the "Original Securities" and, together with the "New Securities", the "Securities"). Proceeds were applied by the Parent Company for capital and other expenditures of RMP-2 as well as for general corporate purposes.

The Securities were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, each sale of the Securities was considered an exempt transaction for which no confirmation of exemption from the registration requirements of the Securities Regulation Code (SRC) was required to be filed with the SEC. In compliance with the amended rules of the SRC, notices of exemption for the issuances of the Securities were filed with the SEC on February 12, 2013 for the Original Securities and on March 19, 2013 for the New Securities.

Holders of the Securities are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 7.5% per annum, subject to a step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The Securities have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid or deferred distributions at the Parent Company's option on or after August 6, 2018 or on any distribution payment date thereafter or upon the occurrence of certain events.

On January 8, 2018, the Parent Company announced a tender offer to holders of its US\$750 million USCS with expiration deadline on January 16, 2018. Tenders amounting to US\$402 million (P21,309) were accepted by the Parent Company and settled on January 22, 2018. The USCS purchased pursuant to the tender offer were cancelled. Accrued distributions and premiums paid related to the redemption amounted to US\$13.901 million (P1,010) and US\$12.059 million (P876), respectively. On August 6, 2018, the Parent Company redeemed the remaining US\$348 million (P18,460) of the US\$750 million USCS. The difference in the settlement amount and the carrying amount of USCS in 2018 was recognized as part of "Equity reserves" account in the consolidated statements of financial position.

Payments of distributions pertaining to USCS were made on the following dates: US\$28.125 million each on February 5, 2016 (P1,918), August 5, 2016 (P1,889), February 3, 2017 (P2,000) and August 4, 2017 (P2,024); US\$13.901 million on January 22, 2018 (P1,010); and US\$13.052 million each on February 5, 2018 (P963) and August 6, 2018 (P988).

f. SPCS

On January 19, 2018, the Parent Company issued US\$500 million SPCS with an issue price of 100% for the partial repurchase and redemption of the Parent Company's existing US\$750 million USCS, the repayment of indebtedness and general corporate purposes including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018. The SPCS were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, the sale of SPCS was considered an exempt transaction for which no confirmation of exemption from the registration requirements of the SRC was required to be filed with the SEC.

Holders of the SPCS are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 4.6% per annum, subject to a step-up rate. The Parent Company has a right to defer the distribution under certain conditions.

The SPCS have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at the Parent Company's option on or after July 19, 2023 or on any distribution payment date thereafter or upon the occurrence of certain other events.

Distributions on SPCS were made on July 19, 2018 amounting to US\$11.500 million (P878).

## 22. Cost of Goods Sold

This account consists of:

	<i>Note</i>	<b>2018</b>	2017	2016
Inventories	9	<b>P498,117</b>	P369,695	P283,169
Depreciation and amortization	25	<b>8,277</b>	8,043	6,153
Materials and supplies		<b>5,498</b>	4,873	1,397
Purchased services and utilities		<b>2,211</b>	2,339	10,486
Personnel expenses	24	<b>1,979</b>	1,925	1,647
Others	31	<b>6,742</b>	5,094	3,273
		<b>P522,824</b>	P391,969	P306,125

Distribution or transshipment costs included as part of inventories amounted to P10,076, P10,438 and P10,711 in 2018, 2017 and 2016, respectively.

Others include manufacturing and overhead costs such as maintenance and repairs, taxes and licenses, insurance and rent.

## 23. Selling and Administrative Expenses

This account consists of:

	<i>Note</i>	<b>2018</b>	2017	2016
Depreciation and amortization	25	<b>P3,266</b>	P2,936	P3,352
Purchased services and utilities		<b>4,457</b>	3,762	3,004
Personnel expenses	24	<b>4,092</b>	4,021	3,373
Maintenance and repairs		<b>1,285</b>	1,276	1,108
Advertising		<b>746</b>	1,524	1,460
Materials and office supplies		<b>605</b>	546	754
Rent - net	29, 31	<b>413</b>	464	154
Taxes and licenses		<b>368</b>	342	415
Impairment losses on trade and other receivables	4, 8	<b>261</b>	10	68
Others	9	<b>148</b>	136	230
		<b>P15,641</b>	P15,017	P13,918

Selling and administrative expenses include research and development costs amounting to P86, P65 and P66 in 2018, 2017 and 2016, respectively (Note 9). Rent is shown net of rental income amounting to P1,340, P1,180 and P1,139 in 2018, 2017 and 2016, respectively.

## 24. Personnel Expenses

This account consists of:

	<i>Note</i>	<b>2018</b>	2017	2016
Salaries, wages and other employee costs	28	<b>P5,446</b>	P5,345	P4,348
Retirement benefits costs - defined benefit plan	28, 30	<b>523</b>	508	579
Retirement benefits costs - defined contribution plan	28	<b>102</b>	93	93
		<b>P6,071</b>	P5,946	P5,020

The above amounts are distributed as follows:

	<i>Note</i>	<b>2018</b>	2017	2016
Costs of goods sold	22	<b>P1,979</b>	P1,925	P1,647
Selling and administrative expenses	23	<b>4,092</b>	4,021	3,373
		<b>P6,071</b>	P5,946	P5,020

## 25. Depreciation and Amortization

This account consists of:

	<i>Note</i>	<b>2018</b>	2017	2016
Cost of goods sold:				
Property, plant and equipment	11	<b>P7,693</b>	P7,359	P5,316
Other assets	14	<b>584</b>	684	837
	22	<b>8,277</b>	8,043	6,153
Selling and administrative expenses:				
Property, plant and equipment	11	<b>2,225</b>	2,602	2,930
Investment property	12	<b>699</b>	1	1
Intangible assets and others	14	<b>342</b>	333	421
	23	<b>3,266</b>	2,936	3,352
	37	<b>P11,543</b>	P10,979	P9,505

**26. Interest Expense and Other Financing Charges, Interest Income and Other Income (Expenses)**

This account consists of:

	<i>Note</i>	<b>2018</b>	2017	2016
Interest expense and other financing charges:				
Long-term debt	18	<b>P4,867</b>	P4,320	P3,657
Short-term loans	15	<b>3,165</b>	2,323	2,323
Bank charges		<b>1,133</b>	839	999
Amortization of debt issue costs	18	<b>331</b>	820	498
Accretion on ARO	19	<b>189</b>	182	76
Others		<b>4</b>	3	4
	37	<b>P9,689</b>	P8,487	P7,557
Interest income:				
Advances to related parties	28	<b>P212</b>	P211	P261
Short-term placements	5	<b>416</b>	236	163
Investments in debt instruments	7	<b>24</b>	22	18
Trade receivables	8	<b>47</b>	49	50
Cash in banks	5	<b>7</b>	16	14
Others		-	1	1
	37	<b>P706</b>	P535	P507
Other income (expenses) - net:				
Foreign currency gains (losses) - net	34	<b>(P3,476)</b>	P1,192	(P2,236)
Changes in fair value of financial assets at FVPL	6	<b>84</b>	14	10
Hedging gains (losses) - net		<b>218</b>	(373)	(152)
Marked-to-market gains (losses) - net	35	<b>4,326</b>	(1,692)	824
Others - net	10, 13	<b>(635)</b>	(48)	(881)
		<b>P517</b>	(P907)	(P2,435)

The Group recognized its share in the net income (loss) of PDSI amounting to (P1), P2 and (P3) in 2018, 2017 and 2016, respectively, and its share in the net income of TBSB amounting to P4 both in 2018 and 2017 and P6 in 2016. These were recorded as part of "Others - net" under "Other expenses - net" account in the consolidated statements of income.

Also included in "Others - net" were the following: (i) loss on disposal of investment in MNHPI amounting to P189 in 2017 (Note 10); (ii) rental income amounting to P63 in 2018 and 2017 (Note 23); and (iii) impairment loss on goodwill in PAHL in 2016 amounting to P298 (Note 13).

## 27. Income Taxes

Deferred tax assets and liabilities are from the following:

	2018	2017
Net retirement benefits liability	P1,617	P1,337
Various allowances, accruals and others	1,085	1,116
Unrealized foreign exchange losses (gains) - net	523	(264)
ARO	415	487
Rental	192	188
Unutilized tax losses	-	220
Fair market value adjustments on business combination	(32)	(33)
Inventory differential	(150)	199
Capitalized taxes and duties on inventories deducted in advance	(863)	(288)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	(4,818)	(5,140)
Excess of double-declining over straight-line method of depreciation and amortization	(6,162)	(5,012)
	<b>(P8,193)</b>	<b>(P7,190)</b>

The above amounts are reported in the consolidated statements of financial position as follows:

	2018	2017
Deferred tax assets - net	P257	P207
Deferred tax liabilities - net	(8,450)	(7,397)
	<b>(P8,193)</b>	<b>(P7,190)</b>

The movements of deferred tax assets and liabilities are accounted for as follows:

	2018	2017
Balance at beginning of year	(P7,190)	(P5,532)
Amounts recognized in profit or loss	(1,317)	(2,001)
Amounts recognized in OCI	375	347
Cumulative translation adjustment and others	(61)	(4)
	<b>(P8,193)</b>	<b>(P7,190)</b>

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation.

The components of income tax expense are shown below:

	2018	2017	2016
Current	P2,069	P2,754	P3,289
Deferred	1,317	2,001	267
	<b>P3,386</b>	<b>P4,755</b>	<b>P3,556</b>

The following are the amounts of deferred tax expense (benefit), for each type of temporary difference, recognized in the consolidated statements of income:

	2018	2017	2016
Excess of double-declining over straight-line method of depreciation and amortization	<b>P1,150</b>	P1,425	P805
Capitalized taxes and duties on inventories deducted in advance	<b>575</b>	77	(34)
Inventory differential	<b>349</b>	417	258
Unutilized tax gains (losses)	<b>220</b>	(23)	(13)
ARO	<b>72</b>	(114)	(78)
Various allowances, accruals and others	<b>31</b>	(222)	(480)
MCIT	-	6	468
NOLCO	-	-	2
Rental	<b>(4)</b>	29	38
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	<b>(322)</b>	(535)	(441)
Unrealized foreign exchange losses (gains) - net	<b>(787)</b>	1,055	(118)
Others	<b>33</b>	(114)	(140)
	<b>P1,317</b>	P2,001	P267

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the consolidated statements of income is as follows:

	<i>Note</i>	2018	2017	2016
Statutory income tax rate		<b>30.00%</b>	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	36	<b>(5.14%)</b>	(3.05%)	(9.63%)
Interest income subjected to lower final tax		<b>(0.57%)</b>	(0.13%)	(0.13%)
Nontaxable income		<b>(11.13%)</b>	(3.52%)	(2.36%)
Nondeductible expense		<b>1.32%</b>	0.91%	1.85%
Nondeductible interest expense		<b>0.20%</b>	0.06%	0.06%
Changes in fair value of financial assets at FVPL	26	<b>(0.24%)</b>	(0.02%)	(0.02%)
Excess of optional standard deduction over deductible expenses		<b>(0.10%)</b>	(0.06%)	(0.05%)
Others, mainly income subject to different tax rates		<b>18.04%</b>	1.04%	5.01%
Effective income tax rate		<b>32.38%</b>	25.23%	24.73%

## OSD

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made (Note 4).

## 28. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint ventures and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/to be settled in cash. The balances and transactions with related parties as of and for the years ended December 31 follow:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	8, 30, a	2018	P211	P -	P2,399	P -	On demand; long-term; interest bearing	Unsecured; no impairment
		2017	211	-	5,188	-		
		2016	261	-	5,042	-		
Intermediate Parent	b, e	2018	12	1,026	7	25	On demand; non-interest bearing	Unsecured; no impairment
		2017	10	650	4	27		
		2016	7	173	5	24		
Under Common Control	14, b, c, d, i, j	2018	6,523	4,904	2,097	889	On demand; non-interest bearing	Unsecured; no impairment
		2017	3,233	10,670	870	768		
		2016	6,473	30,773	1,096	5,850		
Associate	b	2017	153	-	-	-	On demand; non-interest bearing	Unsecured; no impairment
		2016	154	-	33	-		
Joint Ventures	c, f	2018	7	59	1	-	On demand; non-interest bearing	Unsecured; no impairment
		2017	1	43	-	4		
		2016	-	42	-	3		
		2018	P6,753	P5,989	P4,504	P914		
		2017	P3,608	P11,363	P6,062	P799		
		2016	P6,895	P30,988	P6,176	P5,877		

- As of December 31, 2018 and 2017, the Parent Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" in the consolidated statements of financial position, for some investment opportunities (Notes 8 and 30).
- Sales relate to the Parent Company's supply agreements with the Intermediate Parent, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.
- The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rate of P6. The lease, which commenced on June 1, 2014, is for a period of one year and was subsequently renewed on a yearly basis in accordance with the written agreement of the parties.
- The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.



- f. TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.
- g. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.
- h. Amounts owed to related parties consist of trade and non-trade payables.
- i. In 2016, the Parent Company acquired the Power Plant from SMC Powergen, Inc. The Power Plant is presented as part of "Refinery and plant equipment" category in the "Property, plant and equipment" account in the consolidated statements of financial position (Note 11). Amounts owed to related party arising from the transaction has been fully settled as of December 31, 2017.
- j. In 2015, NVRC leased out certain parcels of its land to SMC Consolidated Power Corporation for a period of 25 years.
- k. The compensation and benefits of key management personnel of the Group, by benefit type, included in the "Personnel expenses" account as follows (Note 24):

	2018	2017	2016
Salaries and other short-term employee benefits	<b>P998</b>	P906	P754
Retirement benefits costs - defined benefit plan	<b>135</b>	166	133
Retirement benefits costs - defined contribution plan	<b>35</b>	33	31
	<b>P1,168</b>	P1,105	P918

## 29. Operating Lease Commitments

### Group as Lessee

The Group entered into commercial leases on certain parcels of land for its refinery and service stations (Notes 23 and 31). The leases' life ranges from one to forty two years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Future minimum rental payables under the non-cancellable operating lease agreements as of December 31 are as follows:

	2018	2017
Within one year	<b>P1,917</b>	P1,561
After one year but not more than five years	<b>6,741</b>	5,103
After five years	<b>16,743</b>	11,224
	<b>P25,401</b>	P17,888

### Group as Lessor

The Group has entered into lease agreements on its service stations and other related structures (Note 23). The non-cancellable leases have remaining terms of between three to ten years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

Future minimum rental receivables under the non-cancellable operating lease agreements as of December 31 follow:

	<b>2018</b>	2017
Within one year	<b>P127</b>	P91
After one year but not more than five years	<b>251</b>	115
After five years	<b>1,265</b>	12
	<b>P1,643</b>	P218

### 30. Retirement Plan

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plans recognized in profit or loss and the funding status and amounts of retirement plans recognized in the consolidated statements of financial position. The Parent Company has a funded, noncontributory, defined benefit retirement plan while several subsidiaries have unfunded, noncontributory, defined benefit retirement plans. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is as of December 31, 2018. Valuations are obtained on a periodic basis.

The Parent Company's Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT), as appointed by the BOD of the Parent Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the Parent Company, while one of the BOT is also a BOD. The retirement plan's accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Present Value of		Fair Value of Plan Assets				Net Defined Benefit	
	Defined Benefit Obligation	Retirement Asset (Liability)	2018	2017	2018	2017	2018	2017
Balance at beginning of year	(P5,872)	(P5,344)	(P5,603)	P1,952	P12	(P3,392)	(P4,989)	(P5,591)
<b>Recognized in Profit or Loss</b>								
Current service cost	(337)	(313)	(285)	-	-	(337)	(313)	(285)
Past service cost - plan amendment	-	-	(2)	-	-	-	-	(2)
Interest expense	(333)	(289)	(278)	-	-	(333)	(289)	(278)
Interest income	-	-	-	94	(14)	147	94	(14)
	(670)	(602)	(565)	94	(14)	(523)	(508)	(579)
<b>Recognized in Other Comprehensive Income</b>								
Remeasurements:								
Actuarial gains (losses) arising from:								
Experience adjustments	(592)	(555)	(398)	-	-	(592)	(555)	(398)
Changes in financial assumptions	584	105	173	-	-	584	105	173
Changes in demographic assumptions	17	43	302	-	-	17	43	302
Return on plan asset excluding interest	-	-	-	(735)	2,570	(1,142)	(735)	2,570
	9	(407)	77	(735)	2,570	(1,133)	(1,142)	2,647
<b>Others</b>								
Benefits paid	777	571	753	(528)	(651)	100	43	102
Contributions	-	-	-	100	35	4,068	100	35
Transfer to other accounts payable	-	(4)	-	-	-	-	(4)	-
Transfers from other plans/subsidiaries	-	-	(16)	-	-	-	-	(16)
Transfers to other plans/subsidiaries	-	-	16	-	-	-	-	16
Translation adjustment	(23)	(86)	(6)	-	-	(23)	(86)	(6)
	754	481	747	(428)	(616)	4,145	53	131
<b>Balance at end of year</b>	<b>(P5,779)</b>	<b>(P5,872)</b>	<b>(P5,344)</b>	<b>P883</b>	<b>P1,952</b>	<b>(P2,500)</b>	<b>(P4,989)</b>	<b>(P3,392)</b>

The above net defined benefit retirement liability was recognized in the consolidated statements of financial position as follows:

	<b>Note</b>	<b>2018</b>	2017
Trade and other payables	17	<b>P67</b>	P104
Retirement benefits liability (noncurrent portion)		<b>2,433</b>	4,885
		<b>P2,500</b>	P4,989

Retirement benefits costs recognized in the consolidated statements of income by the Parent Company amounted to P410, P408 and P485 in 2018, 2017 and 2016, respectively.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P113, P100 and P94 in 2018, 2017 and 2016, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2018 and 2017.

Plan assets consist of the following:

	<b>2018</b>	2017
Shares of stock:		
Quoted	<b>52%</b>	84%
Unquoted	<b>6%</b>	5%
Government securities	<b>5%</b>	7%
Cash and cash equivalents	<b>12%</b>	1%
Receivables	<b>21%</b>	1%
Others	<b>4%</b>	2%
	<b>100%</b>	100%

*Investment in Shares of Stock.* As of December 31, 2018, the Parent Company's plan assets include 459,156,097 common shares of Petron with fair market value per share of P7.71, 1,950,000 common shares of SMC with fair market value per share of P147.00, 2,000,000 Series "2", Subseries "B" preferred shares of SMC with fair market value per share of P75.

The Parent Company's plan recognized a gain (loss) on the investment in marketable securities of Petron and SMC amounting to (P675), (P577) and P2,169 in 2018, 2017 and 2016, respectively, mainly as a result of marked-to-market remeasurements.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P122 in 2018 and P85 both in 2017 and 2016.

On July 25, 2016, the Group plan's investment in 375,142,858 ordinary shares of PAHL was sold to Petron for a total consideration of P1,921 (Note 13). Accordingly, the plan recognized gain on sale of investment amounting to P503.

On December 18, 2018, out of the plan's 731,156,097 investment in common shares of Petron, 272,000,000 shares were sold to SMC Retirement Plan (SMCRP) for a total consideration of P2,350. Accordingly, the plan recognized loss on sale of investment amounting to P147.

*Investment in trust account* represents funds entrusted to financial institutions for the purpose of maximizing the yield on investible funds.

*Receivables* which earn interest include the uncollected balance as of December 31, 2018 of the plan's sale of investment in shares of Petron to SMCRP.

*Others* include investment in pooled funds and Petron bonds amounting to P128 and P28 as of December 31, 2018, respectively.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Parent Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Parent Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Parent Company expects to contribute P838 to its defined benefit retirement plan in 2019.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The retirement plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

*Investment and Interest Risk.* The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

*Longevity and Salary Risks.* The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2018	2017	2016
Discount rate	5.50% to 7.48%	5.50% to 5.73%	5.38% to 5.53%
Future salary increases	5.00% to 7.00%	5.00% to 7.00%	5.00% to 8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation is from 5.54 to 20.20 years and 5.90 to 22.50 years as of December 31, 2018 and 2017, respectively.

The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit assets/liabilities by the amounts below:

2018	Defined Benefit Liabilities	
	1 Percent Increase	1 Percent Decrease
Discount rate	(P329)	P378
Salary increase rate	384	(340)

2017	Defined Benefit Liabilities	
	1 Percent Increase	1 Percent Decrease
Discount rate	(P356)	P435
Salary increase rate	366	(322)

The Parent Company has advances to PCERP amounting to P2,399 and P5,188 as of December 31, 2018 and 2017, respectively, included as part of "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 28). The advances are subject to interest of 5% in 2018, 2017 and 2016 (Note 28).

In 2018, portion of the Parent Company's interest bearing advances to PCERP were converted into contribution to the retirement plan (Note 28).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2018 and 2017 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Parent Company has not recognized any impairment losses relating to the receivables from retirement plan for the years ended December 31, 2018, 2017 and 2016.

### 31. Significant Agreements

*Supply Agreements.* The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 while the contract with KPC is from January 1, 2015 to December 31, 2015, both with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the consolidated statements of financial position as of December 31, 2018 and 2017 (Note 16).

*Toll Service Agreement with Innospec Limited (Innospec).* PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement, PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P109 in 2018 and P130 both in 2017 and 2016.

*Hungry Juan Outlet Development Agreement with San Miguel Foods, Inc. (SMFI)* PFC entered into an agreement with SMFI for a period of three years and paid a one-time franchise fee. The store, which started operating in November 2012, is located at Rizal Blvd. cor. Argonaut Highway, Subic Bay Freeport Zone. The agreement expired in November 2018.

*Lease Agreements with Philippine National Oil Company (PNOC).* On September 30, 2009, the Parent Company through NVRC, entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2018 and 2017, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 39).

### 32. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts are computed as follows:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	<b>P6,218</b>	P12,739	P10,100
Dividends on preferred shares for the year	<b>(646)</b>	(646)	(646)
Distributions to the holders of capital securities	<b>(2,971)</b>	(4,024)	(3,807)
Net income attributable to common shareholders of the Parent Company (a)	<b>P2,601</b>	P8,069	P5,647
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375	9,375
Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	<b>P0.28</b>	P0.86	P0.60

As of December 31, 2018, 2017 and 2016, the Parent Company has no potential dilutive debt or equity instruments.

### 33. Supplemental Cash Flow Information

a. Changes in operating assets and liabilities:

	2018	2017	2016
Decrease (increase) in assets:			
Trade and other receivables	<b>(P6,523)</b>	(P6,593)	(P230)
Inventories	<b>(7,161)</b>	(12,531)	(13,029)
Other current assets	<b>(5,049)</b>	(1,511)	954
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	<b>(14,071)</b>	7,837	11,842
Trade and other payables and others	<b>16,597</b>	(165)	4,922
	<b>(16,207)</b>	(12,963)	4,459
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, goodwill and others	<b>591</b>	(80)	91
	<b>(P15,616)</b>	(P13,043)	P4,550



b. Changes in liabilities arising from financing activities:

	Dividends Payable	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2018	P239	P69,583	P101,705	P171,527
Changes from financing cash flows				
Proceeds from availment of loans	-	319,818	19,763	339,581
Payments of loans	-	(306,124)	(6,440)	(312,564)
Dividends and distributions declared	6,128	-	-	6,128
Dividends and distributions paid	(6,160)	-	-	(6,160)
Total changes from financing cash flows	(32)	13,694	13,323	26,985
Effects of changes in foreign exchange rates	-	(230)	2,640	2,410
Other charges	(1)	(50)	332	281
<b>Balance as of December 31, 2018</b>	<b>P206</b>	<b>P82,997</b>	<b>P118,000</b>	<b>P201,203</b>
	Dividends Payable	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2017	P218	P90,366	P79,852	P170,436
Changes from financing cash flows				
Proceeds from availment of loans	-	223,862	74,807	298,669
Payments of loans	-	(244,722)	(53,477)	(298,199)
Dividends and distributions declared	5,794	-	-	5,794
Dividends and distributions paid	(5,773)	-	-	(5,773)
Total changes from financing cash flows	21	(20,860)	21,330	491
Effects of changes in foreign exchange rates	-	77	(297)	(220)
Other charges	-	-	820	820
Balance as of December 31, 2017	P239	P69,583	P101,705	P171,527

### 34. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include cash and cash equivalents, debt and equity securities, bank loans and derivative instruments. The main purpose of bank loans is to finance working capital relating to importation of crude and petroleum products, as well as to partly fund capital expenditures. The Group has other financial assets and liabilities such as trade and other receivables and trade and other payables, which are generated directly from its operations.

It is the Group's policy not to enter into derivative transactions for speculative purposes. The Group uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into forward currency and option contracts to hedge its currency exposure on crude oil importations and long-term dollar loan, respectively.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. The BOD regularly reviews and approves the policies for managing these financial risks. Details of each of these risks are discussed below, together with the related risk management structure.

#### Risk Management Structure

The Group follows an enterprise-wide risk management framework for identifying, assessing and addressing the risk factors that affect or may affect its businesses.

The Group's risk management process is a bottom-up approach, with each risk owner mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As the Group's operation is an integrated value chain, risks emanate from every process, while some could cut across groups. The results of these activities flow up to the Management Committee and, eventually, the BOD through the Group's annual business planning process.

Oversight and technical assistance is likewise provided by corporate units and committees with special duties. These groups and their functions are:

- a. The Risk and Insurance Management Group, which is mandated with the overall coordination and development of the enterprise-wide risk management process.
- b. The Treasurers Department, which is in charge of foreign currency hedging transactions.
- c. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.
- d. The Corporate Technical and Engineering Services Group, which oversees strict adherence to safety and environmental mandates across all facilities.
- e. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.
- f. The Commodity Risk Management Department (CRMD), which sets new and updates existing hedging policies by the BOD, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.
- g. PSTPL executes the hedging transactions involving crude and product imports on behalf of the Group.

The BOD also created separate positions and board-level entities with explicit authority and responsibility in managing and monitoring risks, as follows:

- a. The Audit Committee is responsible for overseeing the Senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

- b. The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Group to ensure its functionality and effectiveness.
- c. The Compliance Officer, who is a senior officer of the Parent Company reports to the BOD chairperson. Among other functions, he monitors compliance with the provisions and requirements of the Corporate Governance Manual and relevant laws and regulations and determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual and other relevant rules and regulations of the SEC.

#### Foreign Currency Risk

The Parent Company's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The Group's exposures to foreign currency risk arise mainly from US dollar-denominated sales as well as purchases principally of crude oil and petroleum products. As a result of this, the Group maintains a level of US dollar-denominated assets and liabilities during the year. Foreign currency risk occurs due to differences in the levels of US dollar-denominated assets and liabilities.

In addition, starting March 31, 2012, the Group's exposure to foreign currency risks also arise from US dollar-denominated sales and purchases, principally of crude oil and petroleum products, of Petron Malaysia whose transactions are in Malaysian ringgit, which are subsequently converted into US dollar before ultimately translated to equivalent Philippine peso amount using applicable rates for the purpose of consolidation.

The Group pursues a policy of mitigating foreign currency risk by entering into hedging transactions or by substituting US dollar-denominated liabilities with peso-based debt. The natural hedge provided by US dollar-denominated assets is also factored in hedging decisions. As a matter of policy, currency hedging is limited to the extent of 100% of the underlying exposure.

The Group is allowed to engage in active risk management strategies for a portion of its foreign currency risk exposure. Loss limits are in place, monitored daily and regularly reviewed by management.

The Group assesses the existence of an economic relationship between the hedged item and the hedging instrument based on the currency, amount, and timing of their respective cash flows. For derivatives designated in a hedging relationship, the Group determines whether the derivatives are expected to be highly effective in offsetting the changes in the cash flows of the hedged item using the cumulative dollar-offset method. The dollar-offset method approximates the changes in the fair value of the hedged item using a hypothetical derivative which mirrors the terms of the derivative used as hedging instrument.

For currency hedges, the Group maintains a 1:1 hedge ratio since a similar amount of hedging instrument is expected to offset the changes in the cash flows of the hedged item. The main sources of ineffectiveness are:

- a. the effect of the counterparty and the Group's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in the exchange rates; and
- b. changes in the timing of the hedged transactions.

The Group is exposed to foreign currency risk of its short-term loans and US dollar-denominated sales and purchases. On the other hand, both foreign currency and interest rate risks arise in the Group's long-term debts. The Group determined that foreign currency risk is a separately identifiable and measurable risk component eligible for designation since it is caused by fluctuations in US dollar to Philippine peso exchange rates and benchmark closing prices used to measure the fluctuations are available in the market.

Information on the Group's US dollar-denominated financial assets and liabilities and their Philippine peso equivalents are as follows:

	2018		2017	
	US Dollar (in millions)	Phil. Peso Equivalent	US Dollar	Phil. Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	217	11,397	19	952
Trade and other receivables	316	16,635	118	5,891
Other assets	27	1,426	3	126
	<b>560</b>	<b>29,458</b>	<b>140</b>	<b>6,969</b>
<b>Liabilities</b>				
Short-term loans	285	14,977	1	30
Liabilities for crude oil and petroleum products	480	25,243	515	25,747
Long-term debts (including current maturities)	950	49,951	1,000	49,930
Other liabilities	346	18,202	35	1,733
	<b>2,061</b>	<b>108,373</b>	<b>1,551</b>	<b>77,440</b>
<b>Net foreign currency-denominated monetary liabilities</b>	<b>(1,501)</b>	<b>(78,915)</b>	<b>(1,411)</b>	<b>(70,471)</b>

The Group incurred net foreign currency gains (losses) amounting to (P3,476), P1,192 and (P2,236) in 2018, 2017 and 2016, respectively (Note 26), which were mainly countered by marked-to-market and realized hedging gains (losses) (Note 26). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of December 31 are shown in the following table:

	PhP to US\$
<b>December 31, 2018</b>	<b>52.580</b>
December 31, 2017	49.930
December 31, 2016	49.720

Managing of foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign currency movements affect reported equity through the retained earnings and equity reserves arising from increases or decreases in unrealized and realized foreign currency gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of December 31, 2018 and 2017:

2018	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P99)	(P187)	P99	P187
Trade and other receivables	(122)	(327)	122	327
Other assets	(12)	(24)	12	24
	(233)	(538)	233	538
Short-term loans	150	240	(150)	(240)
Liabilities for crude oil and petroleum products	210	480	(210)	(480)
Long-term debts (including current maturities)	950	665	(950)	(665)
Other liabilities	285	408	(285)	(408)
	1,595	1,793	(1,595)	(1,793)
	P1,362	P1,255	(P1,362)	(P1,255)

2017	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P10)	(P144)	P10	P144
Trade and other receivables	(81)	(263)	81	263
Other assets	(3)	(12)	3	12
	(94)	(419)	94	419
Short-term loans	1	-	(1)	-
Liabilities for crude oil and petroleum products	326	789	(326)	(789)
Long-term debts (including current maturities)	1,000	700	(1,000)	(700)
Other liabilities	33	193	(33)	(193)
	1,360	1,682	(1,360)	(1,682)
	P1,266	P1,263	(P1,266)	(P1,263)

Exposures to foreign currency rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

#### Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates mainly to long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings prior to deployment of funds to their intended use in operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term volatility on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

Managing interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity through the retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P500 and P499 in 2018 and 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

*Interest Rate Risk Table.* As of December 31, 2018 and 2017, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2018	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P5,672	P5,672	P21,291	5,643	P9,143	P21,607	P69,028
Interest rate	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	5.5% - 5.8%	4.5% - 5.5%	5.5% - 8.1%	
<b>Floating Rate</b>							
US\$ denominated (expressed in PhP)	12,394	15,023	15,023	7,511	-	-	49,951
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	-	-	
	P18,066	P20,695	P36,314	P13,154	P9,143	P21,607	P118,979

\*The Parent Company reprices every month but has been given an option to reprice every 3 or 6 months.

2017	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate Philippine peso denominated Interest rate	P3,820 5.5% - 7.2%	P5,672 5.5% - 7.2%	P5,672 5.5% - 7.2%	P21,291 4.0% - 7.2%	P5,643 5.5% - 5.8%	P10,750 4.5% - 5.5%	P52,848
Floating Rate US\$ denominated (expressed in PhP) Interest rate*	-	14,266 1, 3, 6 mos. Libor + margin	14,266 1, 3, 6 mos. Libor + margin	14,266 1, 3, 6 mos. Libor + margin	7,132 1, 3, 6 mos. Libor + margin	-	49,930
	P3,820	P19,938	P19,938	P35,557	P12,775	P10,750	P102,778

\*The Parent Company reprices every month but has been given an option to reprice every 3 or 6 months.

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by Trade Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statements of financial position or in the notes to the consolidated financial statements, as summarized below:

	Note	2018	2017
Cash in banks and cash equivalents	5	P14,143	P14,313
Derivative assets	6	1,079	165
Investments in debt instruments	7	378	531
Trade and other receivables - net	8	42,497	38,159
Long-term receivables - net	14	253	228
Noncurrent deposits	14	94	90
		<b>P58,444</b>	P53,486

### Cash and Cash Equivalents, Derivative Assets and Noncurrent Deposits

Cash and cash equivalents, derivative assets and noncurrent deposits are held with counterparties with high external credit ratings. The credit quality of these financial assets is considered to be high grade. Impairment on cash and cash equivalents, derivative assets and noncurrent deposits has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents, derivative assets and noncurrent deposits have low credit risk based on the external credit ratings of its counterparties.

### Investments in Debt Instruments and Proprietary Membership Shares

The Group limits its exposure to credit risk by investing only in liquid debt instruments and proprietary membership shares and only with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

*Trade and Other Receivables and Long-Term Receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 37.

*Credit Quality.* In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

Class A "*High Grade*" are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B "*Moderate Grade*" refers to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

Class C "*Low Grade*" are accounts with high probability of delinquency and default.

Below is the credit quality profile of the Group's trade accounts receivable as of December 31, 2018 and 2017:

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
<b>December 31, 2018</b>				
Retail	P1,183	P3,760	P253	P5,196
Lubes	255	273	52	580
Gasul	693	413	167	1,273
Industrial	7,788	6,697	1,636	16,121
Others	1,707	3,096	1,133	5,936
	<b>P11,626</b>	<b>P14,239</b>	<b>P3,241</b>	<b>P29,106</b>

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
<b>December 31, 2017</b>				
Retail	P846	P3,207	P404	P4,457
Lubes	358	1,023	181	1,562
Gasul	533	447	142	1,122
Industrial	5,440	4,093	992	10,525
Others	4,067	4,267	925	9,259
	<b>P11,244</b>	<b>P13,037</b>	<b>P2,644</b>	<b>P26,925</b>

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 8). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P9,204 and P4,927 as of December 31, 2018 and 2017, respectively. These securities may only be called on or applied upon default of customers.



*Credit Risk Concentration.* The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

The table below presents the summary of the Group's exposure to credit risk and shows the credit quality of the assets by indicating whether the assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	2018					Total
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired			
Cash in banks and cash equivalents	P14,143	P -	P -	P -	P -	P14,143
Trade and other receivables	-	42,497	1,337	-	-	43,834
Derivative assets not designated as cash flow hedge	-	-	-	857	-	857
Derivative assets designated as cash flow hedge	-	-	-	-	222	222
Proprietary membership shares	-	-	-	254	-	254
Investments in debt instruments	226	-	-	-	152	378
Long-term receivables - net	-	253	73	-	-	326
Noncurrent deposits	94	-	-	-	-	94
	P14,463	P42,750	P1,410	P1,111	P374	P60,108

The credit risk exposure of the Group based on trade accounts receivable as of December 31, 2017 as shown below:

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
December 31, 2017				
Retail	P4,284	P128	P45	P4,457
Lubes	1,412	90	60	1,562
Gasul	894	113	115	1,122
Industrial	9,605	452	468	10,525
Others	9,008	163	88	9,259
	P25,203	P946	P776	P26,925

#### Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives in managing its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2018 and 2017.

2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P17,405	P17,405	P17,405	P -	P -	P -
Trade and other receivables	42,497	42,497	42,497	-	-	-
Derivative assets (including non-current portion)	1,079	1,079	872	61	146	-
Proprietary membership shares	254	254	254	-	-	-
Investments in debt instruments	378	394	-	136	258	-
Long-term receivables - net	253	253	-	-	253	-
Noncurrent deposits	94	94	-	-	3	91
<b>Financial Liabilities</b>						
Short-term loans	82,997	83,402	83,402	-	-	-
Liabilities for crude oil and petroleum products	25,991	25,991	25,991	-	-	-
Trade and other payables*	23,189	23,189	23,189	-	-	-
Derivative liabilities (including non-current portion)	802	802	614	115	73	-
Long-term debts (including current maturities)	118,000	138,128	23,649	25,503	66,861	22,115
Cash bonds	434	434	-	416	3	15
Cylinder deposits	573	573	-	-	-	573
Other noncurrent liabilities**	77	78	-	33	25	20

\*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

\*\*excluding cash bonds, cylinder deposits and derivative liabilities

2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P17,014	P17,014	P17,014	P -	P -	P -
Trade and other receivables	38,159	38,159	38,159	-	-	-
Derivative assets	165	165	165	-	-	-
Proprietary membership shares	171	171	171	-	-	-
Investments in debt instruments	531	577	204	64	309	-
Long-term receivables - net	228	228	-	-	-	228
Noncurrent deposits	90	90	-	-	9	81
<b>Financial Liabilities</b>						
Short-term loans	69,583	69,879	69,879	-	-	-
Liabilities for crude oil and petroleum products	36,920	36,920	36,920	-	-	-
Trade and other payables*	7,917	7,917	7,917	-	-	-
Derivative liabilities	1,791	1,791	1,791	-	-	-
Long-term debts (including current maturities)	101,705	117,024	7,812	23,619	74,308	11,285
Cash bonds	400	404	-	385	2	17
Cylinder deposits	577	577	-	-	-	577
Other noncurrent liabilities**	57	57	-	14	20	23

\*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

\*\*excluding cash bonds and cylinder deposits

#### Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, 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.

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from risks of downward price and squeezed margins. Hedging policy (including the use of commodity price swaps, time-spreads, put options, collars and 3-way options) developed by the CRMD is in place. Decisions are guided by the conditions set and approved by the Group's management.

#### Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (FVPL and certain debt instruments at FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

#### Capital Management

The Group's capital management policies and programs aim to provide an optimal capital structure that would ensure the Group's ability to continue as a going concern while at the same time provide adequate returns to the shareholders. As such, it considers the best trade-off between risks associated with debt financing and relatively higher cost of equity funds.

An enterprise resource planning system is used to monitor and forecast the Group's overall financial position. The Group regularly updates its near-term and long-term financial projections to consider the latest available market data in order to preserve the desired capital structure. The Group may adjust the amount of dividends paid to shareholders, issue new shares as well as increase or decrease assets and/or liabilities, depending on the prevailing internal and external business conditions.

The Group monitors capital via carrying amount of equity as shown in the consolidated statements of financial position. The Group's capital for the covered reporting period is summarized below:

	2018	2017
Total assets	<b>P358,154</b>	P338,030
Total liabilities	<b>271,968</b>	238,411
Total equity	<b>86,186</b>	99,619
Debt to equity ratio	<b>3.2:1</b>	2.4:1
Assets to equity ratio	<b>4.2:1</b>	3.4:1

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally-imposed capital requirements.

### 35. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31:

	Note	2018		2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	5	P17,405	P17,405	P17,014	P17,014
Trade and other receivables	8	42,497	42,497	38,159	38,159
Investments in debt instruments	7	226	226	-	-
Long-term receivables - net	14	253	253	228	228
Noncurrent deposits	14	94	94	90	90
FA at amortized cost		60,475	60,475	55,491	55,491
Investments in debt instruments	7	152	152	531	531
Derivative assets designated as cash flow hedge	6	222	222	-	-
FA at FVOCI		374	374	531	531
Financial assets at FVPL	6	254	254	171	171
Derivative assets not designated as cash flow hedge	6, 14	857	857	165	165
FA at FVPL		1,111	1,111	336	336
<b>Total financial assets</b>		<b>P61,960</b>	<b>P61,960</b>	<b>P56,358</b>	<b>P56,358</b>

	Note	2018		2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	15	P82,997	P82,997	P69,583	P69,583
Liabilities for crude oil and petroleum products	16	25,991	25,991	36,920	36,920
Trade and other payables*	17	23,189	23,189	7,917	7,917
Long-term debt including current portion	18	118,000	118,000	101,705	101,705
Derivative liabilities designated as cash flow hedge	20	332	332	-	-
Cash bonds	20	434	434	400	400
Cylinder deposits	20	573	573	577	577
Other noncurrent liabilities**	20	77	77	57	57
Other FL		251,593	251,593	217,159	217,159
Derivative liabilities not designated as cash flow hedge		470	470	1,791	1,791
<b>Total financial liabilities</b>		<b>P252,063</b>	<b>P252,063</b>	<b>P218,950</b>	<b>P218,950</b>

\*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

\*\*excluding cash bonds, cylinder deposits and derivative liabilities

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

*Cash and Cash Equivalents, Trade and Other Receivables, Long-term Receivables and Noncurrent Deposits.* The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables and noncurrent deposits, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

*Derivatives.* The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Marked-to-market valuation of commodity hedges are based on forecasted crude and product prices by third parties. The fair values of derivative instruments designated as cash flow hedges are computed by discounting the future cash flows and using the option valuation model based on applicable market rates of similar instruments.

*Financial Assets at FVPL and Certain Investments in Debt Instruments at FVOCI.* The fair values of publicly traded instruments and similar investments are based on published market prices. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

*Long-term Debt - Floating Rate.* The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

*Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities.* Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2018 and 2017 are 9.00% and 5.82%, respectively.

*Short-term Loans, Liabilities for Crude Oil and Petroleum Products and Trade and Other Payables.* The carrying amount of short-term loans, liabilities for crude oil and petroleum products and trade and other payables approximates fair value primarily due to the relatively short-term maturities of these financial instruments.

#### Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

#### Derivative Instruments Accounted for as Cash Flow Hedges

The Group enters into various currency derivative contracts to manage its exposure on foreign currency risk (Note 34).

*Call Spread Swaps (CSS).* In 2018, the Parent Company entered into four CSS contracts designated as cash flow hedges with an aggregate notional amount of US\$207 million with a weighted average strike rate range of P53.93 to P57.15. These derivative contracts are designed to partially hedge the foreign currency risk pertaining to the US\$207 million bottom layer out of the US\$1,000 million term loan of the Parent Company (Note 18d). As of December 31, 2018, the net negative fair value of these CSS amounted to P110.

Pertinent information about the timing of the cash flows of the CSS is shown below.

Notional amount	Effective Date	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years
US\$48 million	July 3, 2018	US\$8 million	US\$16 million	US\$24 million
US\$49 million	September 17, 2018	US\$14 million	US\$14 million	US\$21 million
US\$60 million	September 19, 2018	-	US\$15 million	US\$45 million
US\$50 million	October 10, 2018	-	US\$20 million	US\$30 million

The table below summarizes the amounts pertaining to the designated hedged item as of December 31, 2018.

	Change in fair value used for calculating hedge ineffectiveness	Hedging reserve	Cost of hedging reserve
Foreign currency risk			
US dollar-denominated loan	P110	P -	(P110)

There are no balances remaining in the hedging reserve from hedging relationship for which hedge accounting is no longer applied.

The table below summarizes the amounts pertaining to the designated hedging instrument as of December 31, 2018.

Derivative designated as cash flow hedge	Notional amount in original currency	Notional amount in Php	Carrying Amount		Change in fair value used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from cost of hedging reserve to profit or loss [Other income (expense) - net]
			Asset*	Liability**				
Foreign currency risk								
Call spread swap	US\$207 million	P10,884	P222	(P332)	(P110)	P110	P110	P47

\*Included under "Financial assets at fair value" and "Other noncurrent assets" accounts amounting to P15 and P207, respectively.  
 \*\* Included under "Derivative liabilities" and "Other noncurrent liabilities" accounts amounting to P144 and P188, respectively.

No hedge ineffectiveness and no amount reclassified from hedging reserve to profit or loss were recognized in the consolidated statements of income in 2018.

The table below provides for a reconciliation by risk category of components of equity and OCI items, net of tax, resulting from cash flow hedge accounting.

	2018	
	Hedging Reserve	Costs of Hedging Reserve
<b>Balance at beginning of year</b>	<b>P -</b>	<b>P -</b>
<i>Cash flow hedges</i>		
Changes in fair value:		
Foreign currency risk - US dollar-denominated loan	-	(110)
Income tax benefit	-	33
<b>Balance at end of year</b>	<b>P -</b>	<b>(P77)</b>

### Derivative Instruments not Designated as Hedges

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are recognized directly in profit or loss.

#### *Freestanding Derivatives*

Freestanding derivatives consist of commodity and currency entered into by the Group.

*Currency Forwards.* As of December 31, 2018 and 2017, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$907 million and US\$1,283 million, respectively, and with various maturities in 2019 and 2018. As of December 31, 2018 and 2017, the net negative fair value of these currency forwards amounted to P296 and P445, respectively.

*Commodity Swaps.* The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2019 and 2018. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 17.0 million barrels and 42.6 million barrels for 2018 and 2017, respectively. The estimated net receipts (payouts) for these transactions amounted to P546 and (P1,181) as of December 31, 2018 and 2017, respectively.

*Commodity Options.* As of December 31, 2018, the Group has outstanding 3-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 150 thousand barrels.

The call and put options can be exercised at various calculation dates in 2019 with specified quantities on each calculation date. The estimated net receipt for these call and put options as of December 31, 2018 amounted to P137.

The Group has no outstanding 3-way options as of December 31, 2017.

#### *Embedded Derivatives*

Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of the Parent Company. Under the sales and purchase contracts, the peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of December 31, 2018 and 2017, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2018 and 2017, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2018, 2017 and 2016, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P4,326, (P1,692) and P824, respectively (Note 26).

#### Fair Value Changes on Derivatives not Designated as Cash Flow Hedge

The net movements in the fair value of derivative transactions in 2018 and 2017 are as follows:

	Note	2018	2017
Fair value at beginning of year		(P1,626)	(P714)
Net changes in fair value during the year	26	4,326	(1,692)
Fair value of settled instruments		(2,313)	780
Fair value at end of year		P387	(P1,626)

#### Fair Value Hierarchy

Financial assets and liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2018 and 2017. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability are not based on observable market data.

	2018		2017	
	Level 2	Level 1	Level 2	Total
Financial Assets:				
FVPL	P254	P -	P171	P171
Derivative assets	1,079	-	165	165
Investments in debt instruments	152	201	330	531
Financial Liabilities:				
Derivative liabilities	(802)	-	(1,791)	(1,791)

The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2018 and Level 3 as of December 31, 2017. During the year, there were no transfers between and into and out of Level 1 and Level 2 fair value measurements.



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### 36. Registration with the Board of Investments (BOI)

#### RMP-2 Project

On June 3, 2011, the BOI approved the Parent Company's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016 and the Parent Company availed of the ITH in 2016, 2017 and 2018.

On August 11, 2017, the BOI approved the Parent Company's application for the ITH incentive. The approval also covers the claim for income tax exemption in the Parent Company's 2016 Income Tax Return. On June 20, 2018, the BOI approved the Parent Company's application for the ITH incentive. The approval also covers the claim for income tax exemption in the Parent Company's 2017 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Yearly certificates of entitlement have been timely obtained by the Parent Company to support its ITH credits in 2018, 2017 and 2016.

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### 37. Segment Information

Management identifies segments based on business and geographic locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The CEO (the chief operating decision maker) reviews management reports on a regular basis.

The Group's major sources of revenues are as follows:

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.

- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.
- c. Lease of acquired real estate properties and equipment for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.
- e. Export sales of various petroleum and non-fuel products to other countries such as China, Taiwan, Cambodia, Malaysia, South Korea, Singapore, USA, Vietnam, Thailand, Indonesia, Bangladesh and UAE.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.
- g. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

Revenues are mainly derived from the sale of petroleum products to retail and commercial customers in various geographical locations.

The Group has no significant remaining performance obligations as it mainly recognized revenues in amounts that correspond directly to the value of completed performance obligations.

#### Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

#### Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

#### Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Group.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the years ended December 31, 2018, 2017 and 2016.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
<b>2018</b>						
Revenue:						
External sales	P554,958	P -	P1,117	P923	P388	P557,386
Inter-segment sales	284,132	116	686	-	(284,934)	-
Operating income	18,117	90	313	89	312	18,921
Net income	11,854	150	97	94	(5,126)	7,069
Assets and liabilities:						
Segment assets*	398,305	1,418	6,730	622	(49,178)	357,897
Segment liabilities*	276,810	231	2,378	115	(16,016)	263,518
Other segment information:						
Property, plant and equipment	163,418	-	-	132	434	163,984
Depreciation and amortization	11,515	-	9	19	-	11,543
Interest expense	9,689	-	154	-	(154)	9,689
Interest income	814	31	5	10	(154)	706
Income tax expense	3,306	22	24	12	22	3,386

\*excluding deferred tax assets and liabilities

\*\*revenues from the use of loaned equipment and provisions of technical support are presented as part of leasing and others, respectively.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2017</b>						
Revenue:						
External sales	P433,879	P -	P -	P745	P -	P434,624
Inter-segment sales	199,117	83	584	-	(199,784)	-
Operating income	26,895	59	295	16	373	27,638
Net income	16,263	118	141	44	(2,479)	14,087
Assets and liabilities:						
Segment assets*	382,313	1,319	5,871	636	(52,316)	337,823
Segment liabilities*	248,118	291	4,439	108	(21,942)	231,014
Other segment information:						
Property, plant and equipment	172,212	-	-	134	5,344	177,690
Depreciation and amortization	10,952	-	9	18	-	10,979
Interest expense	8,487	-	164	-	(164)	8,487
Interest income	666	26	2	5	(164)	535
Income tax expense	4,648	16	27	3	61	4,755

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2016</b>						
Revenue:						
External sales	P341,979	P -	P76	P1,823	(P38)	P343,840
Inter-segment sales	161,982	132	517	32	(162,663)	-
Operating income	23,208	104	271	48	166	23,797
Net income	10,495	125	96	63	43	10,822
Assets and liabilities:						
Segment assets*	363,812	1,106	5,604	720	(52,543)	318,699
Segment liabilities*	242,140	192	4,325	147	(22,457)	224,347
Other segment information:						
Property, plant and equipment	171,330	-	-	151	5,123	176,604
Depreciation and amortization	9,289	-	2	41	173	9,505
Interest expense	7,557	-	173	-	(173)	7,557
Interest income	651	22	2	5	(173)	507
Income tax expense	1,832	15	23	11	1,675	3,556

\*excluding deferred tax assets and liabilities

Inter-segment sales transactions amounted to P284,934, P199,784 and P162,663 for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2018, 2017 and 2016:

	Retail	Lube	Gasul	Industrial	Others	Total
<b>2018</b>						
Revenue	<b>P269,255</b>	<b>P4,883</b>	<b>P27,810</b>	<b>P132,397</b>	<b>P120,613</b>	<b>P554,958</b>
Property, plant and equipment	<b>12,192</b>	<b>70</b>	<b>499</b>	<b>90</b>	<b>150,567</b>	<b>163,418</b>
Capital expenditures	<b>3,326</b>	<b>6</b>	<b>14</b>	<b>9</b>	<b>8,989</b>	<b>12,344</b>
<b>2017</b>						
Revenue	212,840	5,307	22,850	101,333	91,549	433,879
Property, plant and equipment	20,648	86	435	153	150,890	172,212
Capital expenditures	2,473	1	100	49	4,821	7,444
<b>2016</b>						
Revenue	161,415	4,445	17,922	83,650	74,547	341,979
Property, plant and equipment	18,557	110	384	210	152,069	171,330
Capital expenditures	3,214	1	89	110	21,920	25,334

#### Geographical Segments

The following table presents segment assets of the Group as of December 31, 2018 and 2017.

	2018	2017
Local		
International	<b>P284,469</b>	P271,883
	<b>73,428</b>	65,940
	<b>P357,897</b>	P337,823

#### Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the years ended December 31, 2018, 2017 and 2016.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
<b>2018</b>						
Local	<b>P311,951</b>	<b>P44</b>	<b>P1,803</b>	<b>P923</b>	<b>(P979)</b>	<b>P313,742</b>
Export/international	<b>527,139</b>	<b>72</b>	<b>-</b>	<b>-</b>	<b>(283,567)</b>	<b>243,644</b>
<b>2017</b>						
Local	271,117	29	584	745	(1,156)	271,319
Export/international	361,879	54	-	-	(198,628)	163,305
<b>2016</b>						
Local	204,585	64	593	1,855	(1,686)	205,411
Export/international	299,375	68	-	-	(161,014)	138,429

\*\*revenues from the use of loaned equipment and provisions of technical support are presented as part of leasing and others, respectively.

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### 38. Events After the Reporting Date

- a. On January 18, 2019, the Parent Company paid distributions amounting to US\$11.500 million (P859) to the holders of the US\$500 million SPCS.
- b. On March 12, 2019, the BOD of the Parent Company approved the following matters:
  - i. Public offer and issuance of up to P20,000 of preferred shares with features to be determined by the Executive Committee;
  - ii. Redemption of the 7,122,320 Series 2A Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 10, 2019 and redemption pay-out date of November 4, 2019 (with November 3, 2019 falling on a Sunday); and
  - iii. Declaration of cash dividends for common and Series 2 preferred shareholders with the following details:

Type	Per Share	Record Date	Payment Date
Common	P0.10000	March 27, 2019	April 11, 2019
Series 2A	15.75000	April 4, 2019	May 3, 2019
Series 2B	17.14575	April 4, 2019	May 3, 2019
Series 2A	15.75000	July 12, 2019	August 5, 2019
Series 2B	17.14575	July 12, 2019	August 5, 2019

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### 39. Other Matters

#### a. Lease Agreements with PNOC

On October 20, 2017, the Parent Company filed with the Regional Trial Court (RTC) of Mandaluyong City a complaint against the PNOC for Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour Temporary Restraining Order and Verified Applications for 20-day Temporary Restraining Order and Writ of Preliminary Injunction. In its complaint, the Parent Company seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Parent Company. These landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by the Parent Company of the conveyed lots for its business operation. Thus, PNOC and the Parent Company executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, the Parent Company, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint stemmed from PNOC's refusal to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

The Parent Company alleged that by unilaterally setting aside the renewal clauses of the lease agreements and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with the Parent Company.

On December 11, 2017, the trial court granted the Parent Company's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting the Parent Company from possession of the subject properties until the case is decided.

The court-mandated mediation conference held at the Philippine Mediation Center in Mandaluyong City on February 5, 2018 was terminated without any agreement between the parties. As of December 31, 2018, the case was under judicial dispute resolution proceedings before the court.

b. Tax Credit Certificates Related Cases

In 1998, the BIR issued a deficiency excise tax assessment against the Parent Company relating to its use of P659 worth of Tax Credit Certificate (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Parent Company by suppliers as payment for fuel purchases. The Parent Company contested the BIR's assessment before the Court of Tax Appeals (CTA). In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, the Parent Company was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals (CA) promulgated a decision in favor of the Parent Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to the Parent Company. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court (SC) through a petition for review on *certiorari* dated December 5, 2012. On July 9, 2018, the SC rendered a decision in favor of the Parent Company denying the petition for review filed by the BIR and affirming the decision of the CA. No motion for reconsideration for such decision relating to the Parent Company was filed by the BIR.

c. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent Company not criminally liable, but the SBMI found the Parent Company to have overloaded the vessel. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of December 31, 2018.

d. Other Proceedings

The Group is also a party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these other proceedings will not have a material adverse effect on the Group's business financial condition or results of operations.

- e. The Group has unused letters of credit totaling approximately P33,193 and P19,515 as of December 31, 2018 and 2017, respectively.





**PETRON CORPORATION AND SUBSIDIARIES**  
**INDEX TO SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2018**

**Statement of Management's Responsibility for the Consolidated Financial Statements**

**Report of Independent Auditors on Supplementary Information Filed Separately from the Consolidated Financial Statements**

**Supplementary Schedules to the Consolidated Financial Statements**

<u>Supplementary Schedules of Annex 68 - E</u>		<u>Page No.</u>
A.	Financial Assets	NA <sup>(a)</sup>
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	NA <sup>(b)</sup>
C.	Amounts Receivable and Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements	1 - 2
D.	Goodwill and Other Intangible Assets	3
E.	Long-term Debt	4
F.	Indebtedness to Related Parties	NA <sup>(c)</sup>
G.	Guarantees of Securities of Other Issuers	NA
H.	Capital Stock	5

<sup>(a)</sup>Balance of Financial Assets at Fair Value Through Profit or Loss is less than 5% of total current assets.

<sup>(b)</sup>Balance of account is less than 1% of the total assets of the Group and no individually significant advances over P100,000.

<sup>(c)</sup>Balance of account is less than 5% of total assets of the Group

**Map of the Conglomerate within which the Group belongs**

**Schedule of Philippine Financial Reporting Standards and Interpretations**

**Financial Soundness Indicators**

**Schedule of Proceeds from Recent Offering of Securities**

**Report on Independent Auditors on Supplementary Information Filed Separately from the Separate Financial Statements**

**Supplementary Schedule to Separate Financial Statements**

**Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration**



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

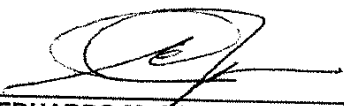
The management of **Petron Corporation (the "Company") and Subsidiaries (collectively referred to as the "Group")**, is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

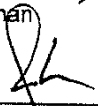
In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

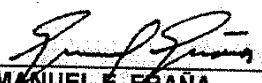
The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the Board, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
\_\_\_\_\_  
**EDUARDO M. COJUANGCO, JR.**  
Chairman

  
\_\_\_\_\_  
**RAMON S. ANG**  
President and Chief Executive Officer

  
\_\_\_\_\_  
**EMMANUEL E. BRANA**  
Senior Vice President and Chief Finance Officer


Signed this 12th day of March 2019



**SUBSCRIBED AND SWORN TO** before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 1 & 2019, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

Name	Competent Evidence of Identity	Date/Place of Issue
Eduardo M. Cojuangco, Jr.	Passport No. EC3542719	27 Feb 2015/ DFA Manila
Ramon S. Ang	Passport No. EC3542718	27 Feb 2015/ DFA Manila
Emmanuel E. Erafia	Passport No. P0502156B	01 Feb 2019/ DFA NCR East

Doc. No. 119  
 Page No. 25  
 Book No. V  
 Series of 2019

  
**DON-VIC P. QUEZON**  
 Notary Public for Mandaluyong City  
 10 San Miguel Avenue, 1550 Mandaluyong City  
 Appointment No. 0382-13  
 Until December 31, 2019  
 Attorney's Roll No. 56723  
 PTR No. 3810644/01-04-19/Mandaluyong  
 Lifetime IBP No. 08324  
 J.F. Compliance No. V-00207/014-20-2018

**PETRON CORPORATION**, SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines, PO Box 014 MCPO 0708  
 Tel.: (632) 886-3888 • Pandacan Terminal, Jesus St., Pandacan, Manila Tel.: (632) 563-8521 • Mandaue Terminal, Loooc, Mandaue City, Cebu Tel.: (032) 346-5135 / 344-7341 to 51 • Davao Depot, Km.9 Bo. Pampang, Davao City  
 Tel.: (082) 234-2185 / 233-0399 • Internet: <http://www.petron.com>



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Philippines 1226  
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Internet [www.kpmg.com.ph](http://www.kpmg.com.ph)  
Email [ph-inquiry@kpmg.com.ph](mailto:ph-inquiry@kpmg.com.ph)

## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders  
**Petron Corporation**  
SMC Head Office Complex  
40 San Miguel Avenue  
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation (the "Company") and Subsidiaries (the "Group") as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, and have issued our report thereon dated March 12, 2019.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management:

- Supplementary Schedules of Annex 68-E
- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations



These supplementary information are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and are not required parts of the consolidated financial statements. Such supplementary information have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

**R.G. MANABAT & CO.**

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. MKT 7333639

Issued January 3, 2019 at Makati City

March 12, 2019

Makati City, Metro Manila

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	5,407	39,251	(39,975)	-	4,683	2,541	2,142	4,683
Overseas Ventures Insurance Corporation Ltd.	8	45	(43)	-	10	10	-	10
Petrogen Insurance Corporation	50	753	(757)	-	48	48	-	48
Petron Freeport Corporation	-	-	-	-	-	-	-	-
Petron Singapore Trading Pte., Ltd.	16,092	248,180	(253,204)	-	11,068	11,068	-	11,068
Petron Marketing Corporation	17	3	(1)	-	19	19	-	19
New Ventures Realty Corporation and Subsidiaries	174	137	(241)	-	70	11	59	70
Limay Energen Corporation	-	-	-	-	-	-	-	-
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	-	1	-	-	1	1	-	1
Petrochemical Asia (HK) Limited and Subsidiaries	72	44	(42)	-	74	74	-	74
<b>TOTAL</b>	<b>21,820</b>	<b>288,414</b>	<b>(294,263)</b>	<b>P</b>	<b>15,971</b>	<b>13,770</b>	<b>2,201</b>	<b>15,971</b>

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT		NONCURRENT	ENDING BALANCE
Petron Corporation	P 16,315	249,107	(254,226)	-	11,196	11,137	59	P	11,186
Oversaas Ventures Insurance Corporation Ltd.	17	45	(55)	-	7	7	-	-	7
Petrogen Insurance Corporation	52	305	(308)	-	49	49	-	-	49
Petron Freeport Corporation	57	753	(758)	-	52	52	-	-	52
Petron Singapore Trading Pte., Ltd.	1,072	38,880	(38,303)	-	2,449	2,449	-	-	2,449
Petron Marketing Corporation	-	-	-	-	-	-	-	-	-
New Ventures Realty Corporation and Subsidiaries	4,274	1,501	(3,559)	-	2,216	74	2,142	-	2,448
Limay Energen Corporation	-	-	-	-	-	-	-	-	-
Petron Global Limited	-	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	33	23	(54)	-	2	-	-	-	-
Petrochemical Asia (HK) Limited and Subsidiaries	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>21,820</b>	<b>288,414</b>	<b>(294,263)</b>	<b>-</b>	<b>15,971</b>	<b>13,770</b>	<b>2,201</b>	<b>P</b>	<b>15,971</b>

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D - GOODWILL AND OTHER INTANGIBLE ASSETS**  
**DECEMBER 31, 2018**  
*(Amounts in Millions)*

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
<b>Goodwill:</b>						
Cost	P 8,575	P	P	P	P 255	P 8,830
Less: allowance for impairment losses	298					
	<u>P 8,277</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 255</u>	<u>P 8,532</u>
<b>Franchise Fee:</b>						
Cost	P 17	P -	P -	P -	P -	P 17
Less: accumulated amortization	17					
	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 17</u>
<b>Computer Software:</b>						
Cost	P 564	P -	P -	P -	P 18	P 582
Less: accumulated amortization	556		4		18	578
	<u>P 8</u>	<u>P -</u>	<u>P (4)</u>	<u>P -</u>	<u>P -</u>	<u>P 4</u>
<b>Other Intangible Assets:</b>						
Cost	P 204	P -	P -	P -	P -	P 204
Less: accumulated amortization	51		19			70
	<u>P 153</u>	<u>P -</u>	<u>P (19)</u>	<u>P -</u>	<u>P -</u>	<u>P 134</u>



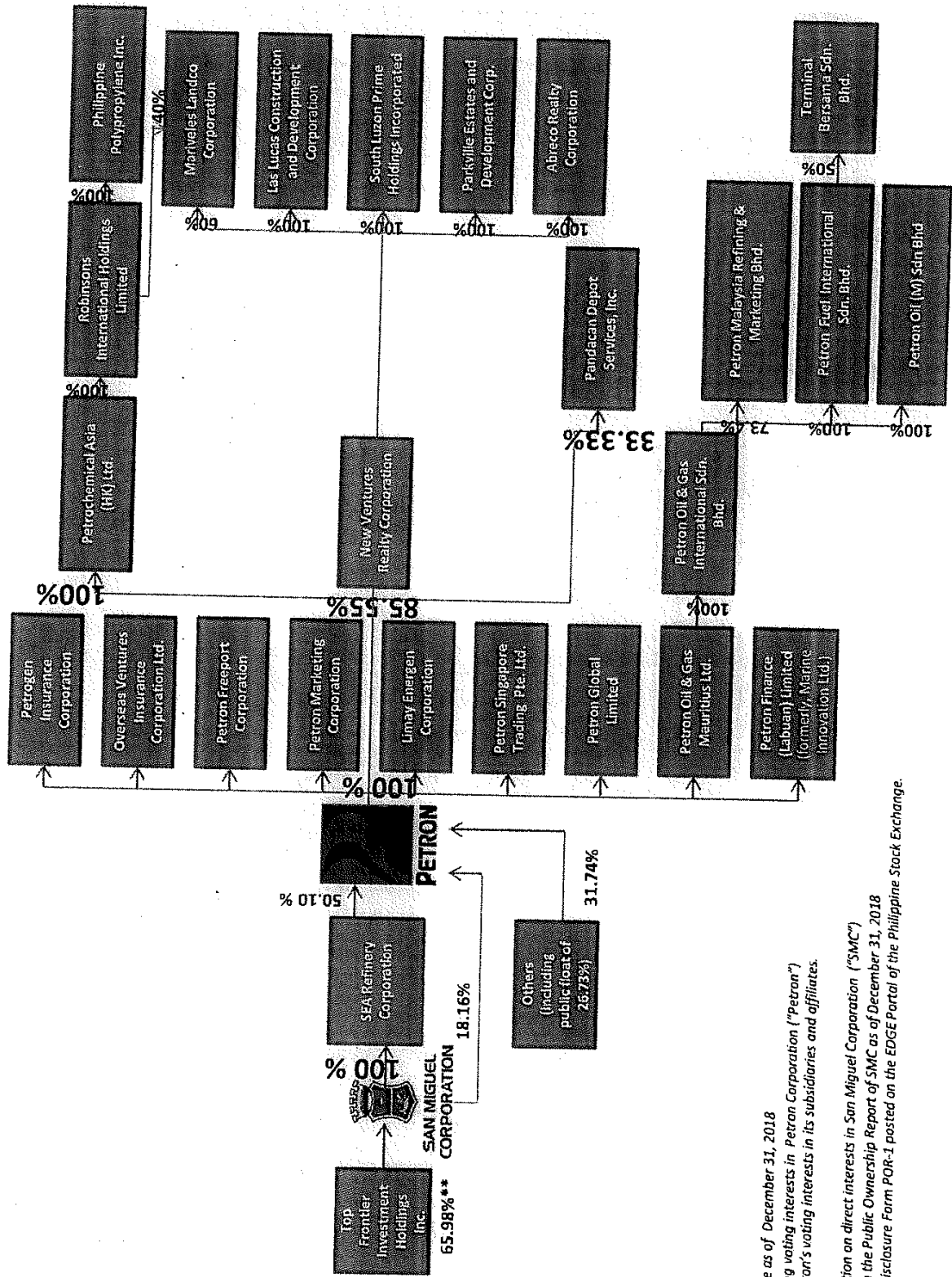
**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
**DECEMBER 31, 2018**  
*(Amounts in Millions)*

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Amount Shown as Current	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Final Maturity
<i>Unsecured term notes and bonds:</i>							
<i>Peso denominated:</i>							
Fixed	Rizal Commercial Banking Corporation	P 2,706	P 28	2,696	7.1827%	Amortized 10 years, 1% per annum for 9 years, 91% on final maturity	October 2021
Fixed	Union Bank of the Philippines	4,000	996	3,991	5.4583%	2-yr grace period; amortized 5 years	October 2022
Fixed	Philippine Depository and Trust Corp.	13,000	-	12,922	4.0032%	Bullet	October 2021
Fixed	Philippine Depository and Trust Corp.	7,000	-	6,948	4.5219%	Bullet	October 2023
Fixed	Banco De Oro	12,321	2,124	12,259	5.5278%	Amortized quarterly for 7 years	July 2024
Fixed	Bank of the Philippine Islands	10,000	2,485	9,965	5.7584%	Amortized quarterly beginning on the fifth quarter	December 2022
Fixed	Philippine Depository and Trust Corp.	13,200	-	13,047	7.8183%	Bullet	April 2024
Fixed	Philippine Depository and Trust Corp.	6,800	-	6,721	8.0551%	Bullet	October 2025
<i>Foreign currency - denominated:</i>		<u>69,027</u>	<u>5,631</u>	<u>66,549</u>			
Floating	Standard Chartered Bank (Hongkong) Limited	49,951	12,168	49,451	LIBOR + margin	2-yr grace period; amortized 5 years	June 2022
		<u>49,951</u>	<u>12,168</u>	<u>49,451</u>			
<b>Total Long-term Debt</b>		<b>P 118,978</b>	<b>P 17,799</b>	<b>P 118,000</b>			

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2018**

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors and executive officers	Others
Common stock	9,375,104,497	9,375,104,497	Not applicable	6,858,912,221	1,861,389	2,514,330,887
Preferred stock						
Series 2A Preferred	624,895,503	7,122,320	Not applicable	-	25,000	7,097,320
Series 2B Preferred		2,877,680	Not applicable	-	-	2,877,680

# PETRON GROUP STRUCTURE



\* Structure as of December 31, 2018 indicating voting interests in Petron Corporation ("Petron") and Petron's voting interests in its subsidiaries and affiliates.

\*\* Information on direct interests in San Miguel Corporation ("SMC") based on the Public Ownership Report of SMC as of December 31, 2018 on PSE Disclosure Form POR-1 posted on the EDGE Portal of the Philippine Stock Exchange.

## PETRON CORPORATION AND SUBSIDIARIES

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
	<b>PFRS 2</b>	Share-based Payment		
Amendments to PFRS 2: Vesting Conditions and Cancellations				✓
Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions				✓
Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'				✓
Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions				✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements	✓		
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation			✓
	Amendments to PFRS 3: Definition of a Business		✓	
<b>PFRS 4</b>	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments (2014)	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation		✓	
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard	✓		
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases		✓	
PFRS 17	Insurance Contracts		✓	
<b>Philippine Accounting Standards</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material		✓	
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material		✓	
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets		✓	
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PAS 12 - Income tax consequences of payments on financial instruments classified as equity		✓	
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	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			✓
PAS 17	Leases	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PAS 23 - Borrowing costs eligible for capitalization		✓	
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value	✓		
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information "elsewhere in the interim financial report"			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 40	Investment Property	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)	✓		
	Amendments to PAS 40: Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		
IFRIC 23	Uncertainty over Income Tax Treatments		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-32	Intangible Assets - Web Site Costs			✓
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2008-01- Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan	✓		
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations	✓		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost	✓		
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of investment properties - asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	✓		
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	✓		
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016	✓		
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity	✓		
PIC Q&A 2016-03	Accounting for Common Areas and the Related Subsequent Costs by Condominium Corporations			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017	✓		
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building	✓		
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures	✓		
PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A 2017-05	PFRS 7 - Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2017-06	PAS 2, 16 and 40 - Accounting for Collector's Items			✓
PIC Q&A 2017-07	PFRS 10 - Accounting for reciprocal holdings in associates and joint ventures	✓		
PIC Q&A 2017-08	PFRS 10 - Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture	✓		
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	✓		
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property	✓		
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control	✓		
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans	✓		
PIC Q&A 2018-01	Voluntary changes in accounting policy	✓		
PIC Q&A 2018-02	Non-controlling interests and goodwill impairment test	✓		
PIC Q&A 2018-03	Fair value of PPE and depreciated replacement cost	✓		
PIC Q&A 2018-04	Inability to measure fair value reliably for biological assets within the scope of PAS 41			✓
PIC Q&A 2018-05	Maintenance requirement of an asset held under lease	✓		
PIC Q&A 2018-06	Cost of investment in subsidiaries in SFS when pooling is applied	✓		
PIC Q&A 2018-07	Cost of an associate, joint venture, or subsidiary in separate financial statements	✓		
PIC Q&A 2018-08	Accounting for the acquisition of non-wholly owned subsidiary that is not a business			✓
PIC Q&A 2018-09	Classification of deposits and progress payments as monetary or non-monetary items	✓		
PIC Q&A 2018-10	Scope of disclosure of inventory write-down	✓		
PIC Q&A 2018-11	Classification of land by real estate developer			✓
PIC Q&A 2018-12	PFRS 15 implementation issues affecting the real estate industry			✓
PIC Q&A 2018-13	Conforming Changes to PIC Q&As - Cycle 2018	✓		
PIC Q&A 2018-14	PFRS 15 - Accounting for Cancellation of Real Estate Sales			✓
PIC Q&A 2018-15	PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current	✓		
PIC Q&A 2018-16	PFRS 13 - Level of fair value hierarchy of government securities using Bloomberg's standard rule on fair value hierarchy	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2019-01	Accounting for service charges under PFRS 15, Revenue from Contracts with Customers			✓
PIC Q&A 2019-02	Accounting for cryptographic assets			✓

**Legend:**

**Adopted** - means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

**Not Adopted** - means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.

**Not Applicable** - means the standard or interpretation is not relevant at all to the operations of the entity.

**PETRON CORPORATION AND SUBSIDIARIES  
FINANCIAL SOUNDNESS INDICATORS**

<b>Financial Ratios</b>	<b>Formula</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Liquidity</b>			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>1.04</b>	1.17
<b>Solvency</b>			
b) Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	<b>3.16</b>	2.39
c) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>4.16</b>	3.39
<b>Profitability</b>			
d) Return on Average Equity <sup>a</sup>	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	<b>7.61%</b>	14.95%
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$	<b>2.08</b>	3.22

<sup>a</sup> trailing 12 months net income

**PETRON CORPORATION**  
**Schedule of Proceeds from Recent Offering of Securities**

Offer of P 20,000,000,000 Fixed Rate Bonds

**i. Gross and Net Proceeds (as disclosed in the final offer supplement)**

The Company estimates that the net proceeds from the Offer shall amount to approximately P 19.77 billion, after deducting the following fees, commissions and expenses:

In P Millions	
<b>Gross Proceeds</b>	<b>P20,000.00</b>
Less: Underwriting fees for the Offer Bonds being sold by the Company	60.00
Taxes to be paid by the Company	150.00
Philippine SEC filing and legal research fee	5.05
Listing application fee	0.20
Listing maintenance fee	0.30
Rating fee	4.80
Trustee fees	0.22
Registry and paying agency fees	0.31
Estimated legal and other professional fees	13.00
Estimated other expenses	0.50
<b>Total Expenses</b>	<b>P234.38</b>
<b>Net Proceeds</b>	<b>P19,765.62</b>

The net proceeds of the Offer shall be used primarily for the payment of the Company's outstanding short-term loans extended by the Bank of the Philippine Islands, the parent company of BPI Capital Corporation, and BDO Unibank, Inc., the parent company of BDO Capital & Investment Corporation, and for general corporate purposes, as follows:

**ii. Actual Gross and Net Proceeds**

In P Millions	
<b>Actual Gross Proceeds</b>	<b>P20,000.00</b>
Less: Underwriting Fees, Filing and Processing Fees, Documentary Stamp Tax, Legal and Professional Fees and Other Expenses	237.01
<b>Actual Net Proceeds</b>	<b>P19,762.99</b>

**iii. Each Expenditure Item where the Proceeds was Used**

In P Millions	
<b>Actual Net Proceeds</b>	<b>P19,762.99</b>
Less: Payment of Short-term loans	15,048.61
Purchase of crude	4,714.38
<b>Total Payments</b>	<b>P19,762.99</b>
<b>Balance</b>	<b>P0.00</b>

**iv. Balance of the Proceeds as of the End of the Reporting Period**

As of the year ended December 31, 2018, the proceeds were fully utilized.



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### REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders  
**Petron Corporation**  
SMC Head Office Complex  
40 San Miguel Avenue  
Mandaluyong City

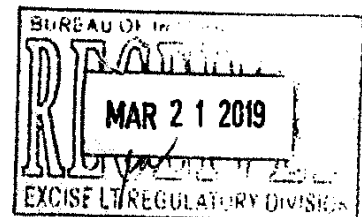
We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of Petron Corporation (the "Company") as at and for the years ended December 31, 2018 and 2017, and have issued our report thereon dated March 12, 2019.

Our audits were made for the purpose of forming an opinion on the separate financial statements taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

**R.G. MANABAT & CO.**

DARWIN P. VIROCEL  
Partner  
CPA License No. 0094495  
SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020  
Tax Identification No. 912-535-864  
BIR Accreditation No. 08-001987-31-2016  
Issued October 18, 2016; valid until October 17, 2019  
PTR No. MKT 7333639  
Issued January 3, 2019 at Makati City

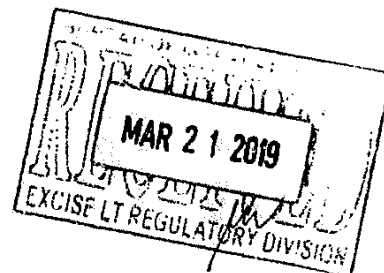


March 12, 2019  
Makati City, Metro Manila

**PETRON CORPORATION**  
**SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City**  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**December 31, 2018**  
(Amounts in Thousand Pesos)

*(Figures based on audited  
separate financial statements)*

Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning		P19,168,644
<b>Add: Net income actually earned/realized during the period</b>		
Net income during the period closed to retained earnings	P6,336,764	
<b>Less: Non-actual/ unrealized income, net of tax:</b>		
Fair value gains arising from marked-to-market measurement	596,283	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	471,885	
Sub-total	1,068,168	
<b>Net income actually earned during the year</b>	5,268,596	<b>5,268,596</b>
<b>Less: Dividend declarations during the year</b>	(2,052,332)	
Distributions paid	(3,839,408)	
Effects of adjustment due to adoption of PFRS 9 charged directly to opening retained earnings	54,485	
	(5,837,255)	<b>(5,837,255)</b>
<b>TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, ENDING</b>		<b>P18,599,985</b>







# **PETRON CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017, 2016 and 2015**



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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Petron Corporation  
SMC Head Office Complex  
40 San Miguel Avenue  
Mandaluyong City

### *Opinion*

We have audited the consolidated financial statements of Petron Corporation and its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### *Key Audit Matters*

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

#### *Revenue Recognition (P434,624 million)*

Refer to Note 3, *Significant Accounting Policies* and Note 37, *Segment Information* to the consolidated financial statements.

#### *The risk*

Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when the sales transactions have been completed, when goods are delivered to the customer and all economic risks for the Group have been transferred. Revenue generated from the sale of petroleum products is susceptible to manipulation as the pricing may vary in response to different market conditions. Whilst revenue recognition and measurement is not complex for the Group, voluminous sales transactions and sales target which form part of the Group's key performance measure may provide opportunities and pressure to improperly recognize revenue.

#### *Our response*

We performed the following audit procedures, among others, around revenue recognition:

- We tested operating effectiveness of the key controls over revenue recognition. We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls between different information technology applications for the evaluation of relevant information technology systems and the design and operating effectiveness of controls over the recording of revenue transactions.
- We checked on a sampling basis, the sales transactions to the delivery documents for the year.
- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess whether these transactions are recorded in the correct financial year.
- We tested journal entries posted to revenue accounts, including any unusual or irregular items.
- We tested credit notes recorded after the financial year to identify potential reversals of revenue inappropriately recognized in the current financial year.



*Valuation of Inventories (P56,604 million)*

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 9, *Inventories* to the consolidated financial statements.

*The risk*

There is a risk over the recoverability of the Group's inventories due to market price volatility of crude and petroleum products. Such volatility can lead to potential issues over the full recoverability of inventory balances. In addition, determining the net realizable value of inventories is subject to management's judgment and estimation. This includes estimating the selling price of finished goods and the cost of conversion of raw materials based on available market forecasts and current costs.

*Our response*

We performed the following audit procedures, among others, around valuation of inventories:

- We obtained and reviewed the calculation of write down of the Group's raw materials and finished goods based on the net realizable value of finished goods at yearend.
- For raw materials, projected production yield was used to estimate the cost of conversion for the raw materials as at yearend. We assessed the projected yield by comparing it to the actual yield achieved from crude oil production runs during the year. We then compared the estimated cost of finished goods to the net realizable value to determine any potential writedown.
- For finished goods, we assessed the reasonableness of estimated selling prices by checking various products' sales invoices issued around and after yearend. Any write-down is computed based on the difference in the net realizable value against the cost of inventory held at yearend.

*Valuation of goodwill (P8,277 million)*

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 13, *Investment in Shares of Stock of Subsidiaries and Goodwill* to the consolidated financial statements.

*The risk*

The Group holds a significant amount of goodwill arising from several business acquisitions. We particularly focused on the valuation of goodwill allocated to Petron Oil and Gas International Sdn. Bhd. Group (Petron Malaysia Group) which accounts for 99% of total goodwill. The annual impairment test was significant to our audit as the assessment process is complex by nature and is based on management judgment and assumptions on future market and/or economic conditions. The assumptions used included future cash flow projections, growth rates, discount rates and sensitivity analyses.



*Our response*

We performed the following audit procedures, among others, around valuation of goodwill:

- We tested the integrity of the discounted cash flow model. This involved using our own valuation specialist to assist us in evaluating the models used and assumptions applied and comparing these assumptions to external data, where applicable. The key assumptions include sales volume, selling price and gross profit margin.
- We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, cost of inflation and discount rates, as well as performing break-even analysis on the assumptions.
- We compared the sum of the discounted cash flows to Petron Malaysia Group's market capitalization to assess the reasonableness of those cash flows.
- We also assessed the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions used in the valuation of goodwill.

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

*Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Darwin P. Virocel.

**R.G. MANABAT & CO.**

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. 6615157MD

Issued January 3, 2018 at Makati City

March 13, 2018

Makati City, Metro Manila



**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Million Pesos)



	<i>Note</i>	2017	2016
<b>December 31</b>			
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5, 34, 35	P17,014	P17,332
Financial assets at fair value			
through profit or loss	6, 34, 35	336	221
Available-for-sale financial assets	7, 34, 35	199	71
Trade and other receivables - net	4, 8, 28, 34, 35	38,159	31,548
Inventories	4, 9	56,604	44,147
Other current assets	10, 14, 28	33,178	32,499
<b>Total Current Assets</b>		<b>145,490</b>	<b>125,818</b>
<b>Noncurrent Assets</b>			
Available-for-sale financial assets	7, 34, 35	332	408
Property, plant and equipment - net	4, 11, 37	177,690	176,604
Investment in shares of stock of an associate	4, 10	-	1,883
Investment property - net	4, 12	75	91
Deferred tax assets - net	4, 27	207	194
Goodwill - net	4, 13	8,277	7,480
Other noncurrent assets - net	4, 14, 34, 35	5,959	6,415
<b>Total Noncurrent Assets</b>		<b>192,540</b>	<b>193,075</b>
		<b>P338,030</b>	<b>P318,893</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	15, 33, 34, 35	P69,583	P90,366
Liabilities for crude oil and petroleum products	16, 28, 31, 34, 35	36,920	29,966
Trade and other payables	17, 28, 30, 34, 35, 39	11,604	16,161
Derivative liabilities	34, 35	1,791	778
Income tax payable		808	626
Current portion of long-term debt - net	18, 33, 34, 35	3,789	20,911
<b>Total Current Liabilities</b>		<b>124,495</b>	<b>158,808</b>
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	18, 33, 34, 35	97,916	58,941
Retirement benefits liability	30	4,885	3,315
Deferred tax liabilities - net	27	7,397	5,726
Asset retirement obligation	4, 19	2,681	2,324
Other noncurrent liabilities	20, 34, 35	1,037	959
<b>Total Noncurrent Liabilities</b>		<b>113,916</b>	<b>71,265</b>
<b>Total Liabilities</b>		<b>238,411</b>	<b>230,073</b>

Forward

		December 31	
	Note	2017	2016
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
	21		
Capital stock		<b>P9,485</b>	P9,485
Additional paid-in capital		<b>19,653</b>	19,653
Undated subordinated capital securities		<b>30,546</b>	30,546
Retained earnings		<b>49,142</b>	42,011
Equity reserves		<b>(5,171)</b>	(7,204)
Treasury stock		<b>(10,000)</b>	(10,000)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>93,655</b>	84,491
<b>Non-controlling Interests</b>	13	<b>5,964</b>	4,329
<b>Total Equity</b>		<b>99,619</b>	88,820
		<b>P338,030</b>	P318,893

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Million Pesos, Except Per Share Data)

	<i>Note</i>	2017	2016	2015
<b>SALES</b>	28, 31, 37	<b>P434,624</b>	P343,840	P360,178
<b>COST OF GOODS SOLD</b>	22	<b>391,969</b>	306,125	328,734
<b>GROSS PROFIT</b>		<b>42,655</b>	37,715	31,444
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>	23	<b>(15,017)</b>	(13,918)	(13,310)
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	26, 37	<b>(8,487)</b>	(7,557)	(5,533)
<b>INTEREST INCOME</b>	26, 37	<b>535</b>	507	686
<b>SHARE IN NET INCOME OF AN ASSOCIATE</b>	10	<b>63</b>	66	133
<b>OTHER EXPENSES - Net</b>	26	<b>(907)</b>	(2,435)	(3,495)
		<b>(23,813)</b>	(23,337)	(21,519)
<b>INCOME BEFORE INCOME TAX</b>		<b>18,842</b>	14,378	9,925
<b>INCOME TAX EXPENSE</b>	27, 36, 37	<b>4,755</b>	3,556	3,655
<b>NET INCOME</b>		<b>P14,087</b>	P10,822	P6,270
<b>Attributable to:</b>				
Equity holders of the Parent Company	32	<b>P12,739</b>	P10,100	P5,618
Non-controlling interests		<b>1,348</b>	722	652
		<b>P14,087</b>	P10,822	P6,270
<b>BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	32	<b>P0.86</b>	P0.60	P0.15

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Million Pesos)

	<i>Note</i>	2017	2016	2015
<b>NET INCOME</b>		<b>P14,087</b>	P10,822	P6,270
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Items that will not be reclassified to profit or loss</i>				
Equity reserve for retirement plan	30	<b>(1,142)</b>	2,647	(3,112)
Share in other comprehensive income (loss) of an associate and a joint venture	10	<b>3</b>	3	(6)
Income tax benefit (expense)		<b>346</b>	(794)	935
		<b>(793)</b>	1,856	(2,183)
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations		<b>3,303</b>	523	(3,748)
Unrealized fair value losses on available-for-sale financial assets	7	<b>(4)</b>	(2)	(1)
Share in other comprehensive loss of a joint venture		<b>(1)</b>	-	-
Income tax benefit		<b>1</b>	1	-
		<b>3,299</b>	522	(3,749)
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>		<b>2,506</b>	2,378	(5,932)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR - Net of tax</b>		<b>P16,593</b>	P13,200	P338
<b>Attributable to:</b>				
Equity holders of the Parent Company		<b>P14,772</b>	P12,742	P390
Non-controlling interests		<b>1,821</b>	458	(52)
		<b>P16,593</b>	P13,200	P338

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Million Pesos)

	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings		Equity Reserves		Treasury Stock	Total		
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves				
<b>As of January 1, 2017</b>		<b>P9,485</b>	<b>P19,653</b>	<b>P30,546</b>	<b>P15,160</b>	<b>P26,851</b>	<b>(P1,345)</b>	<b>(P5,859)</b>	<b>(P10,000)</b>	<b>P84,491</b>	<b>P4,329</b>	<b>P88,820</b>
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	-	(3)	-	(3)	-	(3)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	2,838	-	2,838	465	3,303
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(804)	-	-	(804)	8	(796)
Share in other comprehensive income (loss) of an associate and a joint venture		-	-	-	-	-	3	(1)	-	2	-	2
Other comprehensive income (loss)		-	-	-	-	-	(801)	2,834	-	2,033	473	2,506
Net income for the year		-	-	-	-	12,739	-	-	-	12,739	1,348	14,087
Total comprehensive income (loss) for the year		-	-	-	-	12,739	(801)	2,834	-	14,772	1,821	16,593
Cash dividends	21	-	-	-	-	(1,584)	-	-	-	(1,584)	(186)	(1,770)
Distributions paid	21	-	-	-	-	(4,024)	-	-	-	(4,024)	-	(4,024)
Transactions with owners		-	-	-	-	(5,608)	-	-	-	(5,608)	(186)	(5,794)
<b>As of December 31, 2017</b>		<b>P9,485</b>	<b>P19,653</b>	<b>P30,546</b>	<b>P15,160</b>	<b>P33,982</b>	<b>(P2,146)</b>	<b>(P3,025)</b>	<b>(P10,000)</b>	<b>P93,655</b>	<b>P5,964</b>	<b>P99,619</b>

Forward

	Equity Attributable to Equity Holders of the Parent Company											
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings		Equity Reserves			Total	Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
As of January 1, 2016		P9,485	P19,653	P30,546	P25,082	P16,630	(P3,204)	(P5,563)	(P10,000)	P82,629	P471	P83,100
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	784	-	784	(261)	523
Equity reserve for retirement plan - net of tax		-	-	-	-	-	1,856	-	-	1,856	(3)	1,853
Share in other comprehensive income of an associate and a joint venture		-	-	-	-	-	3	-	-	3	-	3
Other comprehensive income (loss)		-	-	-	-	-	1,859	783	-	2,642	(264)	2,378
Net income for the year		-	-	-	-	10,100	-	-	-	10,100	722	10,822
Total comprehensive income for the year		-	-	-	-	10,100	1,859	783	-	12,742	458	13,200
Cash dividends	21	-	-	-	-	(1,584)	-	-	-	(1,584)	(168)	(1,752)
Distributions paid	21	-	-	-	-	(3,807)	-	-	-	(3,807)	-	(3,807)
Reversal of appropriations - net	21	-	-	-	(9,922)	9,922	-	-	-	-	-	-
Acquisition of additional interest in a subsidiary	13	-	-	-	-	-	-	(570)	-	(570)	570	-
Purchase of non-controlling interest in a subsidiary	13	-	-	-	-	-	-	(509)	-	(509)	(1,412)	(1,921)
Transfer from non-controlling interests		-	-	-	-	(4,410)	-	-	-	(4,410)	4,410	-
Transactions with owners		-	-	-	(9,922)	121	-	(1,079)	-	(10,880)	3,400	(7,480)
As of December 31, 2016		P9,485	P19,653	P30,546	P15,160	P26,851	(P1,345)	(P5,859)	(P10,000)	P84,491	P4,329	P88,820

Forward

	Equity Attributable to Equity Holders of the Parent Company											
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings		Equity Reserves			Total	Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
As of January 1, 2015		P9,485	P19,653	P30,546	P25,171	P15,644	(P1,018)	(P2,149)	P -	P97,332	P16,360	P113,692
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(3,041)	-	(3,041)	(707)	(3,748)
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(2,180)	-	-	(2,180)	3	(2,177)
Share in other comprehensive loss of an associate		-	-	-	-	-	(6)	-	-	(6)	-	(6)
Other comprehensive loss		-	-	-	-	-	(2,186)	(3,042)	-	(5,228)	(704)	(5,932)
Net income for the year		-	-	-	-	5,618	-	-	-	5,618	652	6,270
Total comprehensive income (loss) for the year		-	-	-	-	5,618	(2,186)	(3,042)	-	390	(52)	338
Cash dividends	21	-	-	-	-	(1,114)	-	-	-	(1,114)	(567)	(1,681)
Distributions paid	21	-	-	-	-	(3,607)	-	-	-	(3,607)	-	(3,607)
Redemption of preferred shares	13, 21	-	-	-	-	-	-	-	(10,000)	(10,000)	(15,642)	(25,642)
Reversal of appropriations - net		-	-	-	(89)	89	-	-	-	-	-	-
Acquisition of additional interest in a subsidiary		-	-	-	-	-	-	(372)	-	(372)	372	-
Transactions with owners		-	-	-	(89)	(4,632)	-	(372)	(10,000)	(15,093)	(15,837)	(30,930)
As of December 31, 2015		P9,485	P19,653	P30,546	P25,082	P16,630	(P3,204)	(P5,563)	(P10,000)	P82,629	P471	P83,100

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Million Pesos)

	<i>Note</i>	<b>2017</b>	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>P18,842</b>	P14,378	P9,925
Adjustments for:				
Depreciation and amortization	25	<b>10,979</b>	9,505	6,272
Interest expense and other financing charges	26	<b>8,487</b>	7,557	5,533
Retirement benefits costs	30	<b>508</b>	579	419
Share in net income of an associate	10	<b>(63)</b>	(66)	(133)
Interest income	26	<b>(535)</b>	(507)	(686)
Unrealized foreign exchange losses (gains) - net		<b>(880)</b>	529	87
Other losses - net		<b>594</b>	538	304
Operating income before working capital changes		<b>37,932</b>	32,513	21,721
Changes in noncash assets, certain current liabilities and others	33	<b>(13,043)</b>	4,550	(5,484)
Cash generated from operations		<b>24,889</b>	37,063	16,237
Contribution to retirement fund	30	<b>(100)</b>	(135)	-
Interest paid		<b>(7,492)</b>	(7,014)	(8,020)
Income taxes paid		<b>(1,920)</b>	(902)	(513)
Interest received		<b>376</b>	257	764
Net cash flows provided by operating activities		<b>15,753</b>	29,269	8,468
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	11	<b>(13,142)</b>	(19,122)	(13,474)
Proceeds from sale of property and equipment		<b>1,195</b>	336	106
Proceeds from sale of investment property		<b>16</b>	18	-
Increase in:				
Other receivables		<b>-</b>	-	(265)
Other noncurrent assets		<b>(969)</b>	(536)	(694)
Reductions from (additions to):				
Investment in shares of stock of an associate	10	<b>1,750</b>	-	(525)
Available-for-sale financial assets		<b>(61)</b>	139	260
Net cash flows used in investing activities		<b>(11,211)</b>	(19,165)	(14,592)

*Forward*



	<b>Note</b>	<b>2017</b>	2016	2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from availment of loans	33	<b>P298,669</b>	P226,360	P222,099
Payments of:				
Loans	33	<b>(298,199)</b>	(230,924)	(256,732)
Cash dividends and distributions	21, 33	<b>(5,773)</b>	(5,537)	(5,517)
Purchase of non-controlling interest in a subsidiary	13	-	(1,921)	-
Redemption of preferred shares	13, 21	-	-	(25,642)
Increase (decrease) in other noncurrent liabilities		<b>588</b>	(3)	(551)
Net cash flows used in financing activities		<b>(4,715)</b>	(12,025)	(66,343)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		<b>(145)</b>	372	746
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>				
		<b>(318)</b>	(1,549)	(71,721)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
		<b>17,332</b>	18,881	90,602
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	5	<b>P17,014</b>	P17,332	P18,881

*See Notes to the Consolidated Financial Statements.*

## **PETRON CORPORATION AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Data, Exchange Rates and Commodity Volumes)

#### **1. Reporting Entity**

Petron Corporation (the "Parent Company" or "Petron") was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the Parent Company's corporate term to December 22, 2066. The accompanying consolidated financial statements comprise the financial statements of Petron Corporation and Subsidiaries (collectively referred to as the "Group") and the Group's interests in an associate and joint ventures.

Petron is the leading oil refining and marketing company in the Philippines. Petron is committed to its vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates the Philippines' largest and most modern refinery in Bataan, with a rated capacity of 180,000 barrels a day. Petron's Integrated Management Systems (IMS) - certified refinery processes crude oil into a full range of world-class petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, and petrochemicals. From the refinery, Petron moves its products mainly by sea to more than 30 terminals strategically located across the country. Through this network, Petron supplies fuels to its service stations and various essential industries such as power-generation, transportation, manufacturing, agriculture, etc. Petron also supplies jet fuel at key airports to international and domestic carriers.

With nearly 2,400 service stations and hundreds of industrial accounts, Petron remains the leader in all the major segments of the market. Petron retails gasoline, diesel, and autoLPG to motorists and public transport operators. Petron also sells its LPG brands "Gasul" and "Fiesta" to households and other industrial consumers through an extensive dealership network.

Petron sources its fuel additives from its blending facility in Subic Bay. This gives Petron the capability to formulate unique additives for Philippine driving conditions. It also has a facility in Mariveles, Bataan where the refinery's propylene production is converted into higher-value polypropylene resin.

In line with efforts to increase its presence in the regional market, Petron exports various products to Asia-Pacific countries. Today, Petron is one of the leading oil companies in Malaysia with an integrated business which includes an 88,000 barrel-per-day refinery, 10 terminals, 7 storage facilities and a network of more than 600 service stations.

The Parent Company is a public company under Section 17.2 of Securities Regulation Code and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). As of December 31, 2017, the Parent Company's public float stood at 23.84%.

The intermediate parent company of Petron is San Miguel Corporation (SMC) while its ultimate parent company is Top Frontier Investments Holdings, Inc. Both companies are incorporated in the Philippines.

The registered office address of Petron is SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

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## 2. Basis of Preparation

### Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 13, 2018.

### Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis of accounting except for the following which are measured on an alternative basis at each reporting date:

<u>Items</u>	<u>Measurement Bases</u>
Derivative financial instruments at fair value through profit or loss	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Available-for-sale (AFS) financial assets	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information is rounded off to the nearest million (P000,000), except when otherwise indicated.

### Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. These subsidiaries are:

Name of Subsidiary	Percentage of Ownership		Country of Incorporation
	2017	2016	
Overseas Ventures Insurance Corporation Ltd. (Ovincor)	<b>100.00</b>	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	<b>100.00</b>	100.00	Philippines
Petron Freeport Corporation (PFC)	<b>100.00</b>	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	<b>100.00</b>	100.00	Singapore
Petron Marketing Corporation (PMC)	<b>100.00</b>	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	<b>40.00</b>	40.00	Philippines
Limay Energen Corporation (LEC)	<b>100.00</b>	100.00	Philippines
Petron Global Limited (PGL)	<b>100.00</b>	100.00	British Virgin Islands
Petron Finance (Labuan) Limited (PFL)	<b>100.00</b>	100.00	Malaysia
Petron Oil and Gas Mauritius Ltd. (POGM) and Subsidiaries	<b>100.00</b>	100.00	Mauritius
Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries	<b>100.00</b>	100.00 <sup>(a)</sup>	Hong Kong

<sup>(a)</sup>In July 2016, ownership interest increased to 100% (Note 13a).

Petrogen and Ovincor are both engaged in the business of non-life insurance and re-insurance.

The primary purpose of PFC and PMC is to, among others, sell on wholesale or retail and operate service stations, retail outlets, restaurants, convenience stores and the like.

PSTPL's principal activities are those relating to the procurement of crude oil, ethanol, catalysts, additives, coal and various petroleum finished products; crude vessel chartering and commodity risk management.

NVRC's primary purpose is to acquire real estate and derive income from its sale or lease.

The primary purpose of LEC is to build, operate, maintain, sell and lease power generation plants, facilities, equipment and other related assets and engage in the business of power generation.

PGL is a holding company incorporated in the British Virgin Islands.

POGM is a holding company incorporated under the laws of Mauritius. POGM owns an offshore subsidiary Petron Oil and Gas International Sdn. Bhd. (POGI).

As of December 31, 2017 and 2016, POGI owns 73.4% of Petron Malaysia Refining & Marketing Bhd (PMRMB) and 100% of both Petron Fuel International Sdn Bhd (PFISB) and Petron Oil (M) Sdn Bhd (POMSB), collectively hereinafter referred to as "Petron Malaysia".

Petron Malaysia is involved in the refining and marketing of petroleum products in Malaysia.

PFL is a holding company incorporated under the laws of Labuan, Malaysia.

PAHL is a holding company incorporated in Hong Kong in March 2008.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights. For NVRC and PAHL, the basis of consolidation is discussed in Note 4.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Parent Company in NVRC and PMRMB in 2017 and 2016.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all the years presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

#### Adoption of Amendments to Standards

The Group has adopted the following amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have significant impact on the Group's consolidated financial statements.

- *Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.
- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that:
  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.
- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PFRS 12, Disclosure of Interests in Other Entities* on clarification of the scope of the standard is applicable to the Group. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

#### Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

The Group will adopt the following new or revised standards and amendments to standards on the respective effective dates:

*To be Adopted 2018*

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group will adopt the new standard on the effective date and will not restate comparative information. The Group has performed an assessment which is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. The adoption of PFRS 9 will have no significant effect on the classification and measurement of financial assets and liabilities of the Group. The Group does not expect any impact on its consolidated statement of financial position except for the possible effect of applying the expected credit loss model in measuring impairment.

- *Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts (Amendments to PFRS 4)*. The amendments permit to defer application of PFRS 9 in 2018 and continue to apply PAS 39, *Financial Instruments: Recognition and Measurement* if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 for designated financial assets where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The management of the Group is still finalizing the impact of PFRS 15 on the Group's revenue recognition. However, the Group does not expect significant impact on its consolidated financial position and consolidated net income.

- *Transfers of Investment Property (Amendments to PAS 40, Investment Property)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*. The amendments clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.



- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates* on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at FVPL. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

The amendments are to be applied retrospectively on or after January 1, 2018, with early application permitted.

#### *To be Adopted 2019*

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

The management of the Group is currently assessing the potential impact of PFRS 16 on their current lease arrangements and plans to adopt this new standard on leases on the required effective date.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

- *Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28, Investments in Associates)*. The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests (LTIs) that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)*. The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB 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.

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and non-current classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within twelve months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is current when it is: (a) expected to be settled in the normal operating cycle; (b) held primarily for trading; (c) due to be settled within twelve months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

### Financial Assets and Financial Liabilities

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction costs.

*Classification of Financial Instruments.* The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, financial assets at FVPL and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

*'Day 1' Profit.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

### Financial Assets

*Financial Assets at FVPL.* A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition at FVPL when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group uses commodity price swaps to protect its margin on petroleum products from potential price volatility of international crude and product prices. It also enters into short-term forward currency contracts to hedge its currency exposure on crude oil importations. In addition, the Parent Company has identified and bifurcated embedded foreign currency derivatives from certain non-financial contracts.

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the consolidated statements of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Unrealized gains and losses from changes in fair value of forward currency contracts, commodity price swaps and embedded derivatives are recognized under the caption "Marked-to-market gains (losses) - net" included as part of "Other expenses - net" account in the consolidated statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized under the caption "Inventories" included as part of "Cost of goods sold" account in the consolidated statements of income.

The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current exchange rates for contracts with similar maturity profiles. The fair values of commodity swaps are determined based on quotes obtained from counterparty banks.

The Group's derivative assets and proprietary membership shares are classified under this category.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables, due from related parties, long-term receivables and noncurrent deposits are included under this category.

*HTM Investments.* HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial recognition, these investments are measured at amortized cost using the effective interest method, less impairment in value. Any interest earned on the HTM investments is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired.

The Group has no investments accounted for under this category as of December 31, 2017 and 2016.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity and debt securities included under "Available-for-sale financial assets" account are classified under this category.

#### *Financial Liabilities*

*Financial Liabilities at FVPL.* Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss.

The Group's derivative liabilities are classified under this category.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Group's liabilities arising from its short-term loans, liabilities for crude oil and petroleum products, trade and other payables, long-term debt, cash bonds, cylinder deposits and other noncurrent liabilities are included under this category.

#### Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

#### Derivative Financial Instruments

*Freestanding Derivatives.* For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group has no derivatives that qualify for hedge accounting as of December 31, 2017 and 2016. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

*Embedded Derivatives.* The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

### Derecognition of Financial Assets and Financial Liabilities

*Financial Assets.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

### Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

*AFS Financial Assets.* For equity instruments carried at fair value, the Group assesses at each reporting date whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.



#### Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

#### Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy, as explained above.

#### Inventories

Inventories are carried at the lower of cost or net realizable value (NRV). For petroleum products and crude oil, the NRV is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

For financial reporting purposes, the Group uses the first-in, first-out method in costing petroleum products and crude oil. Cost is determined using the moving-average method in costing lubes and greases, blending components, polypropylene, materials and supplies inventories. For income tax reporting purposes, cost of all inventories is determined using the moving-average method.

For financial reporting purposes, duties and taxes related to the acquisition of inventories are capitalized as part of inventory cost. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

#### Business Combination

Business combinations are accounted for using the acquisition method as of the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair values and any resulting gain or loss is recognized in profit or loss.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

*Goodwill in a Business Combination.* Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

*Intangible Assets Acquired in a Business Combination.* The cost of an intangible asset acquired in a business combination is the fair value as of the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in profit or loss.

#### Transactions under Common Control

Transactions under common control entered into in contemplation of each other, and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using the book value accounting.

#### Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

#### Investment in Shares of Stock of an Associate

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but not control over those policies.

The Group's investment in shares of stock of an associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in the profit or loss of the associate is recognized as "Share in net income of an associate" account in the Group's consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Group's share of those changes is recognized in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. Such impairment loss is recognized as part of "Share in net income of an associate" account in the consolidated statements of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in shares of stock of an associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

#### Interest in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI) and 50.00% joint venture interest in Terminal Bersama Sdn Bhd (TBSB), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, are accounted for under the equity method of accounting. The interest in joint ventures is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in net income (loss) of the joint ventures, less any impairment in value. The consolidated statements of income reflect the Group's share in the results of operations of the joint ventures presented as part of "Other expenses" account. As of December 31, 2017, the Group has capital commitments amounting to P4 and nil for TBSB and PDSI, respectively. The Group has no contingent liabilities in relation to its interest in these joint ventures.

Results of operations as well as financial position balances of PDSI and TBSB were less than 1% of the consolidated balances of the Group and as such are assessed as not material; hence, not separately disclosed.

#### Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as an expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, depreciation and amortization, which commences when the assets are available for its intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Buildings and improvements and related facilities	7 - 50
Refinery and plant equipment	4 - 33
Service stations and other equipment	2 - 33
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

For financial reporting purposes, duties and taxes related to the acquisition of property, plant and equipment are capitalized. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

For income tax reporting purposes, depreciation and amortization are computed using the double-declining balance method.

The remaining useful lives and depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such useful lives and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement or disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

### Investment Property

Investment property consists of land and building held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost which is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire the investment property at the time of its acquisition or construction. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

For financial reporting purposes, depreciation of building is computed on a straight-line basis over the estimated useful lives of the assets of 20 years. For income tax reporting purposes, depreciation is computed using the double-declining balance method.

The useful lives and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as of the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization periods and amortization method used for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Software	5 - 10
Franchise fee	3 - 10
Other intangibles	10 - 16

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

As of December 31, 2017 and 2016, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter “P” and two flames, Powerburn 2T and Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after creator’s death.

The amount of intangible assets is included as part of “Other noncurrent assets - net” in the consolidated statements of financial position.

Expenses incurred for research and development of internal projects and internally developed patents and copyrights are expensed as incurred and are part of “Selling and administrative expenses” account in the consolidated statements of income.

#### Asset Held for Sale

The Group classifies noncurrent assets as held for sale, if their carrying amounts will be recovered primarily through sale rather than through continuing use. The assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes will be made or that the decision on sale will be withdrawn. Management must be committed to the sale within one year from date of classification.

Equity accounting of equity-accounted investees ceases once classified as held for sale.

Assets held for sale are presented under “Other current assets” account in the consolidated statements of financial position.



#### Impairment of Nonfinancial Assets

The carrying amounts of property, plant and equipment, investment property, intangible assets with finite useful lives, investment in shares of stock of an associate and interest in joint ventures are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. The fair value less costs of disposal is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Cylinder Deposits

The Parent Company purchases LPG cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 90% of the acquisition cost of the cylinders.

The Parent Company maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in profit or loss.

### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

The Group recognizes provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property, plant and equipment and restoring the site where it is located, the obligation for which the Group incurs either when the asset is acquired or as a consequence of using the asset during a particular year for purposes other than to produce inventories during the year.

### Capital Stock

*Common Shares.* Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects and any excess of the proceeds over the par value of shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

*Preferred Shares.* Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

### Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

### Treasury Stock

Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

#### Undated Subordinated Capital Securities (USCS)

USCS are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of undated subordinated capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to undated subordinated capital securities.

#### Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Goods.* Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery, and the amount of revenue can be measured reliably.

*Interest.* Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

*Dividend.* Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

*Rent.* Revenue from operating leases (net of any incentives given to the lessees) is recognized on a straight-line basis over the lease term.

*Customer Loyalty Program.* Revenue is allocated between the customer loyalty program and the other component of the sale. The amount allocated to the customer loyalty program is deducted from revenue at the time points are awarded to the customer. A deferred liability account is set up until the Group has fulfilled its obligations to supply the discounted products under the terms of the program or when it is no longer probable that the points under the program will be redeemed.

*Other Income.* Other income is recognized when there is incidental economic benefit, other than the usual business operations, that will flow to the Group and that can be measured reliably.

#### Cost and Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

*Group as Lessee.* Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

*Group as Lessor.* Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

### Research and Development Costs

Research costs are expensed as incurred. Product development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

### Employee Benefits

*Short-term Employee Benefits.* Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Retirement Benefits Costs and Other Employee Benefit Costs.* Petron has a tax qualified and funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Some of its subsidiaries have separate unfunded, noncontributory, retirement plans.

The Group's net retirement benefits liability is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit retirement obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

Remeasurements of the net defined retirement obligation or asset, excluding net interest, are recognized immediately in other comprehensive income under "Equity reserve for retirement plan". Such remeasurements are also immediately recognized in equity under "Equity reserves" and are not reclassified to profit or loss in subsequent periods. Net defined retirement benefit obligation or asset comprise actuarial gains and losses, the return on plan assets, excluding interest and the effect of the asset ceiling, if any. The Group determines the net interest expense or income on the net defined retirement obligation or asset for the period by applying the discount rate used to measure the defined benefit retirement obligation at the beginning of the annual period to the then-net defined retirement obligation or asset, taking into account any changes in the net defined benefit retirement obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

The Group also provides other benefits to its employees as follows:

*Corporate Performance Incentive Program.* The Group has a corporate performance incentive program that aims to provide financial incentives for the employees, contingent on the achievement of the Group's annual business goals and objectives. The Group recognizes achievement of its business goals through key performance indicators (KPIs) which are used to evaluate performance of the organization. The Group recognizes the related expense when the KPIs are met, that is when the Group is contractually obliged to pay the benefits.

*Savings Plan.* The Group established a Savings Plan wherein eligible employees may apply for membership and have the option to contribute 5% to 15% of their monthly base pay. The Group, in turn, contributes an amount equivalent to 50% of the employee-member's contribution. However, the Group's 50% share applies only to a maximum of 10% of the employee-member's contribution. The Savings Plan aims to supplement benefits upon employees' retirement and to encourage employee-members to save a portion of their earnings. The Group accounts for this benefit as a defined contribution pension plan and recognizes a liability and an expense for this plan as the expenses for its contribution fall due. The Group has no legal or constructive obligations to pay further contributions after payments of the equivalent employer-share. The accumulated savings of the employees plus the Group's share, including earnings, will be paid in the event of the employee's: (a) retirement, (b) resignation after completing at least five years of continuous services, (c) death, or (d) involuntary separation not for cause.

*Land/Home Ownership Plan.* The Group established the Land/Home Ownership Plan, an integral part of the Savings Plan, to extend a one-time financial assistance to Savings Plan members in securing housing loans for residential purposes.

#### Foreign Currency

*Foreign Currency Translations.* Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

*Foreign Operations.* The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income, and presented in the "Other reserves" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the "Other reserves" account in the consolidated statements of changes in equity.

#### Taxes

*Current Tax.* Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

*Deferred Tax.* Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.



*Value-added Tax (VAT)*. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of “Other current assets” or “Trade and other payables” accounts in the consolidated statements of financial position.

#### Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

#### Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of USCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to owners of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive debt or equity instruments.

#### Operating Segments

The Group’s operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 37 to the consolidated financial statements. The Chief Executive Officer (the “chief operating decision maker”) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm’s length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Date

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

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#### **4. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Determining Functional Currency.* The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates. It is the currency that mainly influences the sales price of goods and services and the costs of providing these goods and services.

*Operating Lease Commitments - Group as Lessor/Lessee.* The Group has entered into various lease agreements either as lessor or lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P1,243, P1,139 and P1,131 in 2017, 2016 and 2015, respectively (Notes 23 and 26).

Rent expense recognized in the consolidated statements of income amounted to P1,702, P1,293 and P1,295 in 2017, 2016 and 2015, respectively (Notes 22 and 23).

*Evaluating Control over its Investees.* Determining whether the Parent Company has control in an investee requires significant judgment. Although the Parent Company owns less than 50% of the voting rights of NVRC and PAHL, before the Parent Company acquired the remaining equity interest in PAHL in 2016, management has determined that the Parent Company controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Parent Company has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Parent Company controls NVRC since it is exposed, and has rights, to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Parent Company assessed it has control over PAHL, even prior to the Parent Company's acquisition of the remaining equity interest in 2016, by virtue of the extent of the Parent Company's participation in the BOD and management of PAHL, of which the Parent Company established it has: (i) power over PAHL, (ii) it is exposed and has rights to variable returns from its involvement with PAHL, and (iii) it has ability to use its power over PAHL to affect the amount of PAHL's returns. Accordingly, the Parent Company considered PAHL a subsidiary beginning January 1, 2013. As of December 31, 2017 and 2016, the Parent Company owns 100% of PAHL.

*Classifying Financial Instruments.* The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

*Distinction between Property, Plant and Equipment and Investment Property.* The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

*Determining Impairment Indicators of Other Non-financial Assets.* PFRS requires that an impairment review be performed on property, plant and equipment, investment in shares of stock of an associate and interest in joint ventures, investment property and intangible assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on financial performance.

*Determining whether an Arrangement Contains a Lease.* The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change of contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; and
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*Taxes.* Significant judgment is required in determining current and deferred tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax expenses in the year in which such determination is made.

Beginning July 2008, in the determination of the Group's current taxable income, the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. The Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2017, 2016 and 2015, the Group opted to continue claiming itemized standard deductions except for Petrogen and certain subsidiaries of NVRC such as Las Lucas Construction and Development Corporation (Las Lucas) and Parkville Estates and Development Corporation (PEDC), as they opted to apply OSD. In 2017, certain subsidiaries of NVRC such as Mariveles Landco Corporation, South Luzon Prime Holdings, Inc. and MRGVeloso Holdings, Inc. (MHI) also opted to apply OSD (Note 27).

*Contingencies.* The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

### Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

*Allowance for Impairment Losses on Trade and Other Receivables.* Allowance for impairment is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of receivables, designed to identify potential changes to allowance, is performed regularly throughout the year. Specifically, in coordination with the National Sales Division, the Finance Division ascertains customers who are unable to meet their financial obligations. In these cases, the Group's management uses sound judgment based on the best available facts and circumstances including but not limited to, the length of relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience. The amount of impairment loss differs for each year based on available objective evidence for which the Group may consider that it will not be able to collect some of its accounts. Impaired accounts receivable are written off when identified to be worthless after exhausting all collection efforts. An increase in allowance for impairment of trade and other receivable would increase the Group's recorded selling and administrative expenses and decrease current assets.

Impairment losses on trade and other receivables amounted to P10, P68 and P154 in 2017, 2016 and 2015, respectively (Notes 8 and 23). Receivables written-off amounted to P89 in 2017 and P97 in 2016 (Note 8).

The carrying amount of receivables amounted to P38,159 and P31,548 as of December 31, 2017 and 2016, respectively (Note 8).

*Net Realizable Values of Inventories.* In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P56,604 and P44,147 as of the end of 2017 and 2016, respectively (Note 9), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

No inventory write-down was recognized by the Group in 2017 and 2016 while inventory write-down in 2015 amounted to P225 (Note 9).

*Allowance for Inventory Obsolescence.* The allowance for inventory obsolescence consists of collective and specific valuation allowance. A collective valuation allowance is established as a certain percentage based on the age and movement of stocks. In case there is write-off or disposal of slow-moving items during the year, a reduction in the allowance for inventory obsolescence is made. Review of allowance is done every quarter, while a revised set-up or booking is posted at the end of the year based on evaluations or recommendations of the proponents. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

In 2017, 2016 and 2015, the Group provided an additional loss on inventory obsolescence amounting to nil, P327 and P36, respectively (Note 9).

*Fair Values of Financial Assets and Financial Liabilities.* The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (e.g., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Fair values of financial assets and financial liabilities are discussed in Note 35.

*Estimated Useful Lives of Property, Plant and Equipment, Intangible Assets with Finite Useful Lives and Investment Property.* The Group estimates the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property would increase recorded cost of goods sold and selling and administrative expenses and decrease noncurrent assets.

There is no change in estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on management's review at the reporting date.

Accumulated depreciation and amortization of property, plant and equipment, intangible assets with finite useful lives and investment property amounted to P85,204 and P75,258 as of December 31, 2017 and 2016, respectively (Notes 11, 12 and 14). Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P177,690 and P176,604 as of December 31, 2017 and 2016, respectively (Note 11). Investment property, net of accumulated depreciation, amounted to P75 and P91 as of December 31, 2017 and 2016, respectively (Note 12). Intangible assets with finite useful lives, net of accumulated amortization, amounted to P162 and P208 as of December 31, 2017 and 2016, respectively (Note 14).

*Fair Value of Investment Property.* The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be sold, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment property amounted to P162 and P151 as of December 31, 2017 and 2016, respectively (Note 12).

*Impairment of Goodwill.* The Group determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The recoverable amount of goodwill arising from the acquisition of Petron Malaysia has been determined based on fair value less costs to sell and value in use using discounted cash flows (DCF). Assumptions used in the DCF include terminal growth rate of 3.0% in 2017 and 2016 and discount rates of 6.3% and 5.8% in 2017 and 2016, respectively (Note 13).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the projected sales volume, selling price and improvement in the gross profit margin, and discount rate.

No impairment losses were recognized in 2017, 2016 and 2015 in relation to the goodwill arising from the acquisition of Petron Malaysia which accounts for almost 99% of goodwill in the consolidated statements of financial position as of December 31, 2017 and 2016.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other expenses - net" in the 2016 consolidated statement of income (Notes 13 and 26).

*Realizability of Deferred Tax Assets.* The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carry forward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P207 and P194 as of December 31, 2017 and 2016, respectively (Note 27).

*Present Value of Defined Benefit Retirement Obligation.* The present value of defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 30 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement benefits liability.

Other key assumptions for retirement benefits liability are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement benefits liability.

Retirement benefits costs recognized in profit or loss amounted to P508, P579 and P419 in 2017, 2016 and 2015, respectively. Remeasurement losses (gains) of the net defined retirement obligation recognized in other comprehensive income amounted to P1,142, (P2,647) and P3,112 in 2017, 2016 and 2015, respectively. The retirement benefits liability amounted to P4,989 and P3,392 as of December 31, 2017 and 2016, respectively (Note 30).

*Asset Retirement Obligation (ARO)*. The Group has ARO arising from the refinery, leased service stations, terminals and blending plant. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 6.659% to 9.055% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P2,681 and P2,324 as of December 31, 2017 and 2016, respectively (Note 19).

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## 5. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	<b>2017</b>	2016
Cash on hand		<b>P2,701</b>	P1,794
Cash in banks		<b>4,106</b>	5,423
Short-term placements		<b>10,207</b>	10,115
	<i>34, 35</i>	<b>P17,014</b>	P17,332

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Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn annual interest at the respective short-term placement rates ranging from 0.05% to 4.50% in 2017, 0.03% to 4.50% in 2016 and 0.05% to 5.00% in 2015 (Note 26).

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## 6. Financial Assets at Fair Value through Profit or Loss

This account consists of:

	<i>Note</i>	<b>2017</b>	2016
Proprietary membership shares	<i>34, 35</i>	<b>P171</b>	P157
Derivative assets	<i>34, 35</i>	<b>165</b>	64
		<b>P336</b>	P221

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The fair values presented have been determined directly by reference to published market prices, except for derivative assets which are based on inputs other than quoted prices that are observable (Note 35).

Changes in fair value recognized in 2017, 2016 and 2015 amounted to P14, P10 and P11, respectively (Note 26).

## 7. Available-for-Sale Financial Assets

This account consists of:

	<i>Note</i>	<b>2017</b>	2016
Government securities		<b>P201</b>	P141
Other debt securities		<b>330</b>	338
	<i>34, 35</i>	<b>531</b>	479
Less current portion		<b>199</b>	71
		<b>P332</b>	P408

Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 2.13% to 5.30% in 2017, 2.13% to 7.75% in 2016 and 4.47% to 8.88% in 2015 (Note 26).

Ovincor's outstanding corporate bond is maintained at the Bank of N. T. Butterfield and carried at fair value with fixed annual interest rate of 6.75% (Note 26).

The breakdown of investments by contractual maturity dates as of December 31 follows:

	<i>Note</i>	<b>2017</b>	2016
Due in one year or less		<b>P199</b>	P71
Due after one year through six years		<b>332</b>	408
	<i>34, 35</i>	<b>P531</b>	P479

The reconciliation of the carrying amounts of AFS financial assets as of December 31 follows:

	<b>2017</b>	2016
Balance at beginning of year	<b>P479</b>	P621
Additions	<b>131</b>	90
Disposals	<b>(70)</b>	(232)
Amortization of premium	<b>(5)</b>	(7)
Fair value loss	<b>(4)</b>	(2)
Currency translation adjustment	<b>-</b>	9
Balance at end of year	<b>P531</b>	P479

## 8. Trade and Other Receivables

This account consists of:

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Trade	34	<b>P26,199</b>	P18,338
Related parties - trade	28, 34	<b>726</b>	1,001
Allowance for impairment loss on trade receivables		<b>(776)</b>	(807)
		<b>26,149</b>	18,532
Government		<b>6,151</b>	7,441
Related parties - non-trade	28	<b>5,273</b>	5,127
Others		<b>991</b>	787
Allowance for impairment loss on non-trade receivables		<b>(405)</b>	(339)
		<b>12,010</b>	13,016
	34, 35	<b>P38,159</b>	P31,548

Trade receivables are noninterest-bearing and are generally on a 45-day term. Penalties are charged when the account becomes overdue.

Government receivables pertain to duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism. The amount includes receivables over 30 days but less than one year amounting to P767 and P1,954 as of December 31, 2017 and 2016, respectively. The filing and the collection of claims is a continuous process and is closely monitored.

Related parties - non-trade consists of an advance made by the Parent Company to Petron Corporation Employee Retirement Plan (PCERP) and other receivables from SMC and its subsidiaries.

Others mainly consist of receivables from various non-trade customers and matured hedging transactions.

A reconciliation of the allowance for impairment losses at the beginning and end of 2017 and 2016 is shown below:

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Balance at beginning of year		<b>P1,227</b>	P1,230
Additions	23	<b>10</b>	68
Write off	4	<b>(89)</b>	(97)
Currency translation adjustment		<b>123</b>	26
Balance at end of year		<b>1,271</b>	1,227
Less noncurrent portion for long-term receivables	14	<b>90</b>	81
		<b>P1,181</b>	P1,146

As of December 31, 2017 and 2016, the age of past due but not impaired trade accounts receivable is as follows (Note 34):

	<b>Past Due but not Impaired</b>				<b>Total</b>
	<b>Within 30 days</b>	<b>31 to 60 Days</b>	<b>61 to 90 Days</b>	<b>Over 90 Days</b>	
<b>December 31, 2017</b>					
Reseller	<b>P95</b>	<b>P20</b>	<b>P7</b>	<b>P6</b>	<b>P128</b>
Lubes	<b>40</b>	<b>8</b>	<b>2</b>	<b>40</b>	<b>90</b>
Gasul	<b>67</b>	<b>26</b>	<b>20</b>	<b>-</b>	<b>113</b>
Industrial	<b>69</b>	<b>4</b>	<b>239</b>	<b>140</b>	<b>452</b>
Others	<b>17</b>	<b>27</b>	<b>29</b>	<b>90</b>	<b>163</b>
	<b>P288</b>	<b>P85</b>	<b>P297</b>	<b>P276</b>	<b>P946</b>
<b>December 31, 2016</b>					
Reseller	P107	P8	P2	P10	P127
Lubes	1	-	6	-	7
Gasul	57	2	2	-	61
Industrial	15	9	95	263	382
Others	88	35	23	131	277
	P268	P54	P128	P404	P854

No allowance for impairment losses is necessary as regard to these past due but unimpaired trade receivables based on past collection experience. There are no significant changes in credit quality. As such, these amounts are still considered recoverable.

## 9. Inventories

This account consists of:

	<b>2017</b>	<b>2016</b>
Crude oil and others	<b>P29,538</b>	P24,474
Petroleum	<b>20,359</b>	13,418
Lubes, greases and aftermarket specialties	<b>2,544</b>	2,754
Materials and supplies	<b>4,163</b>	3,501
	<b>P56,604</b>	P44,147

The cost of these inventories amounted to P57,393 and P44,936 as of December 31, 2017 and 2016, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have increased by P61 and P1,906 as of December 31, 2017 and 2016, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P369,695, P283,169 and P311,526 in 2017, 2016 and 2015, respectively (Note 22).

Research and development costs on these products constituted the expenses incurred for internal projects in 2017 and 2016 (Note 23).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2017 and 2016 follow:

	<b>Note</b>	<b>2017</b>	2016
Balance at beginning of year		<b>P789</b>	P684
Loss on inventory obsolescence	4	-	327
Reversals		-	(223)
Currency translation adjustment		-	1
Balance at end of year		<b>P789</b>	P789

As of December 31, 2017 and 2016, there is no allowance for write-down of inventories to NRV recognized by the Group.

The losses and reversals are included as part of "Cost of goods sold" account in the consolidated statements of income (Note 22).

Reversal of write-down corresponds to inventories sold during the year.

#### 10. Investment in Shares of Stock of an Associate

This account consists of:

	<b>2017</b>	2016
<b>Acquisition Cost</b>		
Balance at beginning of year	<b>P1,405</b>	P1,405
Disposal/reclassification	<b>(1,405)</b>	-
Balance at end of year	-	1,405
<b>Share in Total Comprehensive Income</b>		
Balance at beginning of year	<b>478</b>	409
Share in net income during the year	<b>63</b>	66
Share in other comprehensive income	<b>3</b>	3
Disposal/reclassification	<b>(544)</b>	-
Balance at end of year	-	478
	<b>P -</b>	P1,883

Investment in shares of stock of an associate pertains to 35% investment in Manila North Harbour Port Inc. (MNHPI), a company incorporated in the Philippines, prior to its disposal in October 2017.

On January 3, 2011, the Parent Company entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal, Inc. for the purchase of 35% of the outstanding and issued capital stock of MNHPI.

Prior to the disposal of MNHPI shares in 2017, last transaction relative to the investment in MNHPI was the advances made by the Parent Company amounting to P525 as deposit for future subscription in February 2015. Following the approval of the increase in the authorized capital stock of MNHPI by the SEC, the Parent Company was issued stock certificate for 7,000,000 shares in December 2015, representing 35% of the increase in the authorized capital stock of MNHPI.

On September 21, 2017, the Parent Company signed the Share Purchase Agreement (SPA) with International Container Terminal Services, Inc. (ICTSI) for the sale by the Parent Company of its 10,449,000 shares in MNHPI equal to 34.83% of MNHPI's outstanding shares for a total consideration of P1,750. The completion of the SPA was subject to several conditions.

On October 30, 2017, all conditions for the completion of the sale of the Parent Company's shares in MNHPI had been complied with and accordingly, the purchase price had been paid. As a result of the transaction, the Group recognized loss on disposal of investments amounting to P189 included as part of "Other expenses - net" account in the 2017 consolidated statement of income (Note 26).

The remaining 51,000 shares representing 0.17% interest in MNHPI was also intended to be sold to a related party effectively rendering the remaining MNHPI shares as assets held for sale as of December 31, 2017. The proposed sale is still subject to negotiations as of December 31, 2017. Asset held for sale with carrying amount of P9 is recognized as part of "Other current assets" account in the consolidated statement of financial position as of December 31, 2017 (Note 14).

Following are the condensed financial information of MNHPI as of and for the periods ended September 30, 2017 and December 31, 2016:

	<b>September 30 2017</b>	December 31 2016
Percentage of ownership	<b>35%*</b>	35%
Current assets	<b>P2,098</b>	P2,698
Noncurrent assets	<b>12,765</b>	11,349
Current liabilities	<b>(6,236)</b>	(5,574)
Noncurrent liabilities	<b>(4,078)</b>	(4,102)
Net assets	<b>P4,549</b>	P4,371
Sales	<b>P2,504</b>	P2,984
Net income	<b>P179</b>	P188
Other comprehensive income	-	9
Total comprehensive income	<b>P179</b>	P197
Share in net assets	<b>P -</b>	P1,530
Goodwill	-	353
Carrying amount of investment in shares of stock of an associate	<b>P -</b>	P1,883

*\*The remaining 0.17% equity interest in MNHPI as of December 31, 2017 was classified as "Asset held for sale" (Note 14).*

## 11. Property, Plant and Equipment

The movements and balances as of and for the years ended December 31 follow:

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
<b>Cost</b>							
January 1, 2016	P28,248	P49,785	P16,230	P4,703	P13,274	P116,585	P228,825
Additions	289	18,065	363	293	467	3,749	23,226
Disposals/reclassifications	34	94,310	(494)	(348)	186	(95,033)	(1,345)
Currency translation adjustment	332	103	73	4	77	18	607
December 31, 2016	28,903	162,263	16,172	4,652	14,004	25,319	251,313
Additions	563	1,307	405	232	237	6,954	9,698
Disposals/reclassifications	2,162	20,628	159	(68)	(315)	(24,983)	(2,417)
Currency translation adjustment	876	1,106	700	135	705	139	3,661
<b>December 31, 2017</b>	<b>32,504</b>	<b>185,304</b>	<b>17,436</b>	<b>4,951</b>	<b>14,631</b>	<b>7,429</b>	<b>262,255</b>
<b>Accumulated Depreciation and Amortization</b>							
January 1, 2016	17,425	33,088	11,140	3,448	2,127	-	67,228
Additions	1,255	5,010	1,192	655	134	-	8,246
Disposals/reclassifications	(85)	(20)	(369)	(477)	(61)	-	(1,012)
Currency translation adjustment	143	173	24	(97)	4	-	247
December 31, 2016	18,738	38,251	11,987	3,529	2,204	-	74,709
Additions	1,315	7,200	868	416	162	-	9,961
Disposals/reclassifications	(380)	25	(1,064)	(241)	(342)	-	(2,002)
Currency translation adjustment	532	820	416	93	36	-	1,897
<b>December 31, 2017</b>	<b>20,205</b>	<b>46,296</b>	<b>12,207</b>	<b>3,797</b>	<b>2,060</b>	<b>-</b>	<b>84,565</b>
<b>Carrying Amount</b>							
December 31, 2016	P10,165	P124,012	P4,185	P1,123	P11,800	P25,319	P176,604
<b>December 31, 2017</b>	<b>P12,299</b>	<b>P139,008</b>	<b>P5,229</b>	<b>P1,154</b>	<b>P12,571</b>	<b>P7,429</b>	<b>P177,690</b>

No interest was capitalized in 2017 and 2016 (Note 18). No impairment loss was required to be recognized in 2017, 2016 and 2015 based on management's assessment of impairment indicators.

### Capital Commitments

As of December 31, 2017 and 2016, the Group has outstanding commitments to acquire property, plant and equipment amounting to P10,615 and P7,756, respectively.

## 12. Investment Property

The movements and balances as of and for the years ended December 31 follow:

	Land	Building	Total
<b>Cost</b>			
January 1, 2016	P100	P25	P125
Disposal	(20)	-	(20)
December 31, 2016	80	25	105
Disposal	(15)	-	(15)
<b>December 31, 2017</b>	<b>65</b>	<b>25</b>	<b>90</b>
<b>Accumulated Depreciation</b>			
January 1, 2016	-	13	13
Depreciation	-	1	1
December 31, 2016	-	14	14
Depreciation	-	1	1
<b>December 31, 2017</b>	<b>-</b>	<b>15</b>	<b>15</b>
<b>Carrying Amount</b>			
December 31, 2016	P80	P11	P91
<b>December 31, 2017</b>	<b>P65</b>	<b>P10</b>	<b>P75</b>

The Group's investment property pertains to a property located in Tagaytay and parcels of land in various locations.

Estimated fair value of the Tagaytay property amounted to P44 as of December 31, 2017 and 2016 based on the appraisal made in February 2017. The fair value was calculated using market approach.

The Group's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2017 and 2016, the aggregate fair market values of the properties amounting to P118 and P107, respectively, determined by independent appraisers in 2018 and 2013, respectively, using market approach, is higher than their carrying amount, considering recent market transactions and specific conditions related to the parcels of land as determined by NVRC.

The fair market value of investment property has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

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### 13. Investment in Shares of Stock of Subsidiaries and Goodwill

The following are the major developments relating to the Parent Company's investment in shares of stock of subsidiaries:

a. *PAHL*

Although the Group owns less than half of the voting power of PAHL, prior to the acquisition of the remaining equity interest in 2016, management has assessed, in accordance with PFRS 10, that the Group has control over PAHL on a de facto basis. Accordingly, the Group consolidated PAHL beginning January 1, 2013.

On November 17, 2015, the Parent Company subscribed to additional 18,324,889 ordinary shares of PAHL for a total consideration of US\$11,746,724 which effectively increased the Parent Company's ownership interest by 1.40% to 47.25%.

On March 18, 2016, the Parent Company subscribed to additional 43,125,482 ordinary shares of PAHL for a total consideration of US\$27,644,540 which effectively increased the Parent Company's ownership interest from 47.25% to 50.26%.

On July 25, 2016, the Parent Company purchased the remaining 273,000,000 ordinary shares and 102,142,858 "B" ordinary shares in PAHL for a total of 375,142,858 shares owned by PCERP for a total purchase price of P1,921. Petron's ownership interest in PAHL has increased from 50.26% to 100%.

As a result of the foregoing transactions, non-controlling interest in PAHL has been derecognized in 2016.

b. *PGL*

On various dates in 2015, the Parent Company subscribed to additional common shares of PGL as follows:

Date	No. of Shares	Amount Per Share (in US\$)	Total (in US\$)
March 13, 2015	9,354,136	1.00	9,354,136
April 13, 2015	1,710,231	1.00	1,710,231
May 13, 2015	1,067,462	1.00	1,067,462

PGL has issued an aggregate of 73,559,188 common shares from 2012 to 2014 with a par value of US\$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US\$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US\$1.00 per share. Consequently, non-controlling interest in PGL has been transferred to retained earnings attributable to the equity holders of the Parent Company.

As of December 31, 2017 and 2016, the Parent Company holds a total of 85,691,017 common shares in PGL representing 100% of the voting capital stock of PGL.



c. *Las Lucas and MHI*

On December 19, 2017, the BOD and stockholders of the subsidiaries of NVRC, Las Lucas and MHI, approved the merger between Las Lucas and MHI effective (to the extent allowed by applicable law or regulation) on the first day of the month following the issuance by the SEC of the certificate of merger, wherein Las Lucas will be the surviving entity.

Upon the effective date of merger, all the respective rights, businesses, powers, privileges, immunities, franchises, assets and other properties of MHI including, but not limited to, all real and personal properties, contractual and property rights, licenses, privileges, property rights, claims, bank deposits, stocks, accounts receivable, retained earnings, credit lines, supplies, equipment, investments of whatever nature, including subscriptions to shares, choses in action, goodwill, intangible assets and such other assets, owned or which may have been acquired by MHI shall be conveyed, assigned, and transferred to, possessed and owned by, and vested in Las Lucas .

The Plan of Merger was submitted with the SEC in January 2018. The application for merger is still pending approval by the SEC as of March 13, 2018.

Goodwill

The movements and balances of goodwill as of and for the years ended December 31 are as follows:

	<i>Note</i>	<b>2017</b>	2016
<b>Cost</b>			
Balance at beginning of year		<b>P7,480</b>	P7,694
Translation adjustments		<b>797</b>	84
Balance at end of year		<b>8,277</b>	7,778
Less impairment loss during the year	26	-	298
<b>Net carrying amount</b>		<b>P8,277</b>	P7,480

Impairment of Goodwill from Petron Malaysia

Goodwill arising from the acquisition of Petron Malaysia, which accounts for 99% of total goodwill in the consolidated statements of financial position as of December 31, 2017 and 2016, is allocated at the POGI Group cash generating unit (CGU) instead of each individual acquiree company's CGU as it is expected that the POGI Group CGU will benefit from the synergies created from the acquiree companies in combination.

For the goodwill allocated to the POGI Group CGU, the recoverable amount of goodwill has been determined based on value in use (VIU). The VIU is based on cash flows projections for five (5) years using a terminal growth rate of 3.0% in 2017 and 2016 and discount rates of 6.3% and 5.8% in 2017 and 2016, respectively. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on internal sources (i.e., historical data). The discount rate is based on the weighted average cost of capital (WACC) using the Capital Asset Pricing Model (CAPM) by taking into consideration the debt equity capital structure and cost of debt of comparable companies and cost of equity based on appropriate market risk premium.

The financial projection used in the VIU calculation is highly dependent on the following underlying key drivers of growth in profitability:

- *Sales Volume.* Majority of the sales volume is generated from the domestic market of the CGU. The growth in projected sales volume would mostly contributed from retail and commercial segments. Retail sales refer to sales of petroleum products through petrol stations. Commercial sales refer to sales to industrial, wholesale, aviation and LPG accounts.
- *Selling Price and Improvement in the Gross Profit Margin.* Management has projected an improvement in selling price in 2018, and thereafter, it is projected to remain constant during the forecast period. Management also expects improvement in gross profit margin to be achieved through overall growth in sales volume along with better sales mix and better cost management.

For purposes of growth rate sensitivity, a growth rate scenario of 2%, 3% and 4% is applied on the discounted cash flows analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill to exceed its recoverable amount.

No impairment losses were recognized in 2017, 2016 and 2015 in relation to the goodwill arising from the acquisition of Petron Malaysia.

#### Impairment of Goodwill from PAHL

For the goodwill allocated to PAHL, the recoverable amount of goodwill has been determined based on fair value less costs to sell. The fair value was calculated using market approach which has been categorized as Level 3 in the fair value hierarchy.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other expenses - net" in the 2016 consolidated statement of income (Note 26).

The following table summarizes the financial information relating to each of the Group's subsidiaries that has material non-controlling interests:

	<b>December 31, 2017</b>		December 31, 2016	
	<b>NVRC</b>	<b>PMRMB</b>	NVRC	PMRMB
<b>Non-controlling Interests Percentage</b>	<b>60.00%</b>	<b>26.60%</b>	60.00%	26.60%
<b>Carrying amount of non-controlling interest</b>	<b>P558</b>	<b>P5,406</b>	P474	P3,855
Current assets	<b>P350</b>	<b>P19,595</b>	P308	P16,744
Noncurrent assets	<b>5,521</b>	<b>13,844</b>	5,296	12,601
Current liabilities	<b>(237)</b>	<b>(13,274)</b>	(205)	(13,946)
Noncurrent liabilities	<b>(4,229)</b>	<b>(1,599)</b>	(4,135)	(2,492)
<b>Net assets</b>	<b>P1,405</b>	<b>P18,566</b>	P1,264	P12,907
<b>Net income attributable to non-controlling interests</b>	<b>P84</b>	<b>P1,264</b>	P57	P725
<b>Other comprehensive income attributable to non-controlling interests</b>	<b>P -</b>	<b>P473</b>	P -	P28
<b>Sales</b>	<b>P584</b>	<b>P121,701</b>	P593	P87,124
Net income	<b>P141</b>	<b>P4,754</b>	P96	P2,727
Other comprehensive income	-	<b>28</b>	-	105
<b>Total comprehensive income</b>	<b>P141</b>	<b>P4,782</b>	P96	P2,832
Cash flows provided by operating activities	<b>P292</b>	<b>P4,271</b>	P222	P3,881
Cash flows used in investing activities	<b>(82)</b>	<b>(389)</b>	(429)	(525)
Cash flows provided by (used in) financing activities	<b>(213)</b>	<b>(4,519)</b>	128	(3,221)
Effects of exchange rate changes on cash and cash equivalents	-	<b>(2)</b>	-	2
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(P3)</b>	<b>(P639)</b>	(P79)	P137

Net loss and other comprehensive income attributable to non-controlling interest of PAHL prior to the acquisition of the remaining equity interest in 2016 amounted to (P60) and P4, respectively, while other comprehensive loss attributable to non-controlling interest of PGL in 2016 amounted to P296.

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#### 14. Other Assets

This account consists of:

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Current:			
Prepaid taxes		<b>P19,025</b>	P24,478
Input VAT		<b>12,337</b>	6,097
Prepaid expenses	28	<b>1,383</b>	1,518
Special-purpose fund		<b>147</b>	140
Asset held for sale	10	<b>9</b>	-
Tax recoverable		<b>1</b>	-
Others		<b>276</b>	266
		<b>P33,178</b>	P32,499
Noncurrent:			
Prepaid rent		<b>P2,600</b>	P2,211
Input VAT		<b>1,832</b>	2,229
Catalyst - net		<b>503</b>	833
Long-term receivables - net	34, 35	<b>228</b>	205
Noncurrent deposits	34, 35	<b>90</b>	81
Others - net		<b>706</b>	856
		<b>P5,959</b>	P6,415

The "Others - net" under "Noncurrent" account includes software, marketing assistance to dealers, other prepayments, franchise fees, licenses and other intangible assets amounting to P693 and P850 as of December 31, 2017 and 2016, respectively, net of amortization amounting to P282 and P349 as of December 31, 2017 and 2016, respectively.

The amortization of prepaid rent amounted to P195, P207 and P189 in 2017, 2016 and 2015, respectively.

Amortization of software, marketing assistance to dealers, other prepayments, franchise fees, other intangibles and prepaid rent included as part of "Depreciation and amortization" under "Selling and administrative expenses" account in the consolidated statements of income amounted to P138, P214 and P285 in 2017, 2016 and 2015, respectively (Notes 23 and 25).

Amortization of catalyst, licenses and other prepayments included as part of "Depreciation and amortization" under "Cost of goods sold" account in the consolidated statements of income amounted to P684, P837 and P433 in 2017, 2016 and 2015, respectively (Notes 22 and 25).

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#### 15. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 4 to 120 days and annual interest ranging from 2.35% to 6.02% in 2017, 2.85% to 6.22% in 2016 and 2.75% to 6.20% in 2015 (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 9) and working capital requirements.

Interest expense on short-term loans amounted to P2,323 both in 2017 and 2016 and P3,284 in 2015 (Note 26).

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**16. Liabilities for Crude Oil and Petroleum Products**

This account pertains to liabilities to suppliers of crude oil, petroleum and other products that are noninterest-bearing and generally settled on a 30-day term. Details of the supply agreements in relation to importations of crude oil requirements of the Group are disclosed in Note 31.

Liabilities for crude oil and petroleum products are payable to the following:

	<b>Note</b>	<b>2017</b>	2016
Third parties		<b>P36,895</b>	P29,563
Related parties	28	<b>25</b>	403
	34, 35	<b>P36,920</b>	P29,966

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**17. Trade and Other Payables**

This account consists of:

	<b>Note</b>	<b>2017</b>	2016
Trade		<b>P5,540</b>	P4,545
Specific taxes and other taxes payable		<b>1,358</b>	2,352
Accrued payroll		<b>52</b>	119
Due to related parties	28	<b>774</b>	5,474
Accrued interest		<b>533</b>	713
Accrued rent		<b>817</b>	892
Dividends payable		<b>239</b>	218
Insurance liabilities		<b>78</b>	66
Retention payable		<b>641</b>	336
Deferred liability on customer loyalty program		<b>1,024</b>	750
Retirement benefits liability	30	<b>104</b>	77
Others	39	<b>444</b>	619
	34, 35	<b>P11,604</b>	P16,161

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Trade payables are liabilities to haulers, contractors and suppliers that are noninterest-bearing and are generally settled on a 30-day term.

Others include provisions (Note 39), accruals of selling and administrative expenses, and advances which are normally settled within a year.

## 18. Long-term Debt

This account consists of:

	<i>Note</i>	2017	2016
<b>Unsecured Peso-Denominated (net of debt issue costs)</b>			
Fixed rate corporate notes of 7% due in 2017	<i>(a)</i>	<b>P -</b>	P19,964
Fixed rate corporate notes of 6.3212% due until 2018 and 7.1827% due until 2021	<i>(b)</i>	<b>3,369</b>	3,401
Term loan of 5.4583% due until 2022	<i>(f)</i>	<b>4,986</b>	4,981
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	<i>(g)</i>	<b>19,835</b>	19,801
Fixed rate corporate notes of 5.5276% due quarterly until 2024	<i>(i)</i>	<b>14,380</b>	-
Fixed rate corporate notes of 5.7584% due until 2022	<i>(j)</i>	<b>9,950</b>	-
<b>Unsecured Foreign Currency-Denominated (net of debt issue costs)</b>			
Floating rate dollar loan - MYR100 million	<i>(c)</i>	-	832
Floating rate dollar loan - MYR100 million	<i>(c)</i>	-	920
Floating rate dollar loan - MYR50 million	<i>(c)</i>	-	506
Floating rate dollar loan - US\$475 million	<i>(d)</i>	-	6,556
Floating rate dollar loan - US\$550 million	<i>(e)</i>	-	22,891
Floating rate dollar loan - US\$1,000 million due until 2022	<i>(h)</i>	<b>49,185</b>	-
	33, 34, 35	<b>101,705</b>	79,852
Less current portion		<b>3,789</b>	20,911
		<b>P97,916</b>	P58,941

- a. On November 10, 2010, the Parent Company issued P20,000 Peso-denominated Notes, payable in US dollar. The notes bear interest of 7% per annum, payable semi-annually in arrears on May 10 and November 10 of each year. The principal and interest will be translated into and paid in US dollar based on the average representative market rate at the applicable rate calculation date at the time of each payment. The notes matured and were repaid on November 10, 2017.
- b. The Parent Company issued Fixed Rate Corporate Notes (FXCN) totaling P3,600 on October 25, 2011. The FXCNs consisted of Series A Notes amounting to P690 having a maturity of up to 7 years from issue date and Series B Notes amounting to P2,910 having a maturity of up to 10 years from issue date. The FXCNs are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements.
- c. On March 17, 2014, PMRMB availed of Malaysian ringgit (MYR) 100 million (P1,374) loan. Additionally, on June 27, 2014, PMRMB availed of MYR 100 million (P1,359) and on July 25, 2014, PFISB availed of five-year MYR 50 million (P685) loan. Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. All loans bear an interest rate of Cost of Fund (COF) +1.5%. All the remaining balances of the loans were prepaid on various dates in 2017.

- d. On May 14, 2014, the Parent Company signed and executed a US\$300 million term loan facility. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a fixed spread. Proceeds were used to refinance existing debt and for general corporate purposes. Drawdowns and their respective amounts were made on the following dates: May 27, 2014 (US\$70 million); June 4, 2014 (US\$118 million); June 20, 2014 (US\$70 million) and July 2, 2014 (US\$42 million). On September 29, 2014, the Parent Company completed the syndication of the facility, raising the facility amount to US\$475 million. Drawdowns related to the additional US\$175 million were made as follows: October 24, 2014 (US\$70 million) and November 6, 2014 (US\$105 million). Amortization in seven equal amounts started in May 2016, with final amortization due in May 2019. In 2015, 2016 and 2017, the Parent Company made payments on the following dates: September 29, 2015 (US\$65 million); November 27, 2015 (US\$70 million); March 31, 2016 (US\$40 million); October 28, 2016 (US\$165 million); March 31, 2017 (US\$20 million) and June 28, 2017 (US\$115 million). As of December 31, 2017, the term loans from the facility have been fully paid.
- e. On July 29, 2015, the Parent Company drew US\$550 million from a US\$550 million refinancing facility which was signed and executed on July 20, 2015. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a fixed spread. The proceeds were used to pay in full the remaining outstanding balances of about US\$206 million and US\$345 million under the US\$480 million term loan facility and the US\$485 million term loan facility, respectively. On November 11, 2015, the Parent Company completed the syndication of the new facility with 29 banks. On October 28, 2016 and June 28, 2017, the Parent Company made partial and full payments amounting to US\$80 million and US\$470 million, respectively.
- f. On October 13, 2015, the Parent Company drew P5,000 from a P5,000 term loan which was signed and executed on October 7, 2015. The facility is amortized over 7 years with a 2-year grace period and is subject to a fixed rate of 5.4583% per annum. The net proceeds from the issuance were used to repay currently maturing obligations and for general corporate requirements.
- g. On October 27, 2016, the Parent Company issued P20,000 retail bonds (the "Bonds") divided into Series A (P13,000) and Series B (P7,000). Series A Bonds is due on October 27, 2021 with interest rate of 4.0032% per annum. Series B Bonds will mature on October 27, 2023 with interest rate of 4.5219% per annum. Interests on these Bonds are payable quarterly on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance of the Bonds were used to partially settle the US\$475 million and US\$550 million Term Loan facilities, to repay short-term loans and for general corporate requirements. The Bonds were listed with the Philippine Dealing & Exchange Corp. on October 27, 2016.
- h. On June 16, 2017, the Parent Company signed and executed a US\$1,000 million term facility and has initially drawn US\$600 million on June 28, 2017. The proceeds were used to pay in full the outstanding balances of US\$115 million and US\$470 million loans under the US\$475 million and US\$550 million term loan facilities, respectively. On October 10, 2017, the Parent Company drew the remaining US\$400 million from the facility. The proceeds of which were used to settle the P20,000 Peso-denominated Notes which matured on November 10, 2017. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a spread.

- i. On July 25, 2017, the Parent Company drew P15,000 from a P15,000 term loan facility which was signed on July 14, 2017 and executed on July 17, 2017. The facility is amortized over 7 years and is subject to a fixed interest rate of 5.5276% per annum. The proceeds were used to refinance the bridge loan availed on December 23, 2016 for the acquisition of the Refinery Solid Fuel-Fired Power Plant (the "Power Plant") as discussed in Note 28.
- j. On December 29, 2017, the Parent Company drew P10,000 from a P10,000 bilateral facility which was signed and executed on December 28, 2017. The facility is amortized quarterly for five years beginning on the fifth quarter and is subject to a fixed rate of 5.7584% per annum. The proceeds were used to fund permanent working capital requirements.

The above-mentioned loan agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements and restrictions on guarantees.

As of December 31, 2017 and 2016, the Group has complied with the covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P5,140, P4,155 and P1,013 for the years ended 2017, 2016 and 2015, respectively (Note 26). No interest was capitalized in 2017 and 2016 (Note 11).

Movements in debt issue costs follow:

	<b>Note</b>	<b>2017</b>	2016
Balance at beginning of year		<b>P915</b>	P1,208
Additions		<b>978</b>	205
Amortization for the year	26	<b>(820)</b>	(498)
Balance at end of year		<b>P1,073</b>	P915

#### Repayment Schedule

As of December 31, 2017 and 2016, the annual maturities of long-term debt are as follows:

<b>2017</b> <b>Year</b>	<b>Gross Amount</b>	<b>Debt Issue Costs</b>	<b>Net</b>
2018	<b>P3,820</b>	<b>P31</b>	<b>P3,789</b>
2019	<b>19,938</b>	<b>602</b>	<b>19,336</b>
2020	<b>19,938</b>	<b>234</b>	<b>19,704</b>
2021	<b>35,557</b>	<b>150</b>	<b>35,407</b>
2022	<b>12,775</b>	<b>41</b>	<b>12,734</b>
2023 and beyond	<b>10,750</b>	<b>15</b>	<b>10,735</b>
	<b>P102,778</b>	<b>P1,073</b>	<b>P101,705</b>



<u>2016</u> Year	Gross Amount	Debt Issue Costs	Net
2017	P20,956	P45	P20,911
2018	13,679	519	13,160
2019	12,642	116	12,526
2020	8,842	30	8,812
2021	16,648	134	16,514
2022 and beyond	8,000	71	7,929
	<b>P80,767</b>	<b>P915</b>	<b>P79,852</b>

### 19. Asset Retirement Obligation

Movements in the ARO are as follows:

	<i>Note</i>	<b>2017</b>	2016
Balance at beginning of year		<b>P2,324</b>	P1,809
Additions		<b>74</b>	129
Effect of change in discount rate		<b>98</b>	278
Accretion for the year	22, 26	<b>182</b>	141
Effect of change in lease term		<b>7</b>	-
Settlement		<b>(4)</b>	(33)
Balance at end of year		<b>P2,681</b>	P2,324

### 20. Other Noncurrent Liabilities

	<i>Note</i>	<b>2017</b>	2016
Cylinder deposits		<b>P577</b>	P499
Cash bonds		<b>400</b>	387
Others		<b>60</b>	73
	34, 35	<b>P1,037</b>	P959

“Others” account includes liability to a contractor and supplier.

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## 21. Equity

### a. Capital Stock

#### Common Shares

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Parent Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2017 and 2016, the Parent Company had 144,316 and 145,602 stockholders with at least one board lot at the PSE, respectively, for a total of 9,375,104,497 (P1.00 per share par value) issued and outstanding common shares.

#### Preferred Shares

On January 21, 2010, the SEC approved the Parent Company's amendment to its articles of incorporation to reclassify 624,895,503 unissued common shares into preferred shares with a par value of P1.00 per share, as part of its authorized capital stock. On February 12, 2010, the SEC issued an order permitting the Parent Company's offer and sale of 50,000,000 peso-denominated, cumulative, non-participating and non-voting preferred shares, with an oversubscription option of 50,000,000 preferred shares (collectively, the "2010 Preferred Shares") to the public at an issue price of P100.00 per share. Proceeds from issuance in excess of par value less related transaction costs amounting to P9,764 was recognized as additional paid-in capital. Dividend rate of 9.5281% per annum computed in reference to the issue price was payable every March 5, June 5, September 5 and December 5 of each year, when declared by the Parent Company's BOD. The 2010 Preferred Shares were listed with PSE on March 5, 2010.

On October 17, 2014, the SEC issued an order permitting the Parent Company's public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") at an issue price of P1,000.00 per share.

On November 3, 2014, the Parent Company issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two (2) sub-series, (i) 7,122,320 Series 2A preferred shares (the "Series 2A Preferred Shares") and (ii) 2,877,680 Series 2B preferred shares (the "Series 2B Preferred Shares"). Proceeds from issuance in excess of par value less related transaction costs amounting to P9,889 was recognized as additional paid-in capital.

The Series 2A Preferred Shares may be redeemed by the Parent Company starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the Parent Company's BOD.

All shares rank equally as regards to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On March 5, 2015, the Parent Company redeemed the 2010 Preferred Shares at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company's articles of incorporation. On July 6, 2015, the SEC approved the amendment of the articles of incorporation of the Parent Company to provide a re-issuability feature of its preferred shares.

As of December 31, 2017 and 2016, the Parent Company had 10,000,000 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2017 and 2016 are as follows:

	2017	2016
Series 2A Preferred Shares	48	49
Series 2B Preferred Shares	31	31
	<b>79</b>	<b>80</b>

b. Retained Earnings

i. Declaration of Cash Dividends

On various dates in 2016 and 2017, the Parent Company's BOD approved the declaration of cash dividends for common and preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
<b>2015</b>				
Common	P0.05000	March 17, 2015	April 1, 2015	April 16, 2015
Series 2A	15.75000	March 17, 2015	April 17, 2015	May 4, 2015
Series 2B	17.14575	March 17, 2015	April 17, 2015	May 4, 2015
Series 2A	15.75000	March 17, 2015	July 20, 2015	August 3, 2015
Series 2B	17.14575	March 17, 2015	July 20, 2015	August 3, 2015
Series 2A	15.75000	August 10, 2015	October 16, 2015	November 3, 2015
Series 2B	17.14575	August 10, 2015	October 16, 2015	November 3, 2015
Series 2A	15.75000	August 10, 2015	January 18, 2016	February 3, 2016
Series 2B	17.14575	August 10, 2015	January 18, 2016	February 3, 2016
<b>2016</b>				
Common	P0.10000	March 15, 2016	March 31, 2016	April 14, 2016
Series 2A	15.75000	March 15, 2016	April 15, 2016	May 3, 2016
Series 2B	17.14575	March 15, 2016	April 15, 2016	May 3, 2016
Series 2A	15.75000	March 15, 2016	July 15, 2016	August 3, 2016
Series 2B	17.14575	March 15, 2016	July 15, 2016	August 3, 2016
Series 2A	15.75000	August 8, 2016	October 14, 2016	November 3, 2016
Series 2B	17.14575	August 8, 2016	October 14, 2016	November 3, 2016
Series 2A	15.75000	August 8, 2016	January 13, 2017	February 3, 2017
Series 2B	17.14575	August 8, 2016	January 13, 2017	February 3, 2017
<b>2017</b>				
Common	P0.10000	March 14, 2017	March 28, 2017	April 12, 2017
Series 2A	15.75000	March 14, 2017	April 12, 2017	May 3, 2017
Series 2B	17.14575	March 14, 2017	April 12, 2017	May 3, 2017
Series 2A	15.75000	March 14, 2017	July 18, 2017	August 3, 2017
Series 2B	17.14575	March 14, 2017	July 18, 2017	August 3, 2017
Series 2A	15.75000	August 8, 2017	October 16, 2017	November 3, 2017
Series 2B	17.14575	August 8, 2017	October 16, 2017	November 3, 2017
Series 2A	15.75000	August 8, 2017	January 16, 2018	February 5, 2018
Series 2B	17.14575	August 8, 2017	January 16, 2018	February 5, 2018

Total cash dividends declared by the Parent Company amounted to P1,584 both in 2017 and 2016 and P1,114 in 2015.

ii. Appropriation for Capital Projects

On May 11, 2011, the Parent Company's BOD approved the proposal to revise the current level of appropriated retained earnings of P15,372 to P25,000 for the Parent Company's Refinery Master Plan 2 (RMP-2) project. On January 1, 2016, RMP-2 Project commenced commercial operation, thus, on May 5, 2016, the Parent Company's BOD approved the reversal of P25,000 appropriation for the Parent Company's RMP-2 and the re-appropriation of retained earnings amounting to P15,000 for capital projects in 2016 and 2017 which are expected to be completed within five years from the date of the approval.

On August 23, 2016, Las Lucas' BOD approved the reversal of appropriation made in 2010 amounting to P5 (P3 - attributable to non-controlling interest) which was aimed to fund its construction management service. On September 29, 2015, NVRC's BOD approved the appropriation of retained earnings of P200 (P120 - attributable to non-controlling interest) and on December 20, 2016, an additional appropriation of P200 (P120 - attributable to non-controlling interest) was approved, both for the programmed lot acquisitions which are expected to be completed in 2019.

The appropriated retained earnings attributable to the equity holders of the Parent Company as of December 31, 2017 and 2016 amounted to P15,160.

- c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint ventures and an associate amounting to P20,539, P15,040 and P11,401 as of December 31, 2017, 2016 and 2015, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.
- d. Equity reserves pertain to reserve for retirement plan, unrealized fair value losses on AFS financial assets, exchange differences on translation of foreign operations and others. Reserve for retirement plan pertains to the cumulative remeasurements of the Group's defined benefit retirement plan.
- e. Undated Subordinated Capital Securities (USCS)

In February 2013, the Parent Company issued US\$500 million USCS at an issue price of 100% ("Original Securities"). In March 2013, the Parent Company issued under the same terms and conditions of the Original Securities an additional US\$250 million at a price of 104.25% ("New Securities"). The New Securities constituted a further issuance of, were fungible with, and were consolidated and formed a single series with the Original Securities (the "Original Securities" and, together with the "New Securities", the "Securities"). Proceeds were applied by the Parent Company for capital and other expenditures of RMP-2 as well as for general corporate purposes.

The Securities were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, each sale of the Securities was considered an exempt transaction for which no confirmation of exemption from the registration requirements of The Securities Regulation Code (SRC) was required to be filed with the SEC. In compliance with the amended rules of the SRC, notices of exemption for the issuances of the Securities were filed with the SEC on February 12, 2013 for the Original Securities and on March 19, 2013 for the New Securities.

Holders of the Securities are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 7.5% per annum, subject to a step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The Securities have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid or deferred distributions at the Parent Company's option on or after August 6, 2018 or on any distribution payment date thereafter or upon the occurrence of certain other events.

Payments of distribution pertaining to the Securities amounting to US\$28.125 million were made on each of the following dates: February 6, 2015 (P1,770); August 6, 2015 (P1,837); February 5, 2016 (P1,918); August 5, 2016 (P1,889); February 3, 2017 (P2,000); and August 4, 2017 (P2,024).

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## 22. Cost of Goods Sold

This account consists of:

	<i>Note</i>	<b>2017</b>	2016	2015
Inventories	9	<b>P369,695</b>	P283,169	P311,526
Depreciation and amortization	25	<b>8,043</b>	6,153	2,724
Materials and Supplies		<b>4,873</b>	1,397	1,637
Purchased services and utilities		<b>2,339</b>	10,486	8,156
Personnel expenses	24	<b>1,925</b>	1,647	1,565
Others	19, 31	<b>5,094</b>	3,273	3,126
		<b>P391,969</b>	P306,125	P328,734

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Distribution or transshipment costs included as part of inventories amounted to P10,438, P10,711 and P11,066 in 2017, 2016 and 2015, respectively.

Others include manufacturing and overhead costs such as maintenance and repairs, taxes and licenses, insurance and rent.

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### 23. Selling and Administrative Expenses

This account consists of:

	<i>Note</i>	<b>2017</b>	2016	2015
Depreciation and amortization	25	<b>P2,936</b>	P3,352	P3,548
Personnel expenses	24	<b>4,021</b>	3,373	3,150
Purchased services and utilities		<b>3,762</b>	3,004	2,597
Advertising		<b>1,524</b>	1,460	1,482
Maintenance and repairs		<b>1,276</b>	1,108	985
Materials and office supplies		<b>546</b>	754	603
Rent - net	29, 31	<b>464</b>	154	164
Taxes and licenses		<b>342</b>	415	314
Impairment losses on trade and other receivables	4, 8	<b>10</b>	68	154
Others	9	<b>136</b>	230	313
		<b>P15,017</b>	P13,918	P13,310

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Selling and administrative expenses include research and development costs amounting to P65, P66 and P65 in 2017, 2016 and 2015, respectively (Note 9). Rent is shown net of rental income amounting to P1,180, P1,139 and P1,131 in 2017, 2016 and 2015, respectively.

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### 24. Personnel Expenses

This account consists of:

	<i>Note</i>	<b>2017</b>	2016	2015
Salaries, wages and other employee costs	28	<b>P5,345</b>	P4,348	P4,210
Retirement benefits costs - defined benefit plan	28, 30	<b>508</b>	579	419
Retirement benefits costs - defined contribution plan	28	<b>93</b>	93	86
		<b>P5,946</b>	P5,020	P4,715

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The above amounts are distributed as follows:

	<i>Note</i>	<b>2017</b>	2016	2015
Costs of goods sold	22	<b>P1,925</b>	P1,647	P1,565
Selling and administrative expenses	23	<b>4,021</b>	3,373	3,150
		<b>P5,946</b>	P5,020	P4,715

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## 25. Depreciation and Amortization

This account consists of:

	<b>Note</b>	<b>2017</b>	2016	2015
Cost of goods sold:				
Property, plant and equipment	11	<b>P7,359</b>	P5,316	P2,291
Other assets	14	<b>684</b>	837	433
	22	<b>8,043</b>	6,153	2,724
Selling and administrative expenses:				
Property, plant and equipment	11	<b>2,602</b>	2,930	3,073
Investment property	12	<b>1</b>	1	1
Intangible assets and others	14	<b>333</b>	421	474
	23	<b>2,936</b>	3,352	3,548
	37	<b>P10,979</b>	P9,505	P6,272

## 26. Interest Expense and Other Financing Charges, Interest Income and Other Expenses

This account consists of:

	<b>Note</b>	<b>2017</b>	2016	2015
Interest expense and other financing charges:				
Long-term debt	18	<b>P4,320</b>	P3,657	P869
Short-term loans	15	<b>2,323</b>	2,323	3,284
Bank charges		<b>839</b>	999	1,157
Amortization of debt issue costs	18	<b>820</b>	498	144
Accretion on ARO	19	<b>182</b>	76	66
Others		<b>3</b>	4	13
	37	<b>P8,487</b>	P7,557	P5,533
Interest income:				
Advances to related parties	28	<b>P211</b>	P261	P297
Short-term placements	5	<b>236</b>	163	313
AFS financial assets	7	<b>22</b>	18	11
Trade receivables		<b>49</b>	50	45
Cash in banks	5	<b>16</b>	14	20
Others		<b>1</b>	1	-
	37	<b>P535</b>	P507	P686

*Forward*

	<b>Note</b>	<b>2017</b>	2016	2015
Other expenses - net:				
Foreign currency gains (losses) - net	34	<b>P1,192</b>	(P2,236)	(P4,305)
Changes in fair value of financial assets at FVPL	6	<b>14</b>	10	11
Insurance claims (charges)		<b>(36)</b>	16	61
Hedging gains (losses) - net		<b>(373)</b>	(152)	637
Marked-to-market gains (losses) - net	35	<b>(1,692)</b>	824	936
Others - net	13	<b>(12)</b>	(897)	(835)
		<b>(P907)</b>	(P2,435)	(P3,495)

The Parent Company recognized its share in the net income (loss) of PDSI amounting to P2, (P3) and (P4) in 2017, 2016 and 2015, respectively, and its share in the net income of TBSB amounting to P4 and P6 in 2017 and 2016, respectively. These were recorded as part of "Others - net" under "Other expenses - net" account in the consolidated statements of income.

Also included in "Others - net" were the following: (i) loss on disposal of investment in MNHPI amounting to P189 in 2017 (Note 10); (ii) rental income amounting to P63 in 2017 (Note 23); and (iii) impairment loss on goodwill in PAHL in 2016 amounting to P298 (Note 13).

## 27. Income Taxes

Deferred tax assets and liabilities are from the following:

	<b>2017</b>	2016
Various allowances, accruals and others	<b>P1,116</b>	P894
Net retirement benefits liability	<b>1,337</b>	878
ARO	<b>487</b>	373
Unutilized tax losses	<b>220</b>	197
Inventory differential	<b>199</b>	616
Rental	<b>188</b>	217
Fair market value adjustments on business combination	<b>(33)</b>	(31)
Unrealized foreign exchange losses (gains) - net	<b>(264)</b>	791
Capitalized taxes and duties on inventories deducted in advance	<b>(288)</b>	(211)
Excess of double-declining over straight-line method of depreciation and amortization	<b>(5,012)</b>	(3,587)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	<b>(5,140)</b>	(5,675)
MCIT	-	6
	<b>(P7,190)</b>	(P5,532)



The above amounts are reported in the consolidated statements of financial position as follows:

	2017	2016
Deferred tax assets - net	<b>P207</b>	P194
Deferred tax liabilities - net	<b>(7,397)</b>	(5,726)
	<b>(P7,190)</b>	(P5,532)

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation.

The components of income tax expense are shown below:

	2017	2016	2015
Current	<b>P2,754</b>	P3,289	P1,448
Deferred	<b>2,001</b>	267	2,207
	<b>P4,755</b>	P3,556	P3,655

The following are the amounts of deferred tax expense (benefit), for each type of temporary difference, recognized in the consolidated statements of income:

	2017	2016	2015
Excess of double-declining over straight-line method of depreciation and amortization	<b>P1,425</b>	P805	(P156)
Unrealized foreign exchange losses (gains) - net	<b>1,055</b>	(118)	(67)
Inventory differential	<b>417</b>	258	(569)
Capitalized taxes and duties on inventories deducted in advance	<b>77</b>	(34)	34
Rental	<b>29</b>	38	(9)
MCIT	<b>6</b>	468	(232)
NOLCO	<b>-</b>	2	405
Unutilized tax gains (losses)	<b>(23)</b>	(13)	91
ARO	<b>(114)</b>	(78)	(75)
Various allowances, accruals and others	<b>(222)</b>	(480)	(14)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	<b>(535)</b>	(441)	2,818
Others	<b>(114)</b>	(140)	(19)
	<b>P2,001</b>	P267	P2,207

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the consolidated statements of income is as follows:

	<b>Note</b>	<b>2017</b>	2016	2015
Statutory income tax rate		<b>30.00%</b>	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	36	<b>(3.05%)</b>	(9.63%)	-
Interest income subjected to lower final tax		<b>(0.13%)</b>	(0.13%)	(0.74%)
Nontaxable income		<b>(3.52%)</b>	(2.36%)	(0.89%)
Nondeductible expense		<b>0.91%</b>	1.85%	2.40%
Nondeductible interest expense		<b>0.06%</b>	0.06%	0.26%
Changes in fair value of financial assets at FVPL	26	<b>(0.02%)</b>	(0.02%)	(0.03%)
Excess of optional standard deduction over deductible expenses		<b>(0.06%)</b>	(0.05%)	(0.07%)
Others, mainly income subject to different tax rates		<b>1.04%</b>	5.01%	5.90%
<b>Effective income tax rate</b>		<b>25.23%</b>	24.73%	36.83%

#### Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made (Note 4).

## 28. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint ventures and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/to be settled in cash. The balances and transactions with related parties as of and for the years ended December 31 follow:

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	8, 30, a	2017	P211	P -	P5,188	P -	On demand; long-term; interest bearing	Unsecured; no impairment
		2016	261	-	5,042	-		
		2015	297	-	6,597	-		
Intermediate Parent	b, e	2017	10	650	4	27	On demand; non-interest bearing	Unsecured; no impairment
		2016	7	173	5	24		
		2015	9	74	3	35		
Under Common Control	14, b, c, d, i	2017	3,233	10,670	870	768	On demand; non-interest bearing	Unsecured; no impairment
		2016	6,473	30,773	1,096	5,850		
		2015	3,587	14,504	975	1,682		
Associate	b	2017	153	-	-	-	On demand; non-interest bearing	Unsecured; no impairment
		2016	154	-	33	-		
		2015	143	-	31	-		
Joint Ventures	c, f	2017	1	43	-	4	On demand; non-interest bearing	Unsecured; no impairment
		2016	-	42	-	3		
		2015	-	95	-	2		
		2017	P3,608	P11,363	P6,062	P799		
		2016	P6,895	P30,988	P6,176	P5,877		
		2015	P4,036	P14,673	P7,606	P1,719		

- As of December 31, 2017 and 2016, the Parent Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" in the consolidated statements of financial position, for some investment opportunities (Notes 8 and 30).
- Sales relate to the Parent Company's supply agreements with the Intermediate Parent, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.
- The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rate of P6. The lease, which commenced on June 1, 2014, is for a period of one year and was subsequently renewed on a yearly basis in accordance with the written agreement of the parties.
- The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.
- Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.

- h. Amounts owed to related parties consist of trade and non-trade payables.
- i. In 2016, the Parent Company reacquired the Power Plant from SMC Powergen, Inc. The Power Plant is presented as part of "Refinery and plant equipment" category in the "Property, plant and equipment" account in the consolidated statements of financial position (Note 11). Amounts owed to related party arising from the transaction has been fully settled as of December 31, 2017.
- j. The compensation and benefits of key management personnel of the Group, by benefit type, included in the "Personnel expenses" account as follow (Note 24):

	<b>2017</b>	2016	2015
Salaries and other short-term employee benefits	<b>P906</b>	P754	P659
Retirement benefits costs - defined benefit plan	<b>166</b>	133	86
Retirement benefits costs - defined contribution plan	<b>33</b>	31	27
	<b>P1,105</b>	P918	P772

## **29. Operating Lease Commitments**

### Group as Lessee

The Group entered into commercial leases on certain parcels of land for its refinery and service stations (Notes 23 and 31). The leases' life ranges from one to forty two years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Future minimum rental payables under the non-cancellable operating lease agreements as of December 31 are as follows:

	<b>2017</b>	2016	2015
Within one year	<b>P1,561</b>	P1,322	P1,269
After one year but not more than five years	<b>5,103</b>	3,497	2,982
After five years	<b>11,224</b>	10,763	9,821
	<b>P17,888</b>	P15,582	P14,072

### Group as Lessor

The Group has entered into lease agreements on its service stations and other related structures (Note 23). The non-cancellable leases have remaining terms of between three to ten years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

Future minimum rental receivables under the non-cancellable operating lease agreements as of December 31 follow:

	<b>2017</b>	2016	2015
Within one year	<b>P91</b>	P187	P272
After one year but not more than five years	<b>115</b>	158	259
After five years	<b>12</b>	17	14
	<b>P218</b>	P362	P545

### **30. Retirement Plan**

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plans recognized in profit or loss and the funding status and amounts of retirement plans recognized in the consolidated statements of financial position. The Parent Company has a funded, noncontributory, defined benefit retirement plan while several subsidiaries have unfunded, noncontributory, defined benefit retirement plans. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is as of December 31, 2017. Valuations are obtained on a periodic basis.

The Parent Company's Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT), as appointed by the BOD of the Parent Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the Parent Company, while one of the BOT is also a BOD. The retirement plan's accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Net Defined Benefit Retirement Asset (Liability)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
<b>Balance at beginning of year</b>	<b>(P5,344)</b>	(P5,603)	(P5,947)	<b>P1,952</b>	P12	P3,603	<b>(P3,392)</b>	(P5,591)	(P2,344)
<b>Recognized in Profit or Loss</b>									
Current service cost	<b>(313)</b>	(285)	(302)	-	-	-	<b>(313)</b>	(285)	(302)
Past service cost - plan amendment	-	(2)	-	-	-	-	-	(2)	-
Interest expense	<b>(289)</b>	(278)	(269)	-	-	-	<b>(289)</b>	(278)	(269)
Interest income	-	-	-	<b>94</b>	(14)	152	<b>94</b>	(14)	152
	<b>(602)</b>	(565)	(571)	<b>94</b>	(14)	152	<b>(508)</b>	(579)	(419)
<b>Recognized in Other Comprehensive Income</b>									
Remeasurements:									
Actuarial losses (gains) arising from:									
Experience adjustments	<b>(555)</b>	(398)	(163)	-	-	-	<b>(555)</b>	(398)	(163)
Changes in financial assumptions	<b>105</b>	173	151	-	-	-	<b>105</b>	173	151
Changes in demographic assumptions	<b>43</b>	302	197	-	-	-	<b>43</b>	302	197
Return on plan asset excluding interest	-	-	-	<b>(735)</b>	2,570	(3,297)	<b>(735)</b>	2,570	(3,297)
	<b>(407)</b>	77	185	<b>(735)</b>	2,570	(3,297)	<b>(1,142)</b>	2,647	(3,112)
<b>Others</b>									
Benefits paid	<b>571</b>	753	600	<b>(528)</b>	(651)	(546)	<b>43</b>	102	54
Contributions	-	-	-	<b>100</b>	35	100	<b>100</b>	35	100
Transfer to other accounts payable	<b>(4)</b>	-	6	-	-	-	<b>(4)</b>	-	6
Transfers from other plans/subsidiaries	-	(16)	-	-	-	-	-	(16)	-
Transfers to other plans/subsidiaries	-	16	-	-	-	-	-	16	-
Translation adjustment	<b>(86)</b>	(6)	124	-	-	-	<b>(86)</b>	(6)	124
	<b>481</b>	747	730	<b>(428)</b>	(616)	(446)	<b>53</b>	131	284
<b>Balance at end of year</b>	<b>(P5,872)</b>	(P5,344)	(P5,603)	<b>P883</b>	P1,952	P12	<b>(P4,989)</b>	(P3,392)	(P5,591)

The above net defined benefit retirement liability was recognized in the consolidated statements of financial position as follows:

	<b>Note</b>	<b>2017</b>	2016
Trade and other payables	17	<b>P104</b>	P77
Retirement benefits liability (noncurrent portion)		<b>4,885</b>	3,315
		<b>P4,989</b>	P3,392

Retirement benefits costs recognized in the consolidated statements of income by the Parent Company amounted to P408, P485 and P329 in 2017, 2016 and 2015, respectively.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P100, P94 and P90 in 2017, 2016 and 2015, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2017 and 2016.

Plan assets consist of the following:

	<b>2017</b>	2016
Shares of stock:		
Quoted	<b>84%</b>	82%
Unquoted	<b>5%</b>	4%
Government securities	<b>7%</b>	9%
Cash and cash equivalents	<b>1%</b>	2%
Others	<b>3%</b>	3%
	<b>100%</b>	100%

*Investment in Shares of Stock.* As of December 31, 2017, the Parent Company's plan assets include 731,156,097 common shares of Petron with fair market value per share of P9.17, 2,000,000 Series "2", Subseries "B" preferred shares of SMC with fair market value per share of P76.50, and investment in Petron bonds amounting to P122.

The Group's plan recognized a gain (loss) on the investment in marketable securities and bonds of the Parent Company and SMC amounting to (P577), P2,169 and (P2,641) in 2017, 2016 and 2015, respectively, mainly as a result of marked-to-market remeasurements.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P85 both in 2017 and 2016 and P56 in 2015.

On July 25, 2016, the Group plan's investment in 375,142,858 ordinary shares of PAHL was sold to Petron for a total consideration of P1,921. Accordingly, the plan recognized gain on sale of investment amounting to P503.

*Investment in Trust Account.* Investment in trust account represents funds entrusted to financial institutions for the purpose of maximizing the yield on investible funds.

Others include receivables which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Parent Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Parent Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Parent Company expects to contribute P818 to its defined benefit retirement plan in 2018.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The retirement plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

*Investment and Interest Risk.* The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

*Longevity and Salary Risks.* The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	<b>2017</b>	2016	2015
Discount rate	<b>5.50% to 5.73%</b>	5.38% to 5.53%	4.60% to 5.50%
Future salary increases	<b>5.00% to 7.00%</b>	5.00% to 8.00%	6.00% to 8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation is from 5.90 to 22.50 years and 5.46 to 23.90 years as of December 31, 2017 and 2016, respectively.



The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit assets/liabilities by the amounts below:

	Defined Benefit Liabilities	
	1 Percent Increase	1 Percent Decrease
<b>2017</b>		
Discount rate	(P356)	P435
Salary increase rate	366	(322)
	Defined Benefit Liabilities	
	1 Percent Increase	1 Percent Decrease
<b>2016</b>		
Discount rate	(P375)	P435
Salary increase rate	392	(345)

The Parent Company has advances to PCERP amounting to P5,188 and P5,042 as of December 31, 2017 and 2016, respectively, included as part of "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 28). The advances are subject to interest of 5% in 2017 and 2016 (Note 28).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2017 and 2016 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Parent Company has not recognized any impairment losses relating to the receivables from retirement plan for the years ended December 31, 2017 and 2016.

### 31. Significant Agreements

*Supply Agreements.* The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 while the contract with KPC is from January 1, 2015 to December 31, 2015 both with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the consolidated statements of financial position as of December 31, 2017 and 2016 (Note 16).

*Toll Service Agreement with Innospec Limited (Innospec).* PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement, PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P64 both in 2017 and 2016 and P48 in 2015.

*Hungry Juan Outlet Development Agreement with San Miguel Foods, Inc. (SMFI)* PFC entered into an agreement with SMFI for a period of three years and paid a one-time franchise fee. The agreement expired in November 2017 and was further renewed for another year until November 2018. The store, which started operating in November 2012, is located at Rizal Blvd. cor. Argonaut Highway, Subic Bay Freeport Zone.

*Lease Agreements with Philippine National Oil Company (PNOC).* On September 30, 2009, the Parent Company through NVRC, entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2017 and 2016, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 39).

## 32. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts are computed as follows:

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	<b>P12,739</b>	P10,100	P5,618
Dividends on preferred shares for the year	<b>(646)</b>	(646)	(646)
Distributions to the holders of USCS	<b>(4,024)</b>	(3,807)	(3,607)
Net income attributable to common shareholders of the Parent Company (a)	<b>P8,069</b>	P5,647	P1,365
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375	9,375
Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	<b>P0.86</b>	P0.60	P0.15

As of December 31, 2017, 2016 and 2015, the Parent Company has no potential dilutive debt or equity instruments.

### 33. Supplemental Cash Flow Information

a. Changes in operating assets and liabilities:

	2017	2016	2015
Decrease (increase) in assets:			
Trade and other receivables	<b>(P6,593)</b>	(P230)	P18,138
Inventories	<b>(12,531)</b>	(13,029)	22,875
Other current assets	<b>(1,511)</b>	954	(8,136)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	<b>7,837</b>	11,842	(10,030)
Trade and other payables and others	<b>(165)</b>	4,922	(27,934)
	<b>(12,963)</b>	4,459	(5,087)
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, goodwill and others	<b>(80)</b>	91	(397)
	<b>(P13,043)</b>	P4,550	(P5,484)

b. Changes in liabilities arising from financing activities:

	Dividends Payable	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2017	P218	P90,366	P79,852	P170,436
Changes from financing cash flows				
Proceeds from availment of loans	-	223,862	74,807	298,669
Payments of loans	-	(244,722)	(53,477)	(298,199)
Dividends declared	5,794	-	-	5,794
Dividends and distributions paid	(5,773)	-	-	(5,773)
Total changes from financing cash flows	21	(20,860)	21,330	491
Effects of changes in foreign exchange rates	-	77	(297)	(220)
Amortization of debt issue costs	-	-	820	820
<b>Balance at end of year</b>	<b>P239</b>	<b>P69,583</b>	<b>P101,705</b>	<b>P171,527</b>

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### 34. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include cash and cash equivalents, debt and equity securities, bank loans and derivative instruments. The main purpose of bank loans is to finance working capital relating to importation of crude and petroleum products, as well as to partly fund capital expenditures. The Group has other financial assets and liabilities such as trade and other receivables and trade and other payables, which are generated directly from its operations.

It is the Group's policy not to enter into derivative transactions for speculative purposes. The Group uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into short-term forward currency contracts to hedge its currency exposure on crude oil importations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. The BOD regularly reviews and approves the policies for managing these financial risks. Details of each of these risks are discussed below, together with the related risk management structure.

#### Risk Management Structure

The Group follows an enterprise-wide risk management framework for identifying, assessing and addressing the risk factors that affect or may affect its businesses.

The Group's risk management process is a bottom-up approach, with each risk owner mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As the Group's operation is an integrated value chain, risks emanate from every process, while some could cut across groups. The results of these activities flow up to the Management Committee and, eventually, the BOD through the Group's annual business planning process.

Oversight and technical assistance is likewise provided by corporate units and committees with special duties. These groups and their functions are:

- a. The Risk and Insurance Management Group, which is mandated with the overall coordination and development of the enterprise-wide risk management process.
- b. The Treasurers Department, which is in charge of foreign currency hedging transactions.
- c. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.
- d. The Corporate Technical and Engineering Services Group, which oversees strict adherence to safety and environmental mandates across all facilities.
- e. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.
- f. The Commodity Risk Management Department (CRMD), which sets new and updates existing hedging policies by the BOD, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.
- g. PSTPL executes the hedging transactions involving crude and product imports on behalf of the Group.

The BOD also created separate positions and board-level entities with explicit authority and responsibility in managing and monitoring risks, as follows:

- a. The Audit Committee is responsible for overseeing the Senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

- b. The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Group to ensure its functionality and effectiveness.
- c. The Compliance Officer, who is a senior officer of the Parent Company reports to the BOD chairperson. Among other functions, he monitors compliance with the provisions and requirements of the Corporate Governance Manual and relevant laws and regulations and determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual and other relevant rules and regulations of the SEC.

#### Foreign Currency Risk

The Parent Company's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The Group's exposures to foreign currency risk arise mainly from US dollar-denominated sales as well as purchases principally of crude oil and petroleum products. As a result of this, the Group maintains a level of US dollar-denominated assets and liabilities during the period. Foreign currency risk occurs due to differences in the levels of US dollar-denominated assets and liabilities.

In addition, starting March 31, 2012, the Group's exposure to foreign currency risks also arise from US dollar-denominated sales and purchases, principally of crude oil and petroleum products, of Petron Malaysia whose transactions are in Malaysian ringgit, which are subsequently converted into US dollar before ultimately translated to equivalent Philippine peso amount using applicable rates for the purpose of consolidation.

The Group pursues a policy of mitigating foreign currency risk by entering into hedging transactions or by substituting US dollar-denominated liabilities with peso-based debt. The natural hedge provided by US dollar-denominated assets is also factored in hedging decisions. As a matter of policy, currency hedging is limited to the extent of 100% of the underlying exposure.

The Group is allowed to engage in active risk management strategies for a portion of its foreign currency risk exposure. Loss limits are in place, monitored daily and regularly reviewed by management.

Information on the Group's US dollar-denominated financial assets and liabilities and their Philippine peso equivalents are as follows:

	2017		2016	
	US dollar (in millions)	Phil. peso Equivalent	US dollar	Phil. Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	19	952	261	12,989
Trade and other receivables	118	5,891	218	10,808
Other assets	3	126	5	244
	<b>140</b>	<b>6,969</b>	484	24,041
<b>Liabilities</b>				
Short-term loans	1	30	40	1,996
Liabilities for crude oil and petroleum products	515	25,747	539	26,798
Long-term debts (including current maturities)	1,000	49,930	651	32,347
Other liabilities	35	1,733	82	4,056
	<b>1,551</b>	<b>77,440</b>	1,312	65,197
<b>Net foreign currency-denominated monetary liabilities</b>	<b>(1,411)</b>	<b>(70,471)</b>	(828)	(41,156)

The Group incurred net foreign currency gains (losses) amounting to P1,192, (P2,236) and (P4,305) in 2017, 2016 and 2015, respectively (Note 26), which were mainly countered by marked-to-market and realized hedging gains (losses) (Note 26). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of December 31 are shown in the following table:

	PhP to US\$
<b>December 31, 2017</b>	<b>49.930</b>
December 31, 2016	49.720
December 31, 2015	47.060

Managing of foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign currency movements affect reported equity through the retained earnings arising from increases or decreases in unrealized and realized foreign currency gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of December 31, 2017 and 2016:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
<b>2017</b>				
Cash and cash equivalents	(P10)	(P144)	P10	P144
Trade and other receivables	(81)	(263)	81	263
Other assets	(3)	(12)	3	12
	(94)	(419)	94	419
Short-term loans	1	-	(1)	-
Liabilities for crude oil and petroleum products	326	789	(326)	(789)
Long-term debts (including current maturities)	1,000	700	(1,000)	(700)
Other liabilities	33	193	(33)	(193)
	1,360	1,682	(1,360)	(1,682)
	<b>P1,266</b>	<b>P1,263</b>	<b>(P1,266)</b>	<b>(P1,263)</b>

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
<b>2016</b>				
Cash and cash equivalents	(P132)	(P221)	P132	P221
Trade and other receivables	(97)	(189)	97	189
Other assets	-	(5)	-	5
	(229)	(415)	229	415
Short-term loans	-	40	-	(40)
Liabilities for crude oil and petroleum products	294	451	(294)	(451)
Long-term debts (including current maturities)	605	470	(605)	(470)
Other liabilities	14	77	(14)	(77)
	913	1,038	(913)	(1,038)
	<b>P684</b>	<b>P623</b>	<b>(P684)</b>	<b>(P623)</b>

Exposures to foreign currency rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

#### Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates mainly to long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings prior to deployment of funds to their intended use in operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term volatility on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

Managing interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity through the retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P499 and P323 in 2017 and 2016, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

*Interest Rate Risk Table.* As of December 31, 2017 and 2016, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2017	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P3,820	P5,672	P5,672	P21,291	P5,643	P10,750	P52,848
Interest rate	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	5.5% - 5.8%	4.5% - 5.5%	
<b>Floating Rate</b>							
US\$ denominated (expressed in PhP)	-	14,266	14,266	14,266	7,132	-	49,930
Interest rate*		1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin		
	P3,820	P19,938	P19,938	P35,557	P12,775	P10,750	P102,778

\*The Parent Company reprices every month but has been given an option to reprice every 3 or 6 months.

2016	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P20,036	P1,678	P1,029	P1,029	P16,648	P8,000	P48,420
Interest rate	6.3% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	4.52% - 5.5%	
<b>Floating Rate</b>							
Malaysian ringgit denominated (expressed in PhP)	920	920	426	-	-	-	2,266
Interest rate	1.5%+COF	1.5%+COF	1.5%+COF				
US\$ denominated (expressed in PhP)	-	11,081	11,187	7,813	-	-	30,081
Interest rate*		1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin			
	P20,956	P13,679	P12,642	P8,842	P16,648	P8,000	P80,767

\*The Parent Company reprices every month but has been given an option to reprice every 3 or 6 months.



### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by National Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statements of financial position or in the notes to the consolidated financial statements, as summarized below:

	<b>Note</b>	<b>2017</b>	2016
Cash in bank and cash equivalents (net of cash on hand)	5	<b>P14,313</b>	P15,538
Derivative assets	6	<b>165</b>	64
Available-for-sale financial assets	7	<b>531</b>	479
Trade and other receivables - net	8	<b>38,159</b>	31,548
Long-term receivables - net	14	<b>228</b>	205
Noncurrent deposits	14	<b>90</b>	81
		<b>P53,486</b>	P47,915

The credit risk for cash and cash equivalents and derivative financial instruments is considered negligible, since the counterparties are reputable entities with high external credit ratings. The credit quality of these financial assets is considered to be high grade.

In monitoring trade receivables and credit lines, the Group maintains up-to-date records where daily sales and collection transactions of all customers are recorded in real-time and month-end statements of accounts are forwarded to customers as collection medium. Finance Division's Credit Department regularly reports to management trade receivables balances (monthly), past due accounts (weekly) and credit utilization efficiency (semi-annually).

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 8). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P4,927 and P3,943 as of December 31, 2017 and 2016, respectively. These securities may only be called on or applied upon default of customers.

*Credit Risk Concentration.* The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

The credit risk exposure of the Group based on trade accounts receivable as of December 31, 2017 and 2016 are shown below (Note 8):

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
<b>December 31, 2017</b>				
Reseller	P4,284	P128	P45	P4,457
Lubes	1,412	90	60	1,562
Gasul	894	113	115	1,122
Industrial	9,605	452	468	10,525
Others	9,008	163	88	9,259
	<b>P25,203</b>	<b>P946</b>	<b>P776</b>	<b>P26,925</b>

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
December 31, 2016				
Reseller	P3,221	P127	P63	P3,411
Lubes	450	7	11	468
Gasul	529	61	118	708
Industrial	7,316	382	535	8,233
Others	6,162	277	80	6,519
	<b>P17,678</b>	<b>P854</b>	<b>P807</b>	<b>P19,339</b>

*Credit Quality.* In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

Class A "*High Grade*" are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B "*Moderate Grade*" refers to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

Class C "*Low Grade*" are accounts with high probability of delinquency and default.

Below is the credit quality profile of the Group's trade accounts receivable as of December 31, 2017 and 2016:

	Trade Accounts Receivables Per Class			Total
	Class A	Class B	Class C	
<b>December 31, 2017</b>				
Reseller	P846	P3,207	P404	P4,457
Lubes	358	1,023	181	1,562
Gasul	533	447	142	1,122
Industrial	5,440	4,093	992	10,525
Others	4,067	4,267	925	9,259
	<b>P11,244</b>	<b>P13,037</b>	<b>P2,644</b>	<b>P26,925</b>

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
December 31, 2016				
Reseller	P501	P2,775	P135	P3,411
Lubes	366	50	52	468
Gasul	287	258	163	708
Industrial	2,416	4,959	858	8,233
Others	3,273	2,408	838	6,519
	P6,843	P10,450	P2,046	P19,339

### Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives in managing its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2017 and 2016.

2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P17,014	P17,014	P17,014	P -	P -	P -
Trade and other receivables	38,159	38,159	38,159	-	-	-
Derivative assets	165	165	165	-	-	-
Financial assets at FVPL	171	171	171	-	-	-
AFS financial assets	531	577	204	64	309	-
Long-term receivables - net	228	228	-	-	-	228
Noncurrent deposits	90	90	-	-	9	81
<b>Financial Liabilities</b>						
Short-term loans	69,583	69,879	69,879	-	-	-
Liabilities for crude oil and petroleum products	36,920	36,920	36,920	-	-	-
Trade and other payables*	7,917	7,917	7,917	-	-	-
Derivative liabilities	1,791	1,791	1,791	-	-	-
Long-term debts (including current maturities)	101,705	117,024	7,812	23,619	74,308	11,285
Cash bonds	400	404	-	385	2	17
Cylinder deposits	577	577	-	-	-	577
Other noncurrent liabilities**	57	57	-	14	20	23

\*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

\*\*excluding cash bonds and cylinder deposits

2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P17,332	P17,332	P17,332	P -	P -	P -
Trade and other receivables	31,548	31,548	31,548	-	-	-
Derivative assets	64	64	64	-	-	-
Financial assets at FVPL	157	157	157	-	-	-
AFS financial assets	479	522	96	208	172	46
Long-term receivables - net	205	205	-	-	205	-
Noncurrent deposits	81	81	-	13	68	-
<b>Financial Liabilities</b>						
Short-term loans	90,366	90,882	90,882	-	-	-
Liabilities for crude oil and petroleum products	29,966	29,966	29,966	-	-	-
Trade and other payables*	12,065	12,065	12,065	-	-	-
Derivative liabilities	778	778	778	-	-	-
Long-term debts (including current maturities)	79,852	91,103	24,673	15,711	42,050	8,669
Cash bonds	387	393	-	372	4	17
Cylinder deposits	499	499	-	-	-	499
Other noncurrent liabilities**	73	73	-	14	34	25

\*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

\*\*excluding cash bonds and cylinder deposits

### Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, 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.

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from risks of downward price and squeezed margins. Hedging policy (including the use of commodity price swaps, time-spreads, put options, collars and 3-way options) developed by the CRMD is in place. Decisions are guided by the conditions set and approved by the Group's management.

### Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (FVPL and AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

### Capital Management

The Group's capital management policies and programs aim to provide an optimal capital structure that would ensure the Group's ability to continue as a going concern while at the same time provide adequate returns to the shareholders. As such, it considers the best trade-off between risks associated with debt financing and relatively higher cost of equity funds.

An enterprise resource planning system is used to monitor and forecast the Group's overall financial position. The Group regularly updates its near-term and long-term financial projections to consider the latest available market data in order to preserve the desired capital structure. The Group may adjust the amount of dividends paid to shareholders, issue new shares as well as increase or decrease assets and/or liabilities, depending on the prevailing internal and external business conditions.

The Group monitors capital via carrying amount of equity as shown in the consolidated statements of financial position. The Group's capital for the covered reporting period is summarized below:

	<b>2017</b>	2016
Total assets	<b>P338,030</b>	P318,893
Total liabilities	<b>238,411</b>	230,073
Total equity	<b>99,619</b>	88,820
Debt to equity ratio	<b>2.4:1</b>	2.6:1
Assets to equity ratio	<b>3.4:1</b>	3.6:1

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally-imposed capital requirements.

### **35. Financial Assets and Financial Liabilities**

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31:

	<i>Note</i>	<b>2017</b>		2016	
		<b>Carrying Amount</b>	<b>Fair Value</b>	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	5	<b>P17,014</b>	<b>P17,014</b>	P17,332	P17,332
Trade and other receivables	8	<b>38,159</b>	<b>38,159</b>	31,548	31,548
Long-term receivables - net	14	<b>228</b>	<b>228</b>	205	205
Noncurrent deposits	14	<b>90</b>	<b>90</b>	81	81
Loans and receivables		<b>55,491</b>	<b>55,491</b>	49,166	49,166
AFS financial assets	7	<b>531</b>	<b>531</b>	479	479
Financial assets at FVPL	6	<b>171</b>	<b>171</b>	157	157
Derivative assets	6	<b>165</b>	<b>165</b>	64	64
FA at FVPL		<b>336</b>	<b>336</b>	221	221
<b>Total financial assets</b>		<b>P56,358</b>	<b>P56,358</b>	P49,866	P49,866

	Note	2017		2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	15	<b>P69,583</b>	<b>P69,583</b>	P90,366	P90,366
Liabilities for crude oil and petroleum products	16	<b>36,920</b>	<b>36,920</b>	29,966	29,966
Trade and other payables*	17	<b>7,917</b>	<b>7,917</b>	12,065	12,065
Long-term debt including current portion	18	<b>101,705</b>	<b>101,705</b>	79,852	79,852
Cash bonds	20	<b>400</b>	<b>400</b>	387	387
Cylinder deposits	20	<b>577</b>	<b>577</b>	499	499
Other noncurrent liabilities**	20	<b>57</b>	<b>57</b>	73	73
FL at amortized cost		<b>217,159</b>	<b>217,159</b>	213,208	213,208
Derivative liabilities		<b>1,791</b>	<b>1,791</b>	778	778
<b>Total financial liabilities</b>		<b>P218,950</b>	<b>P218,950</b>	P213,986	P213,986

\*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

\*\*excluding cash bonds and cylinder deposits

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

*Cash and Cash Equivalents, Trade and Other Receivables, Long-term Receivables and Noncurrent Deposits.* The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables and noncurrent deposits, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

*Derivatives.* The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Marked-to-market valuation of commodity hedges are based on forecasted crude and product prices by third parties.

*Financial Assets at FVPL and AFS Financial Assets.* The fair values of publicly traded instruments and similar investments are based on published market prices. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

*Long-term Debt - Floating Rate.* The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

*Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities.* Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2017 and 2016 are 5.82% and 4.99%, respectively.

*Short-term Loans, Liabilities for Crude Oil and Petroleum Products and Trade and Other Payables.* The carrying amount of short-term loans, liabilities for crude oil and petroleum products and trade and other payables approximates fair value primarily due to the relatively short-term maturities of these financial instruments.

### Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are recognized directly in profit or loss.

### Freestanding Derivatives

Freestanding derivatives consist of commodity and currency entered into by the Group.

*Currency Forwards.* As of December 31, 2017 and 2016, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,283 million and US\$875 million, respectively, and with various maturities in 2018 and 2017. As of December 31, 2017 and 2016, the net negative fair value of these currency forwards amounted to P445 and P38, respectively.

*Commodity Swaps.* The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2018 and 2017. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 42.6 million barrels and 26.3 million barrels for 2017 and 2016, respectively. The estimated net payouts for these transactions amounted to P1,181 and P676 as of December 31, 2017 and 2016, respectively.

*Commodity Options.* As of December 31, 2017 and 2016, the Group has no outstanding 3-way options designated as hedge of forecasted purchases of crude oil.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

### Embedded Derivatives

Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of the Parent Company. Under the sales and purchase contracts, the peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of December 31, 2017 and 2016, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2017 and 2016, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2017, 2016 and 2015, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P1,692), P824 and P936, respectively (Note 26).

### Fair Value Changes on Derivatives

The net movements in the fair value of all derivative transactions in 2017 and 2016 are as follows:

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Fair value at beginning of year		<b>(P714)</b>	(P241)
Net changes in fair value during the year	26	<b>(1,692)</b>	824
Fair value of settled instruments		<b>780</b>	(1,297)
Fair value at end of year		<b>(P1,626)</b>	(P714)

### Fair Value Hierarchy

Financial assets and liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2017 and 2016. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability are not based on observable market data.

<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
FVPL	<b>P -</b>	<b>P171</b>	<b>P171</b>
Derivative assets	-	<b>165</b>	<b>165</b>
AFS financial assets	<b>201</b>	<b>330</b>	<b>531</b>
Financial Liabilities:			
Derivative liabilities	-	<b>(1,791)</b>	<b>(1,791)</b>
<b>2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
FVPL	<b>P -</b>	<b>P157</b>	<b>P157</b>
Derivative assets	-	<b>64</b>	<b>64</b>
AFS financial assets	<b>141</b>	<b>338</b>	<b>479</b>
Financial Liabilities:			
Derivative liabilities	-	<b>(778)</b>	<b>(778)</b>

The Group has no financial instruments valued based on Level 3 as of December 31, 2017 and 2016. During the year, there were no transfers between and into and out of Level 1 and Level 2 fair value measurements.



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### 36. Registration with the Board of Investments (BOI)

#### Benzene, Toluene and Propylene Recovery Units

On October 20, 2005, the Parent Company registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order 226) as: (1) a pioneer, new export producer status of Benzene and Toluene; and (2) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, the Parent Company is subject to certain requirements principally that of exporting at least 50% of the combined production of Benzene and Toluene.

As a registered enterprise, the Parent Company is entitled to certain benefits on its production of petroleum products used as petrochemical feedstock, mainly, among others, Income Tax Holiday (ITH): (1) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (2) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

The BOI extended the Parent Company's ITH incentive for its propylene sales from December 2013 to November 2014 and for its benzene and toluene sales from May 2014 to April 2015.

#### RMP-2 Project

On June 3, 2011, the BOI approved the Parent Company's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016 and the Parent Company availed of the ITH in 2016 and 2017.

On August 11, 2017, the BOI approved the Parent Company's application for the ITH incentive. The approval also covers the claim for income tax exemption in the Parent Company's 2016 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Yearly certificates of entitlement have been timely obtained by the Parent Company to support its ITH credits in 2017 and 2016.

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### **37. Segment Information**

Management identifies segments based on business and geographic locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The CEO (the chief operating decision maker) reviews management reports on a regular basis.

The Group's major sources of revenues are as follows:

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.
- c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.
- e. Export sales of various petroleum and non-fuel products to other Asian countries such as China, Vietnam, Taiwan, Cambodia, Malaysia, Thailand, Indonesia, South Korea and Singapore.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.

#### Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

#### Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

#### Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Group.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the years ended December 31, 2017, 2016 and 2015.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2017</b>						
Revenue:						
External sales	P433,879	P -	P -	P745	P -	P434,624
Inter-segment sales	199,117	83	584	-	(199,784)	-
Operating income	26,895	59	295	16	373	27,638
Net income	16,263	118	141	44	(2,479)	14,087
Assets and liabilities:						
Segment assets*	382,313	1,319	5,871	636	(52,316)	337,823
Segment liabilities*	248,118	291	4,439	108	(21,942)	231,014
Other segment information:						
Property, plant and equipment	172,212	-	-	134	5,344	177,690
Depreciation and amortization	10,952	-	9	18	-	10,979
Interest expense	8,487	-	164	-	(164)	8,487
Interest income	666	26	2	5	(164)	535
Income tax expense	4,648	16	27	3	61	4,755

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2016</b>						
Revenue:						
External sales	P341,979	P -	P76	P1,823	(P38)	P343,840
Inter-segment sales	161,982	132	517	32	(162,663)	-
Operating income	23,208	104	271	48	166	23,797
Net income	10,495	125	96	63	43	10,822
Assets and liabilities:						
Segment assets*	363,812	1,106	5,604	720	(52,543)	318,699
Segment liabilities*	242,140	192	4,325	147	(22,457)	224,347
Other segment information:						
Property, plant and equipment	171,330	-	-	151	5,123	176,604
Depreciation and amortization	9,289	-	2	41	173	9,505
Interest expense	7,557	-	173	-	(173)	7,557
Interest income	651	22	2	5	(173)	507
Income tax expense	1,832	15	23	11	1,675	3,556

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2015</b>						
Revenue:						
External sales	P357,908	P -	P33	P2,270	(P33)	P360,178
Inter-segment sales	158,171	107	509	55	(158,842)	-
Operating income	17,048	78	256	83	669	18,134
Net income	9,349	103	97	87	(3,366)	6,270
Assets and liabilities:						
Segment assets*	333,187	1,097	5,181	904	(46,313)	294,056
Segment liabilities*	216,062	178	4,004	313	(14,028)	206,529
Other segment information:						
Property, plant and equipment	156,319	-	-	208	5,070	161,597
Depreciation and amortization	6,164	-	2	39	67	6,272
Interest expense	5,533	-	183	-	(183)	5,533
Interest income	846	15	1	7	(183)	686
Income tax expense	3,479	11	35	21	109	3,655

\*excluding deferred tax assets and liabilities

Inter-segment sales transactions amounted to P199,784, P162,663 and P158,842 for the years ended December 31, 2017, 2016 and 2015, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2017, 2017 and 2016:

	Reseller	Lube	Gasul	Industrial	Others	Total
<b>2017</b>						
Revenue	<b>P212,840</b>	<b>P5,307</b>	<b>P22,850</b>	<b>P101,333</b>	<b>P91,549</b>	<b>P433,879</b>
Property, plant and equipment	<b>20,648</b>	<b>86</b>	<b>435</b>	<b>153</b>	<b>150,890</b>	<b>172,212</b>
Capital expenditures	<b>2,473</b>	<b>1</b>	<b>100</b>	<b>49</b>	<b>4,821</b>	<b>7,444</b>
<b>2016</b>						
Revenue	161,415	4,445	17,922	83,650	74,547	341,979
Property, plant and equipment	18,557	110	384	210	152,069	171,330
Capital expenditures	3,214	1	89	110	21,920	25,334
<b>2015</b>						
Revenue	169,179	4,052	18,119	81,587	84,971	357,908
Property, plant and equipment	18,682	138	360	200	136,939	156,319
Capital expenditures	1,909	1	61	99	114,515	116,585

#### Geographical Segments

The following table presents segment assets of the Group as of December 31, 2017 and 2016.

	2017	2016
Local	<b>P271,883</b>	P261,761
International	<b>65,940</b>	56,938
	<b>P337,823</b>	P318,699

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2017, 2016 and 2015.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2017</b>						
Local	<b>P271,117</b>	<b>P29</b>	<b>P584</b>	<b>P745</b>	<b>(P1,156)</b>	<b>P271,319</b>
Export/international	<b>361,879</b>	<b>54</b>	<b>-</b>	<b>-</b>	<b>(198,628)</b>	<b>163,305</b>
<b>2016</b>						
Local	204,585	64	593	1,855	(1,686)	205,411
Export/international	299,375	68	-	-	(161,014)	138,429
<b>2015</b>						
Local	212,724	57	542	2,325	(2,014)	213,634
Export/international	303,355	50	-	-	(156,861)	146,544

### **38. Events After the Reporting Date**

- On January 8, 2018, the Parent Company announced a tender offer to holders of its US\$750 million USCS with expiration deadline on January 16, 2018. Tenders amounted to US\$402 million and were settled by the Parent Company on January 22, 2018. The USCS redeemed pursuant to the Tender Offer were cancelled. Distributions and premiums paid related to the redemption amounted to US\$13.901 million (P1,010) and US\$12.059 million (P876), respectively.

On February 5, 2018, the Parent Company paid distributions amounting to US\$13.051 million (P963) to the holders of the remaining US\$348 million USCS.

- b. On January 19, 2018, the Parent Company issued US\$500 million Senior Perpetual Capital Securities (the “SPCS”) with an issue price of 100% to partially refinance the Parent Company’s existing US\$750 million USCS, for the repayment of indebtedness and for general corporate purposes, including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018.
- c. On March 13, 2018, the BOD of the Parent Company approved the declaration of cash dividends for common and series 2 preferred shareholders with the following details:

Type	Per Share	Record Date	Payment Date
Common	P0.15000	March 27, 2018	April 18, 2018
Series 2A	15.75000	April 12, 2018	May 3, 2018
Series 2B	17.14575	April 12, 2018	May 3, 2018
Series 2A	15.75000	July 16, 2018	August 3, 2018
Series 2B	17.14575	July 16, 2018	August 3, 2018

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### 39. Other Matters

- a. Lease Agreements with PNOC

On October 20, 2017, the Parent Company filed with the Regional Trial Court (RTC) of Mandaluyong City a complaint against the PNOC for Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour Temporary Restraining Order and Verified Applications for 20-day Temporary Restraining Order and Writ of Preliminary Injunction. In its complaint, the Parent Company seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Parent Company. These landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by the Parent Company of the conveyed lots for its business operation. Thus, PNOC and the Parent Company executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years to expire in August 2018, with a provision for automatic renewal for another 25 years. In 2009, the Parent Company, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint stemmed from PNOC’s refusal to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

The Parent Company alleged that by unilaterally setting aside the renewal clauses of the lease agreements and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with the Parent Company.

On December 11, 2017, the trial court granted the Parent Company's prayer for a writ of preliminary injunction, enjoining PNOG from committing any act aimed at ousting the Parent Company from possession of the subject properties until the case is decided. On December 29, 2017, the trial court mandated the conduct of mediation proceedings on February 5, 2018 before the Philippine Mediation Center. The case was still pending as of December 31, 2017.

The court-mandated mediation conference held at the Philippine Mediation Center in Mandaluyong City on February 5, 2018 was terminated without any agreement between the parties. In an Order dated February 28, 2018, upon motion of the Parent Company, the trial court directed that the case be returned to the Office of the Clerk of Court for re-raffle for the judicial dispute resolution proceeding. As of March 13, 2018, the Parent Company is awaiting the notice on the date for the re-raffle.

b. Tax Credit Certificates Related Cases

In 1998, the BIR issued a deficiency excise tax assessment against the Parent Company relating to its use of P659,000 worth of Tax Credit Certificate (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Parent Company by suppliers as payment for fuel purchases. The Parent Company contested the BIR's assessment before the Court of Tax Appeals (CTA). In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, the Parent Company was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals (CA) promulgated a decision in favor of the Parent Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to the Parent Company. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, the Parent Company filed its comment on the petition for review filed by the BIR. The petition was still pending as of December 31, 2017.

c. Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of the Parent Company, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. In December 2002, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the Parent Company filed a petition with the RTC to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance, which applied to the entire City of Manila. Ordinance No. 8119 allowed the Parent Company (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by the Parent Company questioning Ordinance No. 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, the Parent Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Parent Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Presidential Decree No. 1067, *Water Code of the Philippines*. On February 13, 2008, the Parent Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187, which amended Ordinance No. 8027 and Ordinance No. 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012 (the "August 24 Decision"), the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. The Parent Company filed with the RTC a Notice of Appeal to the Court of Appeals on January 23, 2013. In a decision dated September 19, 2017, the CA denied the appeal of the Parent Company, finding that Manila's Comprehensive Land Use Plan was valid, except for Section 55 of Ordinance No. 8119. Section 55, which imposed an easement of 10 meters from the riverbank to serve as a linear park, was struck down as invalid because it violated the Water Code which required only a three-meter easement. The Parent Company no longer filed a motion for reconsideration or elevated the matter to the Supreme Court since the issue has already become moot following the cessation by the Parent Company of the operations of its petroleum storage facilities in Pandacan in August 2015.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (the “November 25 Decision”) declaring Ordinance No. 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. The Parent Company, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implement full relocation of their fuel storage facilities within six (6) months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Parent Company, the Supreme Court denied Shell’s motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule. On May 14, 2015, the Parent Company filed its submission in compliance with the November 25 Decision.

d. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent Company not criminally liable, but the SBMI found the Parent Company to have overloaded the vessel. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of December 31, 2017.

e. Other Proceedings

The Group is also a party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these other proceedings will not have a material adverse effect on the Group’s business financial condition or results of operations.

f. The Group has unused letters of credit totaling approximately P19,515 and P21,638 as of December 31, 2017 and 2016, respectively.



**PETRON CORPORATION AND SUBSIDIARIES**  
**INDEX TO SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2017**

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**Statement of Management's Responsibility for the Consolidated Financial Statements**

**Report of Independent Auditors on Supplementary Information  
Filed Separately from the Consolidated Financial Statements**

**Supplementary Schedules to the Consolidated Financial Statements**

Supplementary Schedules of Annex 68 - E	<u>Page No.</u>
A. Financial Assets	NA <sup>(a)</sup>
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	NA <sup>(b)</sup>
C. Amounts Receivable and Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements	1 - 2
D. Goodwill and Other Intangible Assets	3
E. Long-term Debt	4
F. Indebtedness to Related Parties	NA <sup>(c)</sup>
G. Guarantees of Securities of Other Issuers	NA
H. Capital Stock	5

<sup>(a)</sup>Balance of Financial Assets at Fair Value Through Profit or Loss is less than 5% of total current assets.

<sup>(b)</sup>Balance of account is less than 1% of the total assets of the Group and no individually significant advances over P100,000.

<sup>(c)</sup>Balance of account is less than 5% of total assets of the Group

**Map of the Conglomerate within which the Group belongs**

**Schedule of Philippine Financial Reporting Standards and Interpretations**

**Financial Soundness Indicators**

**Report of Independent Auditors on Supplementary Information  
Filed Separately from the Separate Financial Statements**

**Supplementary Schedule to Separate Financial Statements**

Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **Petron Corporation (the "Company") and Subsidiaries**, is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2017 and 2016**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

**EDUARDO M. COJUANGCO, JR.**  
Chairman

**RAMON S. ANG**  
President and Chief Executive Officer

**EMMANUEL E. ERANA**  
Senior Vice President and Chief Finance Officer

Signed this 13th day of March 2018



**SUBSCRIBED AND SWORN TO** before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 21 2018, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

Name	Competent Evidence of Identity	Date/Place of Issue
Eduardo M. Cojuangco, Jr.	Passport No. EC3542719	27 Feb 2015/ DFA Manila
Ramon S. Ang	Passport No. EC3542718	27 Feb 2015/ DFA Manila
Emmanuel E. Eraña	Passport No. EC2176330	23 Sep 2014/ DFA NCR Central

Doc. No. 404 ;  
Page No. 82 ;  
Book No. I ;  
Series of 2018

**DON VIC P. QUEZON**  
Notary Public for Mandaluyong City  
40 San Miguel Avenue, 1550 Mandaluyong City  
Appointment No. 0382-18  
Until December 31, 2019  
Attorney's Roll No. 56728  
PTR No.3388759/01-03-18/Mandaluyong  
Lifetime IBP No. 08324  
MCLE Compliance No.V-0020700/4-20-2016



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders  
Petron Corporation  
SMC Head Office Complex  
40 San Miguel Avenue  
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation (the "Company") and Subsidiaries (the "Group") as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and have issued our report thereon dated March 13, 2018.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management.

- Supplementary Schedules of Annex 68-E
- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

**R.G. MANABAT & CO.**

DARWIN P. VIROCEL  
Partner  
CPA License No. 0094495  
SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020  
Tax Identification No. 912-535-864  
BIR Accreditation No. 08-001987-31-2016  
Issued October 18, 2016; valid until October 17, 2019  
PTR No. 6615157MD  
Issued January 3, 2018 at Makati City

March 13, 2018  
Makati City, Metro Manila

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(Amounts in Millions)**

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	6,558	25,735	(26,886)	-	5,407	1,171	4,236	5,407
Overseas Ventures Insurance Corporation Ltd.	9	37	(38)	-	8	8	-	8
Petrogen Insurance Corporation	17	799	(766)	-	50	50	-	50
Petron Freeport Corporation	-	-	-	-	-	-	-	-
Petron Singapore Trading Pte., Ltd.	15,545	174,133	(173,586)	-	16,092	16,092	-	16,092
Petron Marketing Corporation	18	1	(2)	-	17	17	-	17
New Ventures Realty Corporation and Subsidiaries	164	518	(508)	-	174	12	162	174
Limay Energen Corporation	-	-	-	-	-	-	-	-
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	1	-	(1)	-	-	-	-	-
Petrochemical Asia (HK) Limited and Subsidiaries	82	53	(63)	-	72	72	-	72
<b>TOTAL</b>	<b>22,394</b>	<b>201,276</b>	<b>(201,850)</b>	<b>-</b>	<b>21,820</b>	<b>17,422</b>	<b>4,398</b>	<b>21,820</b>

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(Amounts in Millions)**

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	14,948	175,365	(173,998)	-	16,315	16,153	162	16,315
Overseas Ventures Insurance Corporation Ltd.	9	8	-	-	17	17	-	17
Petrogen Insurance Corporation	39	477	(464)	-	52	50	2	52
Petron Freeport Corporation	45	545	(533)	-	57	56	1	57
Petron Singapore Trading Pte., Ltd.	2,358	24,416	(25,702)	-	1,072	1,070	2	1,072
Petron Marketing Corporation	(1)	3	(2)	-	-	-	-	-
New Ventures Realty Corporation and Subsidiaries	4,192	183	(101)	-	4,274	72	4,202	4,274
Limay Energen Corporation	-	-	-	-	-	-	-	-
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	804	279	(1,050)	-	33	4	29	33
Petrochemical Asia (Hk) Limited and Subsidiaries	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>22,394</b>	<b>201,276</b>	<b>(201,850)</b>	<b>-</b>	<b>21,820</b>	<b>17,422</b>	<b>4,398</b>	<b>21,820</b>

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D - GOODWILL AND OTHER INTANGIBLE ASSETS**  
**DECEMBER 31, 2017**  
*(Amounts in Millions)*

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
<b>Goodwill:</b>						
Cost	P 7,778	P -	P -	P -	P 797	P 8,575
Less: impairment for the year	298	-	-	-	-	298
	<u>P 7,480</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 797</u>	<u>P 8,277</u>
<b>Franchise Fee:</b>						
Cost	P 17	P -	P -	P -	P -	P 17
Less: amortization for the year	17	-	-	-	-	17
	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>
<b>Computer Software:</b>						
Cost	P 521	P 6	P -	P -	P 37	P 564
Less: amortization for the year	486	-	33	-	37	556
	<u>P 35</u>	<u>P 6</u>	<u>P (33)</u>	<u>P -</u>	<u>P 0</u>	<u>P 8</u>
<b>Other Intangible Assets:</b>						
Cost	P 204	P -	P -	P -	P -	P 204
Less: amortization for the year	31	-	20	-	-	51
	<u>P 173</u>	<u>P -</u>	<u>P (20)</u>	<u>P -</u>	<u>P -</u>	<u>P 153</u>

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
**DECEMBER 31, 2017**  
*(Amounts in Millions)*

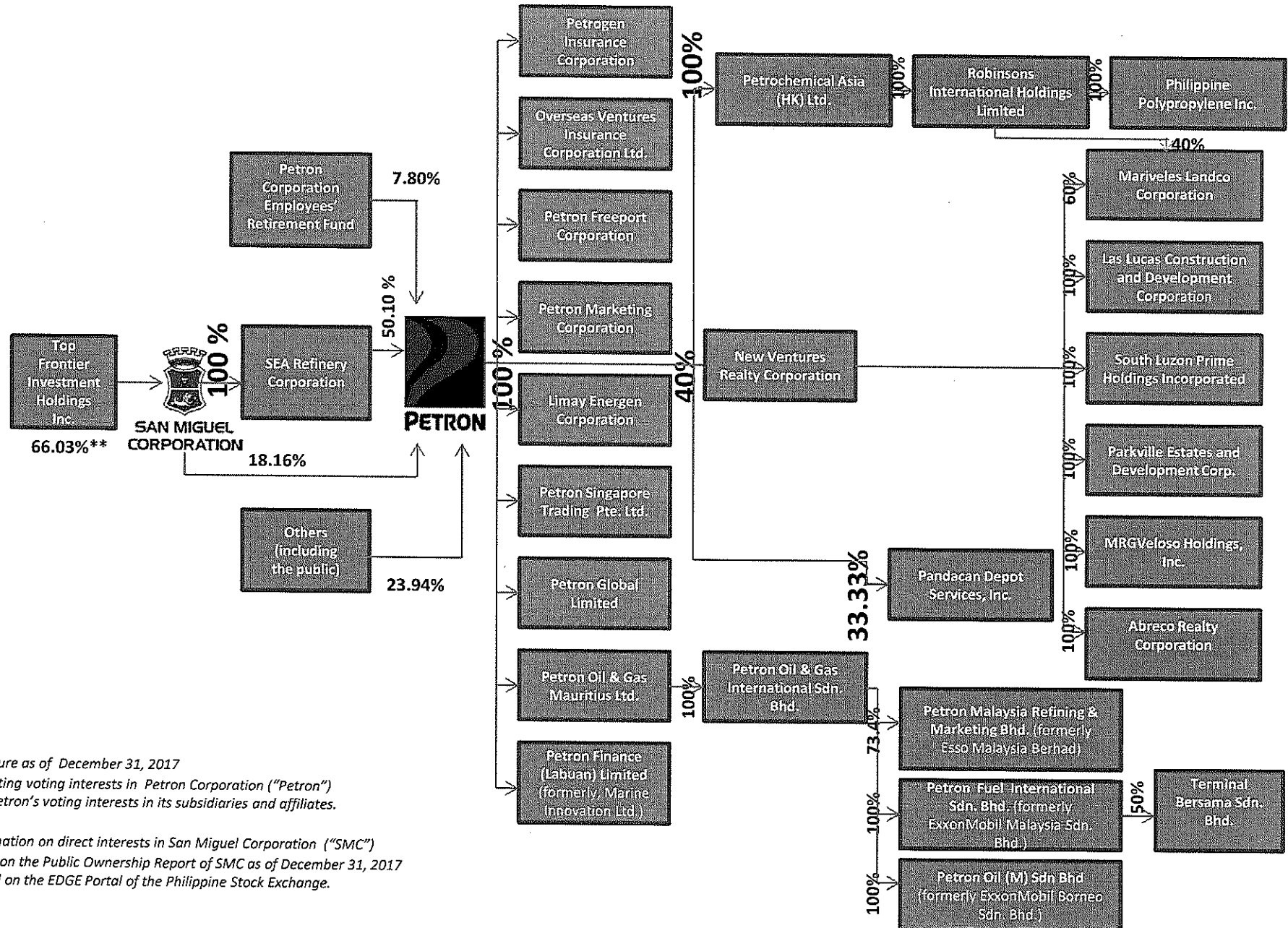
TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Amount Shown as Current	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Final Maturity
Unsecured term notes and bonds:							
<i>Peso denominated:</i>							
Fixed	Rizal Commercial Banking Corporation	P 3,384	P 673	P 3,369	6.3212%; 7.1827%	Amortized 7 years: 1% per annum for 6 years; 94% on final maturity; Amortized 10 years: 1% per annum for 9 years; 91% on final maturity	October 2018; October 2021
Fixed	Union Bank of the Philippines	5,000	995	4,986	5.4583%	2-yr grace period; amortized 5 years	October 2022
Fixed	Philippine Depository and Trust Corp.	13,000	-	12,896	4.0032%	Bullet	October 2021
Fixed	Philippine Depository and Trust Corp.	7,000	-	6,939	4.5219%	Bullet	October 2023
Fixed	BDO Unibank, Inc.	14,464	2,121	14,380	5.5276%	Amortized quarterly for 7 years	June 2024
Fixed	Bank of the Philippine Islands	10,000	-	9,950	5.7584%	Amortized quarterly beginning on the fifth quarter	December 2022
		<u>52,848</u>	<u>3,789</u>	<u>52,520</u>			
<i>Foreign currency - denominated:</i>							
Floating	Standard Chartered Bank (Hongkong) Limited	49,930	-	49,185	LIBOR + margin	2-year grace period; amortized 5 years	June 2022
		<u>49,930</u>	<u>-</u>	<u>49,185</u>			
<b>Total Long-term Debt</b>		<b>P <u>102,778</u></b>	<b>P <u>3,789</u></b>	<b>P <u>101,705</u></b>			



**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2017**

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors and executive officers	Others
Common stock	9,375,104,497	9,375,104,497	Not applicable	7,130,912,221	1,819,290	2,242,372,986
Preferred stock		-	Not applicable	-	-	-
Series 2A Preferred	624,895,503	7,122,320	Not applicable	-	39,000	7,083,320
Series 2B Preferred		2,877,680	Not applicable	-	-	2,877,680

# PETRON GROUP STRUCTURE (with Shareholdings in San Miguel Corporation)



\* Structure as of December 31, 2017 indicating voting interests in Petron Corporation ("Petron") and Petron's voting interests in its subsidiaries and affiliates.

\*\* Information on direct interests in San Miguel Corporation ("SMC") based on the Public Ownership Report of SMC as of December 31, 2017 posted on the EDGE Portal of the Philippine Stock Exchange.

## PETRON CORPORATION AND SUBSIDIARIES

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 -2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards -Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 -2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 -2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 -2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 -2012 Cycle: Meaning of 'vesting condition'			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 -2012 Cycle: Classification and measurement of contingent consideration	✓		
	Annual Improvements to PFRSs 2011 -2013 Cycle: Scope exclusion for the formation of joint arrangements	✓		
<b>PFRS 4</b>	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Annual Improvements to PFRSs 2012 -2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures -Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 -2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 -2014 Cycle: Offsetting disclosures in condensed interim financial statements	✓		
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 -2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments (2014)		✓	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 -2016 Cycle: Clarification of the scope of the standard	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 -2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 -2013 Cycle: Scope of portfolio exception			✓
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers		✓	
<b>PFRS 16</b>	Leases		✓	
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 -2011 Cycle: Presentation of Financial Statements -Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 -2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 -2011 Cycle: Property, Plant and Equipment -Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 -2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	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			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 -2014 Cycle: Discount rate in a regional market sharing the same currency -e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 -2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 -2016 Cycle: Measuring an associate or joint venture at fair value			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 -2011 Cycle: Financial Instruments Presentation -Income Tax Consequences of Distributions	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
	Annual Improvements to PFRSs 2009 -2011 Cycle: Interim Financial Reporting -Segment Assets and Liabilities	✓		
	Annual Improvements to PFRSs 2012 -2014 Cycle: Disclosure of information "elsewhere in the interim financial report"	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 -2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets -Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✓		
	Annual Improvements to PFRSs 2011 -2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)	✓		
	Amendments to PAS 40: Transfers of Investment Property		✓	
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration		✓	
IFRIC 23	Uncertainty over Income Tax Treatments		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 -Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) -Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01- Revised	PAS 1.103(a) -Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 -Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 -Application of criteria for a qualifying NPAAE			✓
PIC Q&A 2008-01- Revised	PAS 19.78 -Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2008-02	PAS 20.43 -Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 -Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 -Rate used in determining the fair value of government securities in the Philippines	✓		
PIC Q&A 2010-01	PAS 39.AG71-72 -Rate used in determining the fair value of government securities in the Philippines	✓		
PIC Q&A 2010-02	PAS 1R.16 -Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan	✓		
PIC Q&A 2011-01	PAS 1.10(f) -Requirements for a Third Statement of Financial Position	✓		
PIC Q&A 2011-02	PFRS 3.2 -Common Control Business Combinations	✓		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 -Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 -Fair Value or Revaluation as Deemed Cost	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property -Acquisition of Investment properties -asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 -Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	✓		
PIC Q&A 2013-03 (Revised)	PAS 19 -Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	✓		
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016	✓		
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity	✓		
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017	✓		
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building	✓		
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures	✓		
PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A 2017-05	PFRS 7 -Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		
PIC Q&A 2017-06	PAS 2, 16 and 40 -Accounting for Collector's Items			✓
PIC Q&A 2017-07	PFRS 10 -Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A 2017-08	PFRS 10 -Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture	✓		
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	✓		
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property	✓		
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans			✓
PIC Q&A 2018-01	Voluntary changes in accounting policy			✓
PIC Q&A 2018-02	Non-controlling interests and goodwill impairment test	✓		
PIC Q&A 2018-03	Fair value of PPE and depreciated replacement cost	✓		
PIC Q&A 2018-04	Inability to measure fair value reliably for biological assets within the scope of PAS 41			✓
PIC Q&A 2018-05	Maintenance requirement of an asset held under lease	✓		
PIC Q&A 2018-06	Cost of investment in subsidiaries in SFS when pooling is applied			✓
PIC Q&A 2018-07	Cost of an associate, joint venture, or subsidiary in separate financial statements	✓		
PIC Q&A 2018-08	Accounting for the acquisition of non-wholly owned subsidiary that is not a business			✓
PIC Q&A 2018-09	Classification of deposits and progress payments as monetary or non-monetary items			✓
PIC Q&A 2018-10	Scope of disclosure of inventory write-down	✓		

**Legend:**

**Adopted** -means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

**Not Adopted** -means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.

**Not Applicable** -means the standard or interpretation is not relevant at all to the operations of the entity.

**PETRON CORPORATION AND SUBSIDIARIES**  
**FINANCIAL SOUNDNESS INDICATORS**

Financial Ratios	Formula	December 31, 2017	December 31, 2016
<b>Liquidity</b>			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>1.17</b>	0.79
<b>Solvency</b>			
b) Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	<b>2.39</b>	2.59
c) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>3.39</b>	3.59
<b>Profitability</b>			
d) Return on Average Equity	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	<b>14.95%</b>	12.59%
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests, Taxes}}{\text{Interest Expense and Other Financing Charges}}$	<b>3.22</b>	2.90



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders  
Petron Corporation  
SMC Head Office Complex  
40 San Miguel Avenue  
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of Petron Corporation (the "Company"), which comprise the separate statements of financial position as at December 31, 2017 and 2016, and the separate statements of comprehensive income, separate statement of changes in equity and separate statements of cash flows for the years then ended, and have issued our report thereon dated March 13, 2018.

Our audits were made for the purpose of forming an opinion on the separate financial statements taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management. This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

**R.G. MANABAT & CO.**

DARWIN P. VIROCEL  
Partner  
CPA License No. 0094495  
SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020  
Tax Identification No. 912-535-864  
BIR Accreditation No. 08-001987-31-2016  
Issued October 18, 2016; valid until October 17, 2019  
PTR No. 6615157MD  
Issued January 3, 2018 at Makati City

March 13, 2018  
Makati City, Metro Manila

**PETRON CORPORATION**  
**SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City**  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**December 31, 2017**  
(Amounts in Thousand Pesos)

*(Figures based on audited  
financial statements)*

Unappropriated Retained Earnings, <i>as adjusted to available for dividend distribution</i> , beginning		P16,475,263
<b>Add: Net income actually earned/realized during the period</b>		
Net income during the period closed to Retained Earnings	P8,945,040	
Less: Non-actual/ unrealized income, net of tax:		
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	597,450	
Adjustment due to deviation from PFRS/ GAAP - gain	43,484	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	9,695	
Sub-total	650,629	
Add: Non-actual losses, net of tax:		
Adjustment due to deviation from PFRS/ GAAP - loss	6,350	
<b>Net income actually earned during the period</b>	<b>8,300,761</b>	<b>8,300,761</b>
Less:		
Dividend declarations during the period	(1,583,576)	
Distributions paid	(4,023,804)	
	(5,607,380)	(5,607,380)
<b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION</b>		<b>P19,168,644</b>