

## REGULATORY AND ENVIRONMENTAL MATTERS

*The statements herein are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company or the offering.*

### **Philippines**

#### ***Downstream Oil Industry Deregulation Law***

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "**Oil Deregulation Law**"), provides the regulatory framework for the downstream oil industry in the Philippines.

Under the Oil Deregulation Law, any person may import or purchase any quantity of crude oil and petroleum products from foreign and domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Law in March 1998 through Department Circular No. 98-03-004 and the Supplementing Rules and Regulations of the Oil Deregulation Law in June 1998 through Department Circular No. 98-06-009. The rules require any person or entity engaged in any activity in the downstream oil industry to comply with the notice, reportorial, quality, health, safety and environmental requirements set forth therein.

The DOE is the lead government agency overseeing the oil sector. With the enactment of the Oil Deregulation Law, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. DOE's current function is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Law include the following:

- a. monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;
- b. monitoring the refining and manufacturing processes of local petroleum products to ensure that clean and safe technologies are applied;
- c. maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;
- d. immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and
- e. in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

### **Promotion of Retail Competition**

Pursuant to the Oil Deregulation Law's objective to promote a competitive petroleum product market at the retail level, the DOE is mandated to promote and encourage the active and direct participation of the private sector and cooperatives in the retailing of petroleum products through joint venture or supply agreements with new industry participants for the establishment and operation of gasoline stations. Under prevailing rules and regulations, new industry participants are given preference in the (i) formulation and implementation on management and skills training for the establishment, operation, management and maintenance of gasoline stations and (ii) grant of gasoline station training and loans to be used as capital for the establishment and operation of gasoline stations.

### **Rules Relating to Retailing of Liquid Petroleum Products**

In November 2017, the DOE promulgated Department Circular No. 2017-11-0011 or the Revised Rules and Regulations Governing the Business of Retailing Liquid Fuels (the "**Revised Retail Rules**"). The Revised Retail Rules apply to all persons engaged or intending to engage in the business of Retailing Liquid Fuels. Liquid Fuels refer to gasoline, diesel, and kerosene.

A person intending to engage in the business of retailing liquid petroleum products must notify the Oil Industry Management Bureau ("**OIMB**") of its intention to engage in such activity and, upon compliance with the requirements under the Liquid Petroleum Products Retail Rules, secure a certificate of compliance ("**Certificate of Compliance**") from the OIMB. The certificate shall be valid for a period of five (5) years. The owner or operator of a retail outlet shall be deemed to be engaged in illegal trading of liquid petroleum products if such owner or operator operates a retail outlet without a Certificate of Compliance. Storage and dispensing of liquid fuels that are for own-use operation shall not be covered by the Revised Retail Rules only upon issuance of a Certificate of Non-Coverage ("**CNC**") by the DOE.

The Revised Retail Rules likewise imposes: (i) mandatory standards and requirements for new retail outlets and minimum facility requirements for existing retail outlets; (ii) rules and procedures relating to fuel storage, handling, transfer and/or dispensing of liquid fuels; (iii) requirements of other types of retail outlets; (iv) the conduct of inspection and monitoring by the OIMB; (v) rules and procedures relating to liquid fuels quantity and quality; and (vi) fines and/or sanctions against prohibited acts.

Liquid petroleum products dispensed at retail outlets must comply with the Philippine National Standards. The Prohibited Acts include illegal trading, adulteration, underdelivering, refusal/ obstruction of inspection and sampling, hoarding, and continuing to operate after an order or notice of cessation of operation has been issued by the DOE. The refusal of inspection shall constitute prima facie evidence of the commission of Prohibited Acts under the Revised Retail Rules.

### **Environmental Laws**

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate (the "**ECC**") prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the "**EMB**"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("**EIS**") to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination ("**IEE**") to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is mandatory. The construction of major roads and bridges are considered environmentally critical projects for which EIS and ECC are mandatory. Presidential Proclamation No. 2146 also classified petroleum and petro-chemical industries as environmentally critical projects.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by the EMB during the scoping, environmental

management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

#### ***The Biofuels Act of 2006***

Republic Act No. 9367, also known as "The Biofuels Act of 2006", aims to reduce the dependence of the transport sector on imported fuel and, pursuant to such law, regulations mandate that all premium gasoline fuel sold by every oil company in the Philippines should contain a minimum 10% blend of bioethanol starting August 6, 2011. For diesel engines, the mandated biodiesel blend in the country was increased from 1% to 2% starting February 2009.

In June 2015, the DOE issued Department Circular No. DC 2015-06-005, or the Amended Guidelines on E-10 Implementation, which temporarily waives compliance by oil companies with the required bioethanol blend for premium plus grade gasoline products when supply of locally produced bioethanol products are insufficient to meet demand.

In 2008, a Joint Administrative Order known as the "Guidelines Governing the Biofuel Feedstock Production and Biofuel Blends Production, Distribution and Sale" (the "**Guidelines**") was issued by various Philippine government agencies. The Guidelines mandate oil companies to blend biodiesel with diesel and bioethanol with gasoline. The Guidelines further require oil companies to source biofuels only from biofuel producers accredited by the DOE or from biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Act, an oil company's failure to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

In June 2015, the DOE issued Department Circular No. DC 2015-06-007, or the Revised Guidelines on the Utilization of Locally-Produced Bioethanol ("**Revised Guidelines**"), which repealed Department Circular No. 2011-12-0013, or the "Guidelines on the Utilization of Locally-Produced

Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006". The Revised Guidelines require oil companies operating within the Philippines to secure and maintain a DOE accreditation as an "Oil Industry Participant in the Fuel Bioethanol Program" and submit to the OIMB

certain reports in order for the OIMB to monitor the oil companies' compliance with the Revised Guidelines, including an annual performance compliance report relating to the oil companies' compliance with the minimum biofuel blends and monthly reports on compliance with local monthly allocations for the use of locally-sourced bioethanol. The Revised Guidelines further require oil companies to strictly comply with the Local Monthly Allocation ("LMA"). The LMA refers to the local bioethanol volume imposed on oil companies based on the committed volume by the local bioethanol producers of bioethanol available for lifting by the oil companies and computed and circulated by the OIMB.

In February 2016, the Congress of the Philippines promulgated Republic Act No. 10745, amending The Biofuels Act of 2006. The law allows natural gas power generation plants to use neat diesel (instead of the mandated biofuel blend) as alternative fuel during shortages of natural gas supply. The DOE issued Department Order No. 2016-07-0012 on the implementing rules and regulations for Republic Act No. 10745. This provides that the natural gas power generating plants with duly issued Certificate of Compliance from the Energy Regulatory Commission can avail of the use of neat diesel in the following instances:

1. During maintenance and/or shutdown of facilities used for the supply of natural gas such as pipelines, terminal, etc.
2. During force majeure which adversely affect the supply of natural gas to natural gas power plants, or
3. Other analogous instances.

All suppliers of natural gas shall submit to the DOE their preventive maintenance schedule indicating the dates when the suppliers of natural gas would be critical. During force majeure events, the DOE shall determine the affected facilities for proper issuance of certification of the shortage of natural gas supplies.

#### ***Philippine Clean Air Act of 1999***

Republic Act No. 8749, otherwise known as the "Philippine Clean Air Act", provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Philippine Clean Air Act specifies the allowable sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by weight by January 1, 2004 nationwide. The law also prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or fuel additive unless these have been registered with the DOE. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for all types of fuel and fuel related products, to improve fuel consumption for increased efficiency and reduced emissions. The committee is guided by strict time-bound and quality-specific targets under the mandate of the Philippine Clean Air Act and the DOE initiative on alternative fuels.

#### ***Philippine Clean Water Act of 2004***

In 2004, Republic Act No. 9275, or the "Philippine Clean Water Act", was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land based

sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Philippine Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Clean Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection

constraints.

### **LPG Laws and Regulations**

#### **B.P. 33**

B.P. 33, as amended by PD 1865, provides for certain prohibited acts inimical to public interest and national security involving petroleum and/or petroleum products. These prohibited acts include, among others, (i) illegal trading in petroleum and/or petroleum products, and (ii) under delivery or underfilling beyond authorized limits in the sale of petroleum products or possession of underfilled liquefied petroleum gas cylinder for the purpose of sale, distribution, transportation, exchange or barter. For this purpose, the existence of the facts hereunder gives rise to the following presumptions:

1. That cylinders containing less than the required quantity of liquefied petroleum gas which are not properly identified, tagged and set apart and removed or taken out from the display area and made accessible to the public by marketers, dealers, sub-dealers or retail outlets are presumed to be for sale;
2. In the case of a dispensing pump in a petroleum products retail outlet selling such products to the public, the absence of an out-of-order sign, or padlocks, attached or affixed to the pump to prevent delivery of petroleum products therefrom shall constitute a presumption of the actual use of the pump in the sale or delivery of such petroleum products; and
3. When the seal, whether official or of the oil company, affixed to the dispensing pump, tank truck or liquefied petroleum gas cylinder, is broken or is absent or removed, it shall give rise to the presumption that the dispensing pump is underdelivering, or that the liquefied petroleum gas cylinder is underfilled, or that the tank truck contains adulterated finished petroleum products or is underfilled.

The use of such pumps, cylinders or containers referred to in sub-paragraph (a), (b), and (c) above, to deliver products for sale or distribution shall constitute prima facie evidence of intent of the hauler, marketer, refiller, dealer or retailer outlet operator to defraud.

Under the said law, "illegal trading in petroleum and/or petroleum products" is understood to mean, among others, (1) the sale or distribution of petroleum products without license or authority from the OIMB, (2) non-issuance of receipts by licensed oil companies, marketers, distributors, dealers, subdealers and other retail outlets, to final consumers; provided: that such receipts, in the case of gas cylinders, shall indicate therein the brand name, tare weight, gross weight, and price thereof, (3) refilling of liquefied petroleum gas cylinders without authority from the OIMB, or refilling of another company's or firm's cylinders without such company's or firm's written authorization, and (4) marking or using in such cylinders a tare weight other than the actual or true tare weight thereof.

"Underfilling" or "under delivery" refers to a sale, transfer, delivery or filling of petroleum products of a quantity that is actually beyond authorized limits than the quantity indicated or registered on the metering device of container. This refers, among others, to the quantity of petroleum retail outlets or to liquefied petroleum gas in cylinder or to lube oils in packages.

#### **R.A. 9514 - IRR**

The Implementing Rules and Regulations of Republic Act No. 9514 or the Fire Code of 2008 also outlines requirements for storage and handling of LPG by outside bulk LPG stores and filling stations and the transportation of LPG which require among others, that during the unloading or transfer of LPG, the tank truck shall be located or parked clear of a public thoroughfare, unless the failure to transfer would create a hazard or it is impossible due to topography.

#### **LPG Industry Rules**

In January 2014, the Department of Energy issued Department Circular 2014-01-0001, or the Rules and Regulations Governing the Liquefied Petroleum Gas Industry (the "**LPG Industry Rules**"). The LPG Industry Rules apply to all persons engaged or intending to engage in the business of importing, refining, refilling, marketing, distributing, handling, storing, retailing, selling and/or trading of LPG.

A Standards Compliance Certificate ("**SCC**") from the OIMB is required before engaging in any LPG Industry Activity. The SCC is valid for a maximum of three calendar years from date of issue and may be renewed. LPG Industry participants must also submit certain reports to the OIMB.

The LPG Industry Rules also imposes (i) minimum standards and requirements for refilling and transportation of LPG; (ii) qualifications and responsibilities for LPG Industry participants such as bulk suppliers, refillers, marketers, dealers, and retail outlets.

Brand owners whose permanent mark appears on the LPG cylinder are presumed under the rules as the owner thereof, irrespective of their custody, and shall ensure that its cylinders comply with all required quality and safety standards. The owner of the cylinders is also required to secure product liability insurance for any liability that may result from an unsafe condition of LPG cylinders.

#### *Rules Pertinent to Auto-LPG Motor Vehicles*

On February 13, 2007, the DOE issued DOE Circular No. DC 2007-02-0002 entitled "Providing for the Rules and Regulations Governing the Business of Supplying, Hauling, Storage, Handling, Marketing and Distribution of Liquefied Petroleum Gas (LPG) for Automotive Use" (the "**Auto-LPG Rules**"). The Auto-LPG Rules govern the business of supplying, hauling, storage, handling, marketing and distribution of LPG for automotive use.

Under the rules, an Auto-LPG Industry Participant is required to secure from the DOE through the OIMB an SCC before it can operate. The Auto-LPG also mandates all participants to observe a code of practice consisting of operational guidelines and procedures to ensure the safe operation in the auto LPG business. Illegal trading, adulteration and hoarding are likewise prohibited. Under the Auto-LPG Rules, the following shall constitute prima facie evidence of hoarding: (i) the refusal of Auto-LPG Dispensing Stations to sell LPG products for automotive use shortly before a price increase or in times of tight supply, and in both instances if the buyer or consumer has the ability to pay in cash for the product; (ii) the undue accumulation of Auto-LPG Dispensing Stations of LPG products for automotive use in times of tight supply or shortly before a price increase. For purposes of this Auto LPG Rules, "undue accumulation" shall mean the keeping or stocking of quantities of LPG products for automotive use beyond the inventory levels as required to be maintained by the Auto-LPG Dispensing Stations, for a period of thirty (30) days immediately preceding the period of tight supply or price increase.

The Land Transportation Office ("**LTO**") also issued Memorandum Circular No. RIB-2007-891 or the "Implementing Rules and Regulations in the Inspection and Registration of Auto-LPG Motor Vehicles." The Circular requires the device for the use of LPG as fuel by any motor vehicle to be installed only by the conversion/installing shop duly certified by the Bureau of Product and Standards ("**BPS**") of the Philippine Department of Trade and Industry ("**DTI**") under its Philippine Standards Certification Mark scheme. The converted vehicle shall be subjected to an annual maintenance and inspection by the BPS certified conversion/installing shop. The BPS certified conversion/installing shop shall issue a corresponding Certificate of Inspection and Maintenance Compliance.

#### *Oil Pollution Compensation Act of 2007*

Republic Act No. 9483, otherwise known as the Oil Pollution Compensation Act of 2007, imposes strict liability on the owner of the ship for any pollution damage caused within the Philippine territory. Pollution damage is the damage caused outside the ship by contamination due to the discharge of oil from the ship, as well as the cost of preventive measures to protect it from further damage.

The law also provides that any person who has received more than 150,000 tons of "contributing oil" (as

explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage. For this purpose, "oil" includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

A person shall be deemed to have received "contributing oil," for purposes of determining required contributions, if he received such oil from another country or from another port or terminal installation within the Philippines, notwithstanding that this oil had already been previously received by him. Where the quantity of contributing oil received by any person in the Philippines in a calendar year, when aggregated with the quantity of contributing oil received in the Philippines in that year by such person's subsidiaries or affiliates, exceeds 150,000 tons, such person, including its subsidiaries and affiliates, shall pay contributions in respect of the actual quantity received by each, notwithstanding that the actual quantity received by each did not exceed 150,000 tons. Persons who received contributing oil are required to report to the DOE. Contributing oil means crude oil and fuel oil as defined under Republic Act No. 9483.

Republic Act No. 9483 provides for the establishment of a fund to be constituted from, among others, an impost amounting to ten centavos per liter levied on owners and operators and tankers and barges hauling oil and/or petroleum products in Philippine waterways and coast wise shipping routes. This new fund, named the Oil Pollution Management Fund, will be in addition to the requirement under the 1992 Civil Liability Convention and 1992 Fund Convention and will be administered by the Maritime Industry Authority ("**MARINA**").

In April 2016, the Department of Transportation (then the Department of Transportation and Communications) promulgated the implementing rules and regulations of Republic Act No. 9483. Under the rules, oil companies are required to submit (a) reports on the amount of contributing oil received and (b) sales and delivery reports of persistent oil.

#### ***Other Regulations on Water Pollution***

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the MARINA and the Philippine Coast Guard. Both are agencies under the Philippine Department of Transportation.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, the MARINA issued: (i) Circular No. 2007-01 which mandated the use of double-hull vessels including those below 500 tons deadweight tonnage by the end of 2008 for transporting Black Products; and (ii) Circular No. 2010-01 for transporting White Products in certain circumstances by 2011.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78. The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills. Oil companies, oil explorers, natural gas explorers, power plants/barges and tanker

owners are also required to develop shipboard oil pollution emergency plans to be approved by the Philippine Coast Guard.

Moreover, both the Philippine Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution have the primary responsibility of conducting clean-up operations at its own expense.

### ***Foreign Investment Laws and Restrictions***

#### ***Land Ownership***

The ownership of land by foreign nationals is subject to restrictions provided under the Philippine constitution and related statutes. Under Section 7, Article XII of the Philippine Constitution, in relation to Section 2, Article XII thereof, and Chapter 5 of Commonwealth Act No. 141, private land shall not be transferred or conveyed except to Filipino nationals or to corporations or associations organized under the law of the Philippines and whose capital is least 60% owned by Filipino nationals.

#### ***Retail Trade Liberalization Act***

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 ("**R.A. 8762**"), was enacted into law on March 7, 2000. R.A. 8762 liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. The law provides that foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the DTI or in case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A — Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US\$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly owned by Filipino citizens
- Category B — Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of US\$2.5 million but less than US\$7.5 million may be wholly owned by foreigners except for the first two years after the effectiveness of R.A. 8762 wherein foreign participation shall be limited to not more than 60% of total equity.
- Category C — Enterprises with a paid-up capital of the equivalent in Philippine Pesos of US\$7.5 million or more may be wholly owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of US\$830,000;<sup>16</sup> and
- Category D — Enterprises specializing in high-end or luxury products with a paid up capital of the equivalent in Philippine Pesos of US\$250,000 per store may be wholly owned by foreigners.

No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

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<sup>16</sup> Category C ceased to be available as a permitted category with effect from March 25, 2002



- A minimum of US\$200 million net worth in its parent corporation for categories B and C, and US\$50 million net worth in its parent corporation for category D;
- Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US\$25 million;
- Five-year track record in retail; and
- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The implementing rules of R.A. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines.

#### *Foreign Investments Act of 1991*

The Foreign Investments Act of 1991 ("**FIA**") liberalized the entry of foreign investment into the Philippines. Under the FIA, foreigners can own as much as 100% equity in domestic market enterprises, except in areas specified in the Foreign Investment Negative List. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. The oil refining and distribution business is not found in the latest (10th) Negative List of the FIA.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

For the purpose of complying with nationality laws, the term "Philippine National" is defined under the FIA as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly owned by citizens of the Philippines;
- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organized abroad and registered to do business in the Philippines under the Revised Corporation Code of the Philippines, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or
- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation. A corporation with more than 40% foreign equity may be allowed to lease private land for a period of 25 years, renewable for another 25 years.

#### *Consumer Act of the Philippines*

Republic Act No. 7394, otherwise known as the Consumer Act of the Philippines ("**Consumer Act**"), the provisions of which are principally enforced by the DTI, seeks to: (a) protect consumers against hazards to health and safety; (b) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (c) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (d) provide adequate rights and means of redress; and (e) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as: (a) consumer product quality and safety; (b) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer's health and safety; (c) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (d) practices relative to the use of weights and measures; (e) consumer product and service warranties; (f) compulsory labeling and fair packaging; (g) liabilities for defective products and services; (h) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (i) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution, or importation of products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder.

#### *Local Government Code*

The Local Government Code ("**LGC**") establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every local government unit ("**LGU**") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

#### *Other Regulatory Requirements*

Governmental approval of the Company's products and services is generally not required. However, petroleum products refined at the Limay Refinery are subject to Philippine National Standards ("**PNS**") specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the PNS. The Oil Deregulation Law also requires the registration with the DOE of any fuel additive prior to its use in a product.

On September 7, 2010, the DENR issued Department Order No. 2010-23 on the Revised Emission Standards for Motor Vehicles Equipped with Compression Ignition and Spark Ignition Engines, mandating compliance of all new passenger and light duty motor vehicles with Euro IV (PH) emission limits subject to fuel availability, starting on January 1, 2016. Euro IV vehicle emission technology requires a more stringent fuel quality of 0.005% sulfur content for both diesel and gasoline.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. These certificates have to be submitted to the DOE for monitoring (not regulation) purposes. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and

blending; (b) storing/ transshipment; (c) distribution/operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper governmental authorities.

#### **Other Relevant Tax-related Regulations**

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3% to 5%, but was later reduced to 3% effective as of November 1, 2005.

Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3% import duty on crude oil shall be adjusted to 2%, 1% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate the tariff rates on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area ASEAN Trade in Goods Agreement ("**ATIGA**"). Under the ATIGA, crude oil and refined petroleum products imported from Association of Southeast Asian Nations ("**ASEAN**") Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was further increased to 12% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to P4.35 per liter of volume capacity.

On January 1, 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("**TRAIN**") took into effect. The TRAIN amended provisions of the Philippine Tax Code, among others, increasing excise tax rates of petroleum products. Excise tax rates on gasoline products were increased from P4.35 per liter to P7.00 per liter effective January 1, 2018, P9.00 per liter on January 1, 2019 and P10.00 per liter in January 1, 2020. Diesel and bunker fuel products which were previously not subject to excise taxes were imposed excise taxes at P2.50 per liter effective January 1, 2018 and increased further to P4.50 per liter on January 1, 2019 and P6.00 per liter on January 1, 2020.

Also in compliance with the TRAIN, the Philippine government intends to implement a Philippine Fuel Marking Program in 2019 to mark imported and refined petroleum products such as gasoline, diesel and kerosene to ensure that all downstream fuels are tax and duty paid. Under the latest advisory of the Department of Finance, the Fuel Marking fee will be paid by the government to the Fuel Marking Service Provider for the first year of implementation. For the second to fifth year of implementation, said fee shall be borne by petroleum companies on top of duties and taxes to be collected by the Bureau of Customs or the Bureau of Internal Revenue.

Republic Act No. 9136, or the Electric Power Industry Reform Act of 2001, provides for parity tax treatment among imported oil and indigenous fuels. Prior to the enactment of this law, indigenous fuels were imposed with higher taxes due to royalties to the Philippine government.

#### **Malaysia**

#### ***Petroleum Development Act, 1974***

The Petroleum Development Act, 1974 (the "PDA"), which took effect on October 1, 1974, and the Petroleum Regulation 1974, which was enacted pursuant to the PDA (the "Petroleum Regulation"), are the primary legislation governing downstream oil activities in Malaysia. Pursuant to the Petroleum Regulation, two government bodies are vested with powers to regulate all downstream activities, namely:

- a. the Ministry of International Trade and Industry ("MITI"), which is responsible for the issuance of licenses for the processing and refining of petroleum and the manufacture of petrochemical products; and
- b. the Ministry of Domestic Trade, Cooperative and Consumerism ("MDTCC"), which is responsible for regulating the marketing and distribution of petroleum products.

The Company has obtained specific licenses from the MITI for the production of the Company's products. Specific licenses are required pursuant to Section 6 of the PDA for the business of processing or refining petroleum or manufacturing petrochemical products from petroleum at the Port Dickson Refinery. Contravention of the provisions of the PDA or failure to comply with any term or condition of any permission granted thereunder is an offense and is subject to a fine not exceeding RM1 million or imprisonment for a term not exceeding five years or both.

#### ***Petroleum (Safety Measures) Act, 1984***

The storage and handling of crude oil and oil products and the utilization of equipment and/or appliances used in the downstream oil industry in Malaysia are controlled and governed by the Petroleum (Safety Measures) Act, 1984 (the "PSMA") and the regulations made thereunder. The PSMA also regulates the transportation of petroleum by road, railway, water, air and pipeline. A unit of the MDTCC known as The Petroleum Safety Unit was established to administer the PSMA.

#### ***Biofuel Industry Act, 2007***

The Biofuel Industry Act, 2007 (the "MBIA") was enacted on July 18, 2007. The MBIA provides for the mandatory use of biofuel, the licensing of activities relating to biofuel and other matters connected and incidental thereto. The MBIA is designed to regulate the biofuel industry in Malaysia and to promote the mandatory use of Malaysia's domestic palm biodiesel, which is a blend of 5% POME and 95% diesel. The MBIA empowers the Minister of Plantation Industries and Commodities to prescribe (a) the percentage by volume of palm oil and/or methyl ester to be blended in any fuel or (b) the activities in which the use of (i) palm oil and/or methyl ester, (ii) palm oil and/or methyl ester blended with any other fuel or (iii) any other biofuel is to be made mandatory. The MBIA limits the percentage of POME that can be used in a biodiesel mix to a maximum of 5%.

In October 2014, the Malaysian Government announced the implementation of the B7 programme (blending of 7% POME and 93% diesel) for the subsidized sector. Implementation was completed in the second quarter of 2015. The use of B7 Bio-Diesel is expected to be implemented in the 3<sup>rd</sup> quarter of 2019 for use in industrial sector, with an exception being given to power generation companies or other industries where the use of Bio-Diesel would not be possible due to mechanical specifications. In February 2019, the Government implemented the sale of B10 Bio-Diesel (blending of 10% POME and 90% diesel) from the current B7 Bio-Diesel in service stations.

#### ***Sale and Pricing of Refined Petroleum Products***

##### ***Control of Supplies Act, 1961***

The Control of Supplies Act, 1961 (the "CSA") was enacted primarily to regulate, prohibit and control the movement of controlled articles in Malaysia. The CSA also regulates the distribution of any controlled article and limits the quantity of any controlled article that may be acquired or held by any person. Petrol,

motor spirit, or motor gasoline of all grades, diesel fuel and LPG have all been classified as controlled articles under the CSA.

Pursuant to the Control of Supplies Regulations 1974, issued pursuant to the CSA, a license is required for any person to deal, by wholesale or retail, in any scheduled article (including petrol, motor spirit, or motor gasoline of all grades, diesel fuel and LPG) or to manufacture any scheduled article. A separate license is required for each place of business where the scheduled article is manufactured or sold. The Controller of Supplies has the authority to enforce the rules and regulations provided in the CSA and related regulations.

#### *Price Control and Anti Profiteering Act, 2011*

The Price Control and Anti Profiteering Act, 2011 (the "**PCAPA**") replaced the Price Control Act, 1946 and came into force on April 1, 2011. The PCAPA provides for the control of prices of goods, whereby the Malaysian government may, among other things, determine the maximum, minimum or fixed prices for the manufacture, production, wholesale or retail of goods.

The Malaysian government generally mandates fixed prices for (a) sales of formulated unleaded gasoline fuel with an octane index of 95 ("**Mogas 95**"), (b) diesel to retail customers, as well as to the commercial transportation and fisheries sectors, and (c) LPG to retail customers, to ensure that increases in international crude oil prices are not borne fully by consumers of such products in Malaysia. Subject to a quota, the Malaysian government subsidizes sales of these products using a formula known as the APM. A subsidy is payable to the seller pursuant to the APM if the mandated price of the relevant product is less than the total built-up cost (as described below) of such product. Conversely, a balancing figure is payable by the seller if the mandated price of the relevant product exceeds the total built-up cost of such product.

As of June 2015, the total built-up cost is determined by aggregating the cost of the relevant product and certain predetermined government-specified amounts, as follows:

	<b>Mogas 95</b>	<b>Mogas 97</b>	<b>Diesell</b>	<b>Retail LPG</b>
Cost of Product	Based on MOPS	Based on MOPS	Based on MOPS	Based on Saudi CP
Alpha	5 sen/liter	15 sen/liter	4 sen/liter	USD80.00/MT
Freight, Distribution and Marketing Cost	Peninsular Malaysia: 9.54 sen/liter Sabah: 8.98 sen/liter Sarawak: 8.13 sen/liter	Peninsular Malaysia: 9.54 sen/liter Sabah: 9.54 sen/liter Sarawak: 9.54 sen/liter	Peninsular Malaysia: 9.54 sen/liter Sabah: 8.98 sen/liter Sarawak: 8.13 sen/liter	Peninsular Malaysia: 38.95 sen/kg Sabah: 72.10 sen/kg Sarawak: 71.26 sen/kg
Oil company margin	5 sen/liter	5 sen/liter	2.25 sen/liter	11.35 sen/kg
Dealer Margin	12.19 sen/liter	12.19 sen/liter	7 sen/liter	Peninsular Malaysia: 35.00 sen/kg Sabah: 35.00 sen/kg Sarawak: 35.00 sen/kg

The specified amounts for alpha, freight, distribution and marketing cost, oil company margin and dealer margin are fixed by the Malaysian government and subject to change. The Malaysian government last revised the dealer margin in June 2008, while the alpha, freight, distribution and marketing cost, and oil company margin were last revised in June 2015. For retail LPG, the alpha and dealer margin for all states, and the freight, distribution and marketing costs for the states of Sabah and Sarawak, were revised

upwards in June 2015.

Effective March 30, 2017, the Malaysian government implemented a managed float system under which the government fixes the government-mandated retail prices for RON 95 and RON 97 petroleum and diesel on a weekly basis based on MOPS.

The amount of the subsidies or duties varies from month to month for Mogas 95 and diesel. There are no duties on LPG and no limit on the subsidies for retail LPG.

The sale of diesel in Malaysia is subject to a quota system to ensure that subsidized diesel is not sold illegally to industrial customers at unregulated prices. Accordingly, the Company is required to manage its subsidized diesel sales on a monthly basis to ensure that such sales do not exceed the amount permitted under the approved quotas. The Company has a quota to sell diesel at all of its retail service stations in Malaysia. Customers in the selected transportation sectors are required to obtain their own quotas in order to be able to purchase diesel from the Company. The Company has also been licensed to supply distributors that are appointed by the Malaysian government to sell diesel to unbranded mini stations and to collect subsidies in respect of such sales.

The Company's quotas for subsidized diesel sales are provided and regulated by the MDTCC, which reviews the quotas on a quarterly basis. If the Company requires an increase in its approved quota during any quarter as a result of an increase in demand, it may apply to the MDTCC for a quota increase in respect of a specific month during that quarter. If the Company sells more subsidized diesel than is permitted under the approved quotas, it will not be eligible to receive a government subsidy in respect of the sales that exceed the approved quotas.

### **Environmental Laws**

#### *Environmental Quality Act, 1974*

The Environmental Quality Act, 1974 (the "EQA") governs the prevention, abatement and control of pollution and enhancement of the environment in Malaysia and covers, among other things, oil spills and pollutants on land and in Malaysian waters. The EQA, which was introduced by the Malaysian government to promote environmentally sound and sustainable development restricts atmospheric, noise, soil and inland-water pollution without a license, prohibits the discharge of oil and waste into Malaysian waters without a license and prohibits open burning. The Department of Environment (the "MDOE") is the regulatory body responsible for administering the EQA and any regulations and orders made thereunder.

The MDOE will also have responsibility for monitoring the implementation of and compliance with Euro 4M and Euro 5M standards in Malaysia, which are the Malaysian equivalent of Euro IV and Euro V standards. The main change from the current Euro 2M standards to Euro 4M and Euro 5M standards for Mogas and diesel will be the reduction in sulfur content, consistent with Euro IV and Euro V standards. Euro 4M for RON 97 was implemented in September 2015. The implementation of Euro 4M and Euro 5M fuels will be in phases: Euro 4M for RON 95 by January 1, 2020, Euro 5M (sulfur specification only) for Diesel by September 1, 2020, Euro 5M (sulfur specification only) for RON 95 and RON 97 by September 1, 2025, and Euro 5M (of all other parameters) for Diesel, RON 95 and RON 97 by the year 2027.

The Malaysian government has mandated that Diesel, RON 95 and RON 97 sold in Malaysia must comply with Euro 5M specifications by 2027. The Malaysian government, however, has proposed to accelerate the date of implementation, subject to the agreement of all stakeholders, to 2025. This is in line with the move by downstream oil companies in Malaysia, including the Company, that introduced and supplied Euro 5M standards earlier in service stations.

The facilities at the Port Dickson Refinery are being enhanced to comply with Euro 4M standards, and these enhancements are expected to be completed before Euro 4M standards come into force. The current configuration of the facilities will allow the Port Dickson Refinery to produce gasoline compliant with Euro 4M standards. The formulation of Euro 4M specifications was carried out by SIRIM Berhad in

conjunction with other interested parties, including Malaysian oil companies, the Malaysian car manufacturers' association, and regulatory bodies, such as the MDTCC and the MDOE. SIRIM Berhad is a wholly owned company of the Malaysian government incorporated under the Malaysian Ministry of Finance. The Port Dickson Refinery plans to implement Euro 5M standards by the fourth quarter of 2020.

### **Other Laws**

#### *Companies Act, 2016*

The Companies Act of 1965 was repealed and the new Companies Act of 2016 came into effect in January 2017. It governs the incorporation, registration, administration and dissolution of companies and corporations in Malaysia. The agency that oversees such incorporation is the Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia) ("**CCM**").

Under the Companies Act, a corporation's existence does not have an expiration but may be terminated through dissolution by: (i) the winding up of the company, either voluntarily or pursuant to an order of the court; or (ii) the striking out by the Registrar, in the exercise of its discretionary powers, of the name of the company based on any of the grounds provided under the Companies Act.

#### *Malaysian Corporate Governance Code*

The Securities Commission Malaysia released the new Malaysian Code on Corporate Governance ("**MCCG**") on April 26, 2017, which takes effect immediately. The MCCG is a set of best practices to strengthen corporate culture anchored on accountability and transparency. The Company is moving to adopt the principles and recommendations elaborated in the MCCG and as required, report the same in the Company's 2017 Annual Report (to be released in 2018).

### **Other Regulatory Requirements**

The Company has a general duty pursuant to the Occupational Safety and Health Act, 1994 and the regulations made thereunder to (a) provide and maintain plants and systems of work that are, to the extent practicable, safe and without risks to health, (b) provide information, instruction, training and supervision to ensure, to the extent practicable, the safety and health of the Company's employees at work and (c) provide a working environment that is, to the extent practicable, safe, without risk to health and adequate with respect to facilities related to employee welfare at work. The Company also has a duty to ensure, to the extent practicable, that other persons who are not employees of the Company are not affected by, and are not exposed to risks to their safety or health by, the conduct of the Company's business. As the Company employs more than 100 employees in Malaysia, it must employ a safety and health officer, who is tasked with ensuring the due observance of statutory obligations with respect to workplace health and safety and the promotion of safe work conduct at the workplace.

## CORPORATE GOVERNANCE AND MANAGEMENT

On May 8, 2017, the Board of Directors approved the new Corporate Governance Manual of the Company, which was primarily based on the Code of Corporate Governance for Publicly-Listed Companies approved by the SEC pursuant to its Memorandum Circular No. 19 (2016) (the "**Company Corporate Governance Manual**"). The Company Corporate Governance Manual institutionalizes the principles, programs, and procedures of good corporate governance in the entire organization.

The Company Corporate Governance Manual sets forth policies and guidelines with respect to the following, among others:

- Appointment of a Compliance Officer to ensure adherence to corporate principles and best practices;
- Protection and enforcement of the shareholders' right to vote, right to information, right to dividends, appraisal right, pre-emptive right and participation right;
- Composition, qualifications, responsibilities, specific duties and functions of the Board of Directors;
- Establishment of board committees to support the effective performance of the functions of the Board of Directors, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns such as nomination and remuneration;
- Adoption of an annual evaluation system to assess the performance of the Board of Directors, board committees and individual directors; and
- Requirement for all directors to attend a seminar or training program on corporate governance at least once a year or as often as may be legally required.

With the election of four (4) independent directors to the Company's Board of Directors; the election of the members of the Audit, Risk Oversight, Related Party Transaction and Corporate Governance Committees; the conduct of regular board meetings and committee meetings, and the faithful attendance of the directors at such meetings; the proper discharge of duties and responsibilities by the directors; the conduct of a regular training/seminar for corporate governance for directors and key officers; and adherence to national and local laws pertaining to its business operations, including applicable accounting standards and disclosure requirements, the Company is in compliance with its Company Corporate Governance Manual.

Aside from the Company Corporate Governance Manual, several other manuals and policies have been instituted by Management to guide the employees in carrying out their respective functions and duties, address business operations, set contracting and bidding procedures, and promote and further business ethics, office decorum and employee discipline.

In addition to the foregoing, to instill a stable and transparent process of conducting business and to identify accountability at all times, the Company has a system of approvals set out in a resolution that is yearly reviewed and endorsed by the Audit Committee and approved by the Board of Directors (and amended with the approval by the Board of Directors as exigencies arise) whereby only authorized individual(s) can approve a particular business transaction based on an authorized amount.



## BOARD OF DIRECTORS AND MANAGEMENT OF THE COMPANY

### Directors

The Board of Directors of Petron is composed of 15 members, four (4) of whom are independent directors. Currently, only two (2) of the members are executive directors, occupying the positions of the President and Chief Executive Officer and the General Manager of the Company.

Set out below are the name, position and year of appointment of members of the Board of Directors of the Company as of the date of this Prospectus.

Name	Position	Year Appointed as Director
Eduardo M. Cojuangco, Jr.	Chairman of the Board of Directors	2009
Ramon S. Ang	President and Chief Executive Officer and Director	2009
Lubin B. Nepomuceno	General Manager and Director	2013
Ron W. Haddock	Director	2008
Estelito P. Mendoza	Director	2009
Aurora T. Calderon	Director	2010
Mirzan Mahathir	Director	2010
Virgilio S. Jacinto	Director	2010
Nelly F. Villafuerte	Director	2011
Jose P. de Jesus	Director	2014
Horacio C. Ramos	Director	2018
Reynaldo G. David	Lead Independent Director	2009
Artemio V. Panganiban	Independent Director	2010
Margarito B. Teves	Independent Director	2014
Carlos Jericho L. Petilla	Independent Director	2018

Certain information on the business and working experiences of each Director is set out below.

**Eduardo M. Cojuangco, Jr.**, Filipino, born 1935, has served as the Chairman of the Company since February 10, 2015 and a Director since January 8, 2009. He is also the Chairman of the Executive Committee of the Company. Mr. Cojuangco is also the Chairman of ECJ & Sons Agricultural Enterprises Inc., Eduardo Cojuangco Jr. Foundation Inc., Northern Cement Corporation and San Miguel Northern Cement, Inc., and a Director of Caiñaman Farms Inc. He attended the College of Agriculture at the University of the Philippines Los Baños, and the California Polytechnic College in San Luis Obispo, United States of America.

Mr. Cojuangco also holds the following positions in other publicly listed companies: Chairman and Chief Executive Officer of San Miguel Corporation (“**SMC**”) and Ginebra San Miguel, Inc. (“**GSMI**”), and Chairman of San Miguel Food and Beverage, Inc. (“**SMFB**”).

**Ramon S. Ang**, Filipino, born 1954, has served as the Chief Executive Officer and an Executive Director of the Company since January 8, 2009 and the President of the Company since February 10, 2015. He is also a member of the Company’s Executive Committee. In relation to the oil and gas industry, Mr. Ang holds the following positions, among others: Chairman and President of SEA Refinery Corporation (“**SEA Refinery**”), Mariveles Landco Corporation, Petrochemical Asia (HK) Ltd. (“**PAHL**”), and Robinson International Holdings Ltd. (Cayman Islands); Chairman of Petron Marketing Corporation (“**PMC**”), New Ventures Realty Corporation (“**NVRC**”), Petron Freeport Corporation, Petron Fuel International Sdn. Bhd.

(Malaysia) (“**PFISB**”), Petron Malaysia Refining & Marketing Bhd. (Malaysia), Petron Oil (M) Sdn. Bhd. (“**POMSB**”) (Malaysia), and Philippine Polypropylene Inc. (“**PPI**”); Director of Las Lucas Construction and Development Corporation (“**LLCDC**”), Petron Oil & Gas Mauritius Ltd. (“**POGM**”) and Petron Oil & Gas International Sdn Bhd. (“**POGI**”). He also holds the following positions, among others: Chairman and President of SMC Global Power Holdings Corp., San Miguel Holdings Corp., San Miguel Equity Investments Inc., and San Miguel Properties, Inc.; Chairman of San Miguel Brewery Inc. (“**SMB**”), San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond Hotel and Resort, Inc., and Privado Holdings, Corp.; President and Chief Executive Officer of Northern Cement Corporation; and President of Ginebra San Miguel, Inc., and San Miguel Northern Cement, Inc. He is also the sole director and shareholder of Master Year Limited; Mr. Ang formerly held the following positions, among others: Chairman of Liberty Telecoms Holdings, Inc.; President and Chief Operating Officer of PAL Holdings, Inc., and Philippine Airlines, Inc.; Director of Air Philippines Corporation; Chairman of Cyber Bay Corporation; Vice Chairman of MERALCO, and Chairman of Manila North Harbour Port Inc. (“**MNHPI**”) (2015 - 2017) Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five (5) years. He has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

Mr. Ang also holds the following positions in other publicly listed companies: Vice Chairman, President and Chief Operating Officer of SMC; President and Chief Executive Officer of Top Frontier Investment Holdings Inc. (“**Top Frontier**”), and San Miguel Brewery Hong Kong Limited (a company publicly listed in Hong Kong); Chairman of Petron Malaysia Refining & Marketing Berhad (“**PMRMB**”) (a company publicly listed in Malaysia), and Eagle Cement Corporation; and Vice Chairman of SMFB.

**Lubin B. Nepomuceno**, Filipino, born 1951, has served as a Director of the Company since February 19, 2013 and the General Manager of the Company since February 10, 2015. He is also a member of the Company’s Executive Committee. He holds the following positions, among others: President and Chief Executive Officer of PMC; Director and Chief Executive Officer of PMRMB; Director of POGI, PFISB, POMSB, LLCDC, NVRC, PFC, PPI, PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd. and Petron Singapore Trading Pte. Ltd. (“**PSTPL**”); Chairman of Petrogen Insurance Corporation (“**Petrogen**”); Chairman and Chief Executive Officer of Petron Foundation, Inc. (“**PFI**”); Chairman of Overseas Ventures Insurance Corporation Ltd. (“**Ovincor**”); Director of San Miguel Paper Packaging Corporation and Mindanao Corrugated Fibreboard Inc.; President of Archen Technologies, Inc. Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with SMC as a furnace engineer at the Manila Glass Plant in 1973 and rose to the ranks to become the General Manager of the San Miguel Packaging Group in 1998. He was also formerly the Senior Vice President and General Manager of the Company (September 2009 - February 2013) and the President of the Company (February 2013 - February 2015). He also served as a Director of MNHPI (2012 - 2014). Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and master’s degree in Business Administration from the De La Salle University. He also attended the Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan’s Sakura Bank Business Management.

Mr. Nepomuceno does not hold a directorship in any company listed with the PSE other than Petron.

**Ron W. Haddock**, American, born 1940, has served as a Director of the Company since December 2, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of AEI Services, L.L.C.; and member of the board of Alon Energy USA. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman of Safety-Kleen Systems; Chairman and Chief Executive Officer of Prisma Energy International and FINA, and held various management positions in Exxon Mobil Corporation including as Manager of Baytown Refinery, Corporate Planning Manager, Vice President for Refining, and Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc. He holds a degree in Mechanical Engineering from Purdue University.

Mr. Haddock does not hold a directorship in any company listed with the PSE other than Petron.

**Estelito P. Mendoza**, Filipino, born 1930, served as a Director of the Company from 1974 to 1986; thereafter, since January 8, 2009. He is a member of the Corporate Governance Committee and the Audit Committee. He is likewise a member of the Board of Directors of SMC, Philippine National Bank (“PNB”) and Philippine Airlines, Inc. He has now been engaged in the practice of law for more than 60 years, and presently under the firm name Estelito P. Mendoza and Associates. He has been consistently listed for several years as a “Leading Individual in Dispute Resolution” among lawyers in the Philippines in the following directories/journals: “The Asia Legal 500”, “Chambers of Asia” and “Which Lawyer?” yearbooks. He has also been a Professorial Lecturer of law at the University of the Philippines and served as Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga. He was also the Chairman of the Sixth (Legal) Committee, 31<sup>st</sup> Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He holds a Bachelor of Laws degree from the University of the Philippines (cum laude) and Master of Laws degree from Harvard University. He is the recipient on June 28, 2010 of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns and was also awarded by the University of the Philippines Alumni Association its 1975 “Professional Award in Law” and in 2013 its “Lifetime Distinguished Achievement Award”.

Of the companies in which Atty. Mendoza currently holds directorships other than Petron, SMC and PNB are also listed with the PSE.

**Aurora T. Calderon**, Filipino, born 1954, has served as a Director of the Company since August 13, 2010. She is a member of the Audit Committee, the Risk Oversight Committee and the Related Party Transaction Committee. She holds the following positions, among others: Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of SMC; Director of SMC, PMRMB, POGM, POGI, PMC, PFC, PSTPL, SEA Refinery, NVRC, LLCDC, Thai San Miguel Liquor Co., Ltd., SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp., Vega Telecom, Inc., Bell Telecommunications Company, Inc., A.G.N. Philippines, Inc. and various subsidiaries of SMC; and Director and Treasurer of Petron-affiliate Top Frontier. She has served as a Director of MERALCO (January 2009 - May 2009), Senior Vice President of Guoco Holdings (1994 - 1998), Chief Financial Officer and Assistant to the President of PICOP Resources (1990-1998) and Assistant to the President and Strategic Planning at the Elizalde Group (1981 - 1989). A certified public accountant, Ms. Calderon graduated magna cum laude from the University of the East in 1973 with a degree in Business Administration major in Accounting and earned her master's degree in Business Administration from the Ateneo de Manila University in 1980. She is a member of the Financial Executives and the Philippine Institute of Certified Public Accountants.

Of the companies in which Ms. Calderon currently holds directorships other than Petron, SMC and Petron-affiliate Top Frontier are also listed with the PSE.

**Mirzan Mahathir**, Malaysian, born 1958, has served as a Director of the Company since August 13, 2010. He is the Chairman and Chief Executive Officer of Crescent Capital Sdn. Bhd., an investment holding and independent strategic and financial advisory firm based in Malaysia. He currently manages his investments in Malaysia and overseas while facilitating business collaboration in the region. He holds directorships in several public and private companies in South East Asia. He is the Chairman of several charitable foundations, a member of the Wharton School Executive Board for Asia and the Business Advisory Council of United Nations ESCAP, and President of the Lawn Tennis Association of Malaysia. He was formerly the Executive Chairman and President of Konsortium Logistik Berhad (1992 - 2007), Executive Chairman of Sabit Sdn. Bhd. (1990 - 1992), Associate of Salomon Brothers in New York, USA (1986 - 1990) and Systems Engineer at IBM World Trade Corporation (1982 - 1985). Mirzan graduated with a Bachelor of Science (Honours) degree in Computer Science from Brighton Polytechnic, United Kingdom and obtained his master's degree in Business Administration from the Wharton School, University of Pennsylvania, USA.

Mr. Mirzan does not hold a directorship in any company listed with the PSE other than Petron.

**Virgilio S. Jacinto**, Filipino, born 1956, has served as a Director of the Company since August 13, 2010. He is a member of the Corporate Governance Committee of the Company. He is also an alternate member of the Executive Committee. He holds the following positions, among others: Corporate Secretary, Compliance Officer, Senior Vice President and General Counsel of SMC; Corporate Secretary and Compliance Officer of Top Frontier; Corporate Secretary of GSMI and the other subsidiaries and affiliates of SMC; and Director of various other local and offshore subsidiaries of SMC. Mr. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank, a Director of SMB, and San Miguel Northern Cement, Inc., a Partner of the Villareal Law Offices (June 1985 - May 1993) and an Associate of Sycip, Salazar, Feliciano & Hernandez Law Office (1981 - 1985). Atty. Jacinto is an Associate Professor of Law at the University of the Philippines. He obtained his law degree from the University of the Philippines (cum laude) where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard University.

Atty. Jacinto does not hold a directorship in any company listed with the PSE other than Petron.

**Nelly F. Villafuerte**, Filipino, born 1937, has served as a Director of the Company since December 1, 2011. She is also a columnist for the Manila Bulletin and was a former Member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2005 until July 2011. She is the President and General Manager of LRV Agri-Science Farm, Inc. (a family-owned corporation). She is an author of business handbooks on microfinance, credit card transactions, exporting and cyberspace and a four (4)-volume series on the laws on banking and financial intermediaries (Philippines). Atty. Villafuerte has served as Governor of the Board of Investments (1998 - 2005), Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the Department of Trade and Industry ("DTI") (July 1998 - May 2000), Undersecretary for the Regional Operations Group of the DTI (May 2000 - 2005) and Director of Top Frontier (2013 - February 2019). She holds a master's degree in Business Management from the Asian Institute of Management ("AIM") and was a professor of international law/trade/marketing at the graduate schools of AIM, Ateneo Graduate School of Business and De La Salle Graduate School of Business and Economics. Atty. Villafuerte obtained her Associate in Arts and law degrees from the University of the Philippines and ranked within the top 10 in the bar examinations.

Atty. Villafuerte does not hold a directorship in any company listed with the PSE other than Petron.

**Jose P. de Jesus**, Filipino, born 1934, has served as a Director of the Company since May 20, 2014. He is also the Chairman of Clark Development Corporation, Converge ICT Solutions, Inc. and Metworks ICT Construction, Inc. (May 2014 - present). He was the President and Chief Executive Officer of Nationwide Development Corporation (September 2011 - December 2015), the Secretary of the Department of Transportation and Communications (July 2010 - June 2011), the President and Chief Operating Officer of MERALCO (February 2009 - June 2010), the President and Chief Executive Officer of Manila North Tollways Corporation (January 2000 - December 2008), Executive Vice President of the Philippine Long Distance Telephone Company (1993 - December 1999), Chairman of the Manila Waterworks & Sewerage System (1992 - 1993) and the Secretary of the Department of Public Works and Highways (January 1990 - February 1993). He was awarded the Philippine Legion of Honor, Rank of Commander in June 1992 by then President Corazon C. Aquino. He was Lux in Domino Awardee (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also a Director of Citra Metro Manila Tollways Corporation, Private Infra Development Corporation and South Luzon Tollway Corporation. He is a Trustee of Bantayog ng mga Bayani Foundation, Kapampangan Development Foundation and Holy Angel University. Mr. de Jesus earned his Bachelor of Arts degree in Economics and holds a Master of Arts in Social Psychology from the Ateneo de Manila University. He also finished Graduate Studies in Human Development from the University of Chicago.

Mr. de Jesus does not hold a directorship in any company listed with the PSE other than Petron.

**Horacio C. Ramos**, Filipino, born 1945, has served as a Director of the Company since May 2018. He is also the President of Clariden Holdings, Inc. (2012 - present). He was previously a Director of SMC (2014 to 2016), the Secretary of the Department of Environment and Natural Resources (February 12 - June 30, 2010), and the Director of Mines and Geosciences Bureau (June 1996 - February 2010). Mr. Ramos has

a Bachelor of Science degree in Mining Engineering from the Mapua Institute of Technology obtained in 1967, and has a Graduate Diploma in Mining and Mineral Engineering from the University of New South Wales, Australia in 1976, and a Master of Engineering in Mining Engineering also from the University of New South Wales, Australia in 1978.

Mr. Ramos does not hold a directorship in any company listed with the PSE other than Petron.

**Reynaldo G. David**, Filipino, born 1942, has served as an Independent Director of the Company since May 12, 2009. He is the Chairman of the Audit Committee and likewise a member of the Risk Oversight Committee, the Corporate Governance Committee and the Related Party Transaction Committee. He is also an Independent Director and a member of the Audit Committee, Nomination and Compensation Committee of SMC. He has previously held, among others, the following positions: Philippine Special Trade Representative with the rank of Special Envoy, President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. Other past positions include: Independent Director of ISM and Atok Big Wedge Corporation ("**Atok**"), Chairman of LGU Guarantee Corporation, Vice Chairman, Chief Executive Officer and Executive Committee Chairman of Export and Industry Bank (September 1997 - September 2004), Director and Chief Executive Officer of Unicorp Finance Limited and Consultant of PT United City Bank (concurrently held from 1993 - 1997), Director of Megalink Inc., Vice President and FX Manager of the Bank of Hawaii (April 1984 - August 1986), various directorships and/or executive positions with The Pratt Group (September 1986 - December 1992), President and Chief Operating Officer of Producers Bank of the Philippines (October 1982 - November 1983), President and Chief Operation Officer of International Corporation Bank (March 1979 - September 1982), and Vice President and Treasurer of Citibank N. A. (November 1964 - February 1979). He was conferred with the Presidential Medal of Merit in 2010. A Ten Outstanding Young Men awardee for Offshore Banking in 1977, he was also awarded by the Association of Development Financing Institutions in Asia & the Pacific as the Outstanding Chief Executive Officer in 2007. A certified public accountant since 1964, he graduated from the De La Salle University with a combined Bachelor of Arts and Bachelor of Science in Commerce degrees in 1963 and attended the Advanced Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, honoris causa, by the Palawan State University in 2005 and the title Doctor of Humanities, honoris causa, by the West Visayas State University in 2009.

Other than Petron and SMC, Mr. David does not hold a directorship in any other company listed with the PSE.

**Artemio V. Panganiban**, Filipino, born 1936, has served as an Independent Director of the Company since October 21, 2010. He is the Chairman of the Risk Oversight Committee and a member of the Audit and Corporate Governance Committees. He is a columnist for the Philippine Daily Inquirer and officer, adviser or consultant to several businesses, civic, educational and religious organizations. He is also an adviser of Metropolitan Bank and Trust Company and Bank of the Philippine Islands. He was formerly the Chief Justice of the Supreme Court of the Philippines (2005 - 2006); Associate Justice of the Supreme Court (1995 - 2005); Chairperson of the Philippine House of Representatives Electoral Tribunal (2004 - 2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963-1995); President of Baron Travel Corporation (1967 - 1993); and professor at the Far Eastern University, Assumption College and San Sebastian College (1961 - 1970). He is an author of over 10 books and has received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21<sup>st</sup> Century" conferred by the Supreme Court in 2006 and the "Outstanding Manilan" for 1991 by the City of Manila. Chief Justice Panganiban earned his Bachelor of Laws degree (cum laude) from the Far Eastern University in 1960, placed sixth in the bar exam that same year, and holds honorary doctoral degrees in law from several universities.

Apart from Petron, he is an Independent Director of the following listed companies: MERALCO, First Philippine Holdings Corp., Philippine Long Distance Telephone Co., Metro Pacific Investment Corp., Robinsons Land Corp., GMA Network, Inc., GMA Holdings, Inc., Asian Terminals, Inc. and a non-executive Director of Jollibee Foods Corporation.

**Margarito B. Teves**, Filipino, born 1943, has served as an Independent Director of the Company since May 20, 2014. He is the Chairman of the Corporate Governance and the Related Party Transaction Committees and a member of the Audit Committee of the Company. He is also an Independent Director of SMC and Atok, as well as Alphaland Corporation, Alphaland Balesin Island Club, Inc., AB Capital Investment Corp. and Atlantic Atrium Investments Philippines Corporation. He is also the Managing Director of The Wallace Business Forum and Chairman of Think Tank Inc. He was the Secretary of the Department of Finance of the Philippine government (2005 - 2010), and was previously the President and Chief Executive Officer of the Land Bank of the Philippines (2000 - 2005), among others. He was awarded as "2009 Finance Minister of Year/Asia" by the London-based The Banker Magazine. He holds a Master of Arts degree in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Of the companies in which Mr. Teves currently holds directorships other than Petron, SMC and Atok are also listed with the PSE.

**Carlos Jericho L. Petilla**, Filipino, born 1963, has served as an Independent Director of the Company since May 15, 2018. He is the founder in 2001, and President and Chief Executive Officer of International Data Conversion Solutions, Inc. (2015 - present; 2001 - 2004); President and Chief Executive Officer of Freight Process Outsourcing, Inc. (2015 - present), and a co-founder in 1989 and a Director of DDC Group of Companies (2015 - present; 1989 - 2004). He was previously the Secretary of the Department of Energy (2012 - 2015). Provincial Governor of the Province of Leyte (2004 - 2012) and Independent Director of MRC Allied, Inc. (2017 - 2018). Mr. Petilla has a Bachelor of Science degree in Management Engineering from the Ateneo De Manila University.

Mr. Petilla does not hold a directorship in any company listed with the PSE other than Petron.

### Senior Management

Set out below are the name, position and year of appointment of the Executive Officers and senior management of the Company as of the date of this Prospectus:

Name	Position	Year Appointed as Officer
Ramon S. Ang	President and Chief Executive Officer	2015
Lubin B. Nepomuceno	General Manager	2015
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer	2009
Freddie P. Yumang	Senior Vice President, Operations for Refinery Division	2009
Susan Y. Yu	Vice President, Procurement	2009
Albert S. Sarte	Vice President and Treasurer	2009
Maria Rowena O. Cortez	Vice President, Supply	2009
Archie B. Gupalor	Vice President, Retail Sales	2018
Joel Angelo C. Cruz	Vice President, General Counsel & Corporate Secretary/Compliance Officer	2010
Julieta L. Ventigan	Vice President, Business Planning and Development	2015
Rolando B. Salonga	Vice President, Operations and Corporate Technical Services Group	2017
Fernando S. Magnayon	Vice President, Commercial Sales	2018
Maria Rosario D. Vergel de Dios	Vice President, Human Resources Management	2018
Dennis S. Janson	Assistant Vice President and Controller	2015

Certain information on the business and working experiences of each of the Executive Officers of the Company who are not directors is set out below:

**Emmanuel E. Eraña**, Filipino, born 1960, has served as the Senior Vice President and Chief Finance Officer of the Company since January 2009. He holds the following positions, among others: President and Chief Executive Officer of Petrogen, LLCDC and NVRC; President of PFI; Deputy Chairman of Ovincor; and Director of PFC, POGM, PFISB, and POMS. Mr. Eraña held the following positions in the San Miguel Group: as the Vice President and Chief Information Officer (January 2008 - December 2009), Vice President and Executive Assistant to the Chief Financial Officer, Corporate Service Unit (December 2006 - January 2008), Vice President and Chief Finance Officer of SMFBIL/NFL Australia (May 2005 - November 2006), Vice President and Chief Finance Officer of SMPFC (July 2002 - May 2005), and Assistant Vice President and Finance Officer (January 2001 - June 2002), Assistant Vice President and Finance and Management Services Officer, San Miguel Food Group (2000 - 2001). He also served as a Director of MNHPI (2012 - 2017). Mr. Eraña has a Bachelor of Science degree in Accounting from the Colegio de San Juan de Letran.

**Freddie P. Yumang**, Filipino, born in 1958, has served as the Senior Vice President for Refinery Operations of the Company effective February 2018. He is also a Director of PPI, Mariveles Landco Corporation, Robinson International Holdings Ltd. and PAHL. He is the lead of the Company's RMP-2 project and has held various positions in the Company, including Vice President, Operations Manager and Technical Services Manager, and different supervisory and managerial positions at the Limay Refinery. Mr. Yumang is currently a Director of the National Association of Mapua Alumni and was formerly National Director of the Philippine Society for Mechanical Engineers (2006 - 2007). He is a Mechanical Engineering graduate of the Mapua Institute of Technology and earned units for a master's degree in Business Administration from the De La Salle University. He also attended the Basic Management and Management Development Programs of the AIM in 1992 and 2002, respectively, in which he received separate awards for superior performance.

**Susan Y. Yu**, Filipino, born 1976, has served as the Vice President for Procurement of the Company since January 2009. She is also a Director of Ovincor and Petron Singapore Trading Pte. Ltd. ("PSTPL"). Ms. Yu has served as a Trustee of PFI, the Treasurer of Petrogen, Assistant Vice President and Senior Corporate Procurement Manager of SMB, Assistant Vice President and Senior Corporate Procurement Manager of SMC Corporate Procurement Unit (July 2003 - February 2008), and Fuel Purchasing and Price Risk Management Manager of Philippine Airlines (May 1997 - June 2003). She holds a commerce degree in Business Management from the De La Salle University and a master's degree in Business Administration from the Ateneo de Manila University, for which she was awarded a gold medal for academic excellence.

**Albert S. Sarte**, Filipino, born 1967, has served as the Vice President and Treasurer of the Company since August 2009. He is also the Treasurer of most of the Company's subsidiaries. Mr. Sarte served as Assistant Vice President for SMC International Treasury until June 2009. He graduated from the Ateneo de Manila University in 1987 with a Bachelor of Science degree in Business Management and has attended the Management Development Program of the AIM in 1995.

**Maria Rowena O. Cortez**, Filipino, born 1964, has served as the Vice President for Supply of the Company since September 2013, and concurrently the Director for PSTPL since June 2013. She is also a Director of PAHL, Robinson International Holdings Ltd., and Mariveles Landco Corporation. The various positions she has held in the Company include Vice President for Supply & Operations (July 2010 - November 2013), Vice President for Supply (June 2009-June 2010) and various managerial and supervisory positions in the Marketing/Sales and Supply and Operations Divisions of Petron. Ms. Cortez also held various positions at the Phil. National Oil Company-Energy Research and Development Center from 1986 to 1993. She holds a Bachelor of Science degree in Industrial Engineering and a master's degree in Business Administration both from the University of the Philippines, Diliman. She also took post graduate courses at the AIM and the University of Oxford in Oxfordshire, UK. She has attended local and foreign trainings and seminars on leadership, market research, supply chain, commodity risk management, petroleum, petrochemicals and energy trading.

**Archie B. Gupalor**, Filipino, born 1968, has served as the Vice President for Retail Sales of the Company since June 2018. He holds the following positions, among others: President and Chief Executive Officer of PFC and Director of PMC, NVRC and LLCDC. He was previously the Vice President for National Sales. Mr. Gupalor served the following positions in the San Miguel Group: He has been with the San Miguel Group since 1991. Prior to his appointment in the Company, he held the position of Vice President and General Manager of San Miguel Integrated Sales of San Miguel Foods, Inc. He earned his Bachelor of Science degree in Industrial Psychology at the University of San Carlos and attended several programs here and abroad, including the Executive Management Development Program of the Harvard Business Publishing.

**Joel Angelo C. Cruz**, Filipino, born 1961, has served as the Vice President of the Office of the General Counsel of the Company since March 2013 and the Corporate Secretary and Compliance Officer of the Company since April 2010. He holds the following positions, among others: Corporate Secretary and Compliance Officer of Petrogen, Corporate Secretary of LLCDC, NVRC, PMC, and PFC; and Corporate Secretary of Petron Global Limited. Atty. Cruz was formerly the Assistant Vice President of the Office of the General Counsel, Assistant Corporate Secretary and Legal Counsel of the Company, and Assistant Corporate Secretary of all the Company's subsidiaries. He also served as Assistant Corporate Secretary of MNHPI (2012 - 2017). He is a member of the Integrated Bar of the Philippines. Atty. Cruz holds a Bachelor of Arts degree in Economics from the University of the Philippines and a Bachelor of Laws degree from San Beda College. He attended the Basic Management Program of the AIM in 1997 as well as numerous local and foreign training and seminars.

**Julieta L. Ventigan**, Filipino, born 1959, has served as the Vice President for Business Planning and Development of the Company since September 2015. She previously held the position of Assistant Vice President for Business Planning and Development from October 2010 until August 2015. The various positions she has held in the Company include Head of Business Planning and Development (August 2010 - September 2010), Manager for Corporate Planning/Business Planning and Analysis (January 2010 - July 2010) and Manager for Corporate Planning/Strategic Planning (April 2003 - December 2009). She has a Bachelor of Science degree major in Agricultural Economics from the University of the Philippines in Los Baños and a master's degree in Business Administration from the Ateneo Graduate of School of Business.

**Rolando B. Salonga**, Filipino, born 1961, has served as Vice President for Operations and Corporate Technical Services Group since May 1, 2017. Previous positions he held include Vice President for Terminal Operations (November 16, 2016-April 30, 2017), Assistant Vice President for Operations (September 2015 - November 2016), Officer-in-Charge-Operations (March 2015 - August 2015), Supply and Distribution Head of Petron Malaysia (April 2012 - February 2015), Functional Team Lead-Distribution, Project Rajah (Malaysian Acquisition) (October 2011 - March 2012), Manager-Visayas Operations (July 2009 - October 2011), Manager-Distribution (May 2005 - May 2009), Superintendent-Mandaue Terminal (April 2001 - May 2005), Superintendent-Pandacan Manufacturing (April 1994 - April 2001), Superintendent-Pandacan Lubeoil Warehouse (November 1994 - March 1995) and Superintendent-Pandacan Transportation/Distribution (April 1993 - October 1994). Mr. Salonga has a Bachelor of Science degree in Mechanical Engineering from the Mapua Institute of Technology.

**Fernando S. Magnayon**, Filipino, born 1959, has served as the Vice President for Commercial Sales since November 16, 2018. Other positions he held include Assistant Vice President for Industrial Trade (September 2016 - November 15, 2018), Assistant Vice President for LPG, Lubes and Greases (July 2014 - August 2016), Visayas-Mindanao Regional Sales Manager for Reseller Trade (July 2013 - June 2014), Luzon Regional Sales Manager for Reseller Trade (July 2012 - June 2013), Luzon Provincial Area Manager for Industrial Trade (July 2010 - June 2012), North Luzon Area Manager for Industrial Trade (July 2009 - June 2010), Market Development Manager for Industrial Trade (September 2006 - June 2009), Industrial Brand Coordinator for Lube Trade (September 2002 - August 2006), Area Sales Executive for Lube Trade (September 2001 - August 2002), Field Technical Services Engineer for Technical Department (September 1992 - August 2001), and Research Engineer for PNOC-Energy Research and Development Center (August 1982 - August 1992). He has a Bachelor of Science degree



in Mechanical Engineering from Adamson University.

**Maria Rosario D. Vergel de Dios**, Filipino, born 1963, has served as Vice President for Human Resources Management of the Company since November 16, 2018. Other positions she has held include Assistant Vice President for Human Resources (July 2012 - November 15, 2018), Head for Human Resources (October 2011 - June 2012), Human Resources Planning and Services Manager (October 2008 - September 2011), Payroll and Benefits Officer (January 2002 - September 2008), Payroll Officer (February 1997 to - December 2001), Assistant for Treasury/ Funds Management (May 1994 to - January 1997), Assistant for Treasury/ Foreign Operations (September 1991 - April 1994) and Secretary for the Office of the President (April 1991 - August 1991). She has a Bachelor of Science degree in Economics from the University of the Philippines and a master's degree in Business Management from the Ateneo de Manila University.

**Dennis S. Janson**, Filipino, born in 1959, has served as the Assistant Vice President for Controllers and the Controller of the Company since September 2015. He is a Director of PSTPL and the Controller of various subsidiaries of Petron. Other positions he held include Assistant Controller of the Company (August 2014-August 2015), Manager for Financial Analysis and Compliance Controller (March 2013-July 2014; January 2010-September 2011), Finance Head and Chief Finance Officer of Petron Malaysia (October 2011-February 2013), and Manager for Financial Analysis Planning and Risk Management (November 2008-December 2009). He is a certified public accountant with a Bachelor of Science degree in Accountancy from the University of San Carlos in Cebu.

### Share Ownership

The following table sets forth the share ownership of the Company's Directors and Executive Officers as of February 28, 2019:

#### Directors

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Directors</b>					
Common	Eduardo M. Cojuangco, Jr.	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Ramon S. Ang	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Estelito P. Mendoza	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Lubin B. Nepomuceno	Filipino	5,000	D	0.00%
Series 2A Preferred			2,500	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Jose P. De Jesus	Filipino	500 / 225,000	D / I	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Mirzan Mahathir	Malaysian	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Ron W. Haddock	American	1	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Horacio C. Ramos	Filipino	500	D	0.00%

Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Aurora T. Calderon	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Virgilio S. Jacinto	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Nelly Favis-Villafuerte	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Reynaldo G. David	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Artemio V. Panganiban	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Margarito B. Teves	Filipino	500	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Carlos Jericho L. Petilla	Filipino	500	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.

#### Officers

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Executive Officers</b>					
Common	Emmanuel E. Eraña	Filipino	-	-	0.00%
Series 2A Preferred			2,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Susan Y. Yu	Filipino	591,600	I	0.00%
Series 2A Preferred			10,500	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Albertito S. Sarte	Filipino	765,500	I	0.00%
Series 2A Preferred			5,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Rowena O. Cortez	Filipino	8,580	D	0.00%
Series 2A Preferred			600	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Freddie P. Yumang	Filipino	73,600	I	0.00%
Series 2A Preferred			3,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Archie B. Gupalor	Filipino	3,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Joel Angelo C. Cruz	Filipino	-	-	N.A.
Series 2A Preferred			400	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Rolando B. Salonga	Filipino	845	D	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Dennis S. Janson	Filipino	163 / 15,000	D / I	N.A.

Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Julieta L. Ventigan	Filipino	2,100	D	N.A.
Series 2A Preferred			1,000	I	N.A.
Series 2B Preferred			-	-	N.A.
<b>Directors and Executive Officers as a Group</b>			Common	<b>1,701,389</b>	
	Series 2A Preferred	<b>25,000</b>		<b>0.55%</b>	
	Series 2B Preferred	<b>0</b>		<b>0.00%</b>	

### Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors and/or executive officers of the Company.

### Committees of The Board

Pursuant to the Company's new Manual on Corporate Governance adopted on May 8, 2017, the Board created each of the following committees and appointed Board members thereto.

#### Audit Committee

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.

As of the date of this Prospectus, the chairman of the Audit Committee is Reynaldo G. David and its members are Margarito B. Teves, Artemio V. Panganiban, Estelito P. Mendoza and Aurora T. Calderon. Ferdinand K. Constantino, a former Director, serves as an advisor to the Audit Committee.

#### Executive Committee

The Executive Committee has been delegated the authority to exercise certain powers of the Board of Directors in the management of the business and affairs of the Company while the Board is not in session. As of the date of this Prospectus, the chairman of the Executive Committee is Eduardo M. Cojuangco, Jr. and its members are Ramon S. Ang, and Lubin B. Nepomuceno. Aurora T. Calderon and Virgilio S. Jacinto act as alternate members of the Executive Committee.

#### Corporate Governance Committee

The Corporate Governance Committee is tasked to assist the board of directors in the performance of its corporate governance, nomination and remuneration responsibilities and ensure compliance with and proper observance of corporate governance principles and practices. As of the date of this Prospectus, the chairman of the Corporate Governance Committee is Margarito B. Teves and its members are Reynaldo G. David, Artemio V. Panganiban, Virgilio S. Jacinto and Estelito P. Mendoza.

#### Risk Oversight Committee

The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Company to ensure its functionality and effectiveness. As of the date of this Prospectus, the chairman of the Risk Oversight Committee is Artemio V. Panganiban and its members are Reynaldo G. David and Aurora T. Calderon.

### Related Party Transaction Committee

The Related Party Transaction Committee is tasked with reviewing all material related party transactions of the Company. As of the date of this Prospectus, the chairman of the Related Party Transaction Committee is Carlos Jericho L. Petilla and its members are Reynaldo G. David and Aurora T. Calderon.

### Compensation

The aggregate compensation paid or estimated to be paid to the executive officers and directors of the Company during the periods indicated below is as follows (including the estimate for 2019; in millions of pesos):

Name & Principal Position		Year	Salary (₱ millions)	Bonus (₱ millions)
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	President & Chief Executive Officer General Manager Senior Vice President & Chief Finance Officer Senior Vice President - Refinery Vice President – Retail Sales	2019 (est.)	111.67	27.92
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	President & Chief Executive Officer General Manager Senior Vice President & Chief Finance Officer Senior Vice President - Refinery Vice President – Retail Sales	2018	105.42	66.04
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	President & Chief Executive Officer General Manager Senior Vice President & Chief Finance Officer Senior Vice President - Refinery Vice President – Retail Sales	2017	96.32	60.09
All other officers and directors of the Company (unnamed)		2019 (est.)	91.35	19.28
		2018	86.59	46.75
		2017	58.72	50.27

### Standard Arrangements

The Company's Executive Officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of 12 months base pay. They also receive whatever gratuity pay the Board of Directors extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors who are not Executive Officers are elected for a term of one year. They likewise receive remuneration for 12 months in Director's fees and gas allowance, in addition to compensation on a per meeting participation.

### Other Arrangements

There are no other arrangements for which the Directors are compensated by the Company for services

other than those provided as a Director.

**Employment Contract**

In lieu of an employment contract, the Directors are elected at the annual meeting of stockholders for a one-year term until their successors shall have been duly elected and qualified pursuant to the Company's By-Laws. Any Director elected in the interim will serve for the remaining term until the next annual meeting.

**Warrants or Options**

There are no warrants or options held by Directors or Executive Officers.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

*The Company engages from time to time in a variety of transactions with related parties. The Company's policy with respect to related party transactions is to ensure that these transactions are entered into under terms comparable to those available from unrelated third parties. For more information regarding the Company's transactions with related parties, see note 28 to the Company's audited consolidated financial statements as of and for the period ended December 31, 2018 included elsewhere in this Prospectus.*

### **Petron Corporation Employees' Retirement Plan**

In July 2010, PCERP acquired from SEA BV 24.28% of the common shares in the Company. PCERP to date holds common shares comprising 4.90% of the outstanding common stock of the Company.

A significant portion of the ₱20.8 billion advance from the Company to PCERP was used to fund the purchase. The advance bears interest at market rates.

The proceeds of the sales of the Company's common shares by PCERP were used partially to repay advances made by the Company in 2010.

### **San Miguel Corporation**

SMC is a major stockholder of the Company. See "Principal Shareholders." The Company has supply agreements with various SMC subsidiaries, under which the Company supplies the bunker fuel oil, diesel fuel and lubricant requirements of selected SMC plants and subsidiaries. Generally, the pricing formulae under these agreements are based on MOPS. Aggregate revenue with related parties amounted to approximately ₱6.90 billion, ₱3.61 billion and ₱6.75 billion for the years ended December 31, 2016, 2017 and 2018, respectively. The Company also currently leases office space from an SMC subsidiary pursuant to a lease agreement that was entered into on an arm's length basis.

### **New Ventures Realty Corporation**

NVRC is a subsidiary of the Company 85.55%-owned by the Company and 14.45%-owned by PCERP. The Company leases from NVRC certain parcels of land where the Limay Refinery and its service station sites, terminals and bulk plants are located. NVRC is the holder of the lease over the site of the Limay Refinery of which PNOG is the lessor. Lease expenses in connection with the NVRC leases in 2016, 2017, and 2018 amounted to approximately ₱409.80 million, ₱415.12 million and ₱489.12 million, respectively.

**MARKET PRICE OF AND DIVIDENDS ON THE ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

As of December 31, 2018, the Company had 9,375,104,497 common shares and 10,000,000 preferred shares issued and outstanding. The table below sets forth the Company's top 20 holders of common shares as of December 31, 2018:

	<b>Stockholder Name</b>	<b>No. of shares</b>	<b>% to Total</b>
1	SEA Refinery Corporation	4,696,885,564	50.100%
2	PCD Nominee Corp. (Filipino)	1,746,216,697	18.626%
3	San Miguel Corporation	1,702,870,560	18.164%
4	PCD Nominee Corp. (Non-Filipino)	401,108,203	4.278%
5	Petron Corporation Employees Retirement Plan	378,818,699	4.040%
6	F. Yap Securities, Inc.	12,704,918	0.136%
7	Ernesto Chua Chiaco &/or Margaret Sy Chua Chiaco	6,000,000	0.064%
8	Sysmart Corp.	4,000,000	0.043%
9	Margaret S. Chuachiaco	3,900,000	0.042%
10	Raul Tomas Concepcion	3,504,000	0.037%
11	Genevieve S. Chuachiaco	2,735,000	0.029%
12	Ernesson S. Chuachiaco	2,732,000	0.029%
13	Q-Tech Alliance Holdings, Inc.	2,648,500	0.028%
14	Genevieve S. Chua Chiaco	2,490,000	0.266%
15	Benedict Chua Chiaco	2,365,000	0.025%
16	Anthony Chua Chiaco	2,008,000	0.021%
17	Sharad Rahmani Fard	2,000,000	0.021%
18	Kristine Chua Chiaco	1,956,000	0.021%
19	Ching Hai Go &/or Martina Go	1,500,000	0.016%
20	Ernesson S. Chua Chiaco	1,450,000	0.015%

As at December 31, 2018, the Issuer had 145,884 shareholders of its common shares. The foreign ownership level of total outstanding voting shares in the Issuer was 4.34%.

The table below sets forth the Company's top 20 holders of the preferred shares as of December 31, 2018:

Series 2A Preferred Shares

	<b>Stockholder Name</b>	<b>No. of shares</b>	<b>% to Total</b>
1	PCD Nominee Corporation (Filipino)	6,328,025	88.848%
2	San Miguel Corporation Retirement Plan-FIP	400,000	5.616%
3	San Miguel Brewery Inc. Retirement Plan	200,000	2.808%
4	San Miguel Corporation Retirement Plan-STP	60,000	0.842%
5	San Miguel Foods Inc. Retirement Plan	50,000	0.702%
6	San Miguel Yamamura Packaging Corp. Retirement Plan	40,470	0.568%
7	PCD Nominee Corporation (Non-Filipino)	32,555	0.457%
8	Knights of Columbus Fraternal Association of the Phils., Inc.	3,200	0.045%
9	BCS Realty Holdings & Development Corporation	1,000	0.014%
10	Zenaida M. Postrado or Renato Postrado	1,000	0.014%
11	Sylvia Lopez Alejandro	1,000	0.014%
12	Samuel L. Santos or Ma. Paulina Isabel P. Santos	750	0.011%
13	Irma T. San Juan	500	0.007%
14	Sta. Maria Della Strada Parish Garden Sanctuary	420	0.006%
15	Rafael C. Bueno, Jr.	300	0.004%
16	Alfrito D. Mah or Agueda G. Mah	300	0.004%
17	Agnes L. Baniqued	300	0.004%
18	Evelyn A. Gesmundo or Dominador A. Gesmundo	300	0.004%
19	Arnel Jose S. Banas or Rufina S. Elcano or Meliza B. Zulueta	150	0.002%
20	Ma. Teresa L. Yusingco	150	0.002%

Series 2B Preferred Shares

	<b>Stockholder Name</b>	<b>No. of shares</b>	<b>% to Total</b>
1	PCD Nominee Corporation (Filipino)	2,753,385	95.681%
2	Knights of Columbus Fraternal Association of The Phils., Inc.	45,440	1.579%



3	PCD Nominee Corporation (Non-Filipino)	22,840	0.794%
4	Marcelino R. Teodoro	12,500	0.434%
5	First Life Financial Co., Inc.	7,000	0.243%
6	Ben Tiuk Sy or Judy Y. Sy	6,400	0.222%
7	Reynaldo Garcia Alejandro &/or Sylvia L. Alejandro	5,000	0.174%
8	Alexander T. Solis &/or Gina T. Sinfueco	5,000	0.174%
9	Francisco S. Alejo &/or Cynthia Alejo &/or Anna Melissa A. Acop	3,000	0.104%
10	Antonio T. Chua	2,500	0.087%
11	R.M. Tiongco Holdings, Inc.	2,100	0.073%
12	Enrique Dela Llana Yusingco	2,000	0.073%
13	Justinano B. Panambo, Jr.	1,920	0.067%
14	Felix B. Chavez &/or Aida T. Chavez or Irene T. Chavez	1,500	0.052%
15	Dewey T. Tan	1,000	0.035%
16	Romeo V. Jacinto	1,000	0.035%
17	Zenaida M. Postrado or Renato Postrado	1,000	0.035%
18	Evelyn A. Gesmundo or Dominador A. Gesmundo	720	0.025%
19	Ronne T. Sy Su or Chadwick C. Sy Su	700	0.024%
20	Roberto D. De Leon	650	0.023%

As at December 31, 2018, the Issuer had 77 shareholders of its Outstanding Preferred Shares. The foreign ownership level of total Outstanding Preferred Shares of the Issuer was [0.57] %.

#### **Dividends and Dividend Policy**

Shareholders shall have the right to receive dividends, subject to the discretion of the Board. The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except: (a) when justified by definite corporate expansion projects or programs approved by the Board; or (b) when the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or (c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company such as when there is need for special reserve for probable contingencies.

The dividends for the Outstanding Preferred Shares is fixed at the rate of 6.3000% per annum for the Series 2A Preferred Shares (“**PRF2A**”) and 6.8583% for the Series 2B Preferred Shares (“**PRF2B**”), each calculated in reference to the offer price of ₱1,000 per share on a 30/360-day basis and payable quarterly in arrears, as and if declared by the Board. If the dividend payment date is not a Business Day, dividends will be paid on the next succeeding Business Day, without adjustment as to the amount of dividends to be paid. Since the listing of the Outstanding Preferred Shares in November 2014, cash dividends have been

paid out in February, May, August, and November of each year.

#### **Dividend Declarations and Payments**

2018

On March 13, 2018, the Board of Directors approved a cash dividend of ₱0.15 per share to common shareholders as of the March 27, 2018 record date with a pay-out date of April 18, 2018.

On the same date, the Board of Directors also approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the second and third quarters of 2018 with record dates of April 12, 2018 and July 16, 2018, respectively, and pay-out dates of May 3, 2018 and August 3, 2018, respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the second and third quarters of 2018 record dates of April 12, 2018 and July 16, 2018, respectively, and pay-out dates of May 3, 2018 and August 3, 2018, respectively.

On August 7, 2018, the Board of Directors approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the fourth quarter of 2018 and first quarter of 2019 with record dates of October 10, 2018 and January 11, 2019, respectively, and pay out dates of November 5, 2018 and February 4, 2019, respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the fourth quarter of 2018 and the first quarter of 2019 with record dates of October 10, 2018 and January 11, 2019, respectively, and pay out dates of November 5, 2018 and February 4, 2019, respectively.

2017

On March 14, 2017, the Board of Directors approved a cash dividend of ₱0.10 per share to common shareholders as of the March 28, 2017 record date with a pay-out date of April 12, 2017.

On the same date, the Board of Directors also approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the second and third quarters of 2017 with record dates of April 12, 2017 and July 18, 2017, respectively, and pay-out dates of May 3, 2017 and August 3, 2017, respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the second and third quarters of 2017 also with record dates of April 12, 2017 and July 18, 2017, respectively, and pay-out dates of May 3, 2017 and August 3, 2017, respectively.

On August 8, 2017, the Board of Directors approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the fourth quarter of 2017 and first quarter of 2018 with record dates of October 16, 2017 and January 16, 2018, respectively, and pay out dates of November 3, 2017 and February 5, 2018, respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the fourth quarter of 2017 and the first quarter of 2018 with record dates of October 16, 2017 and January 16, 2018, respectively, and pay out dates of November 3, 2017 and February 5, 2018, respectively.

#### **Distributions under Capital Securities**

The table below sets forth the distributions paid to holders of the Company's Undated Subordinated Capital Securities ("USCS") and Senior Perpetual Capital Securities ("SPCS") for the past three (3) years:

	2018 (in USD Millions)	2017 (in USD Millions)	2016 (in USD Millions)
USCS	40.00	56.25	56.25
SPCS	11.50	-	-

### Dividends Declared by Subsidiaries

As of date, the Company's subsidiaries have not established any specific dividend policy. The table below sets forth the dividends declared by the subsidiaries for the past three (3) years:

Subsidiary	2018 (in Millions)	2017 (in Millions)	2016 (in Millions)
Overseas Ventures Insurance Corporation Ltd	-	-	167
Petron Marketing Corporation	-	-	72
Petron Freeport Corporation	115	100	11
Petron Oil & Gas (Mauritius) Ltd.	3,692	750	1,462
Petron Singapore Trading Pte Ltd	1,353	1,278	1,989

### Market Price of the Issuer's Equity

The Company's common and preferred shares are principally traded at the PSE. As of February 28, 2019, the closing price of the Company's common shares was ₱6.67 and the closing price of the Outstanding Preferred Shares was ₱971.00 for Series 2A and ₱1,000.00 for Series 2B.

The high and low prices of the common shares for each quarter of the last three fiscal years are indicated in the table below:

(in ₱)	2018		2017		2016	
	Highest Close	Lowest Close	Highest Close	Lowest Close	Highest Close	Lowest Close
1st Quarter	9.80	8.68	10.30	8.57	10.96	5.36
2nd Quarter	9.62	8.72	11.26	8.62	11.88	9.86
3rd Quarter	9.15	8.60	10.68	9.35	11.46	9.40
4th Quarter	8.69	7.66	10.46	9.16	10.80	9.10

The high and low prices of the PRF2A for each quarter of the last three fiscal years are indicated in the table below:

(in ₱)	2018		2017		2016	
	Highest Close	Lowest Close	Highest Close	Lowest Close	Highest Close	Lowest Close
1st Quarter	1,070.00	1,034.00	1,089.00	1,045.00	1,084.00	1,020.00
2nd Quarter	1,050.00	1,020.00	1,075.00	1,020.00	1,079.00	1,000.00
3rd Quarter	1,045.00	1,000.00	1,090.00	1,030.00	1,140.00	1,040.00
4th Quarter	1,010.00	932.00	1,070.00	1,049.00	1,100.00	1,029.00

The high and low prices of the PRF2B for each quarter of the last three fiscal years are indicated in the table below:

(in ₱)	2018		2017		2016	
	Highest Close	Lowest Close	Highest Close	Lowest Close	Highest Close	Lowest Close
1st Quarter	1,175.00	1,066.00	1,180.00	1,096.00	1,100.00	1,056.00
2nd Quarter	1,164.00	1,000.00	1,150.00	1,000.00	1,160.00	1,030.00
3rd Quarter	1,074.00	1,010.00	1,129.00	1,100.00	1,239.00	1,050.00
4th Quarter	1,490.00	950.00	1,175.00	1,140.00	1,229.00	1,070.00

### **Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction**

Under the SRC and the Amended Implementing Rules and Regulations of the SRC (the “**Amended SRC Rules**”), securities are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are approved for registration by the SEC or are otherwise exempt securities under Section 9 of the Code or sold pursuant to an exempt transaction under Section 10 of the Code.

The securities discussed below were either offered in the Philippines to institutional lenders not exceeding 19 or to not more than 19 non-qualified buyers and/or to any number of qualified buyers as defined in the Code. Thus, the subject securities were either exempt securities pursuant to Section 9 of the Code and Rule 9.2 of the Amended SRC Rules or their offer and sale qualified as an exempt transaction pursuant to Sections 10.1 (k) and 10.1(l) of the Code and Rule 10.1 of the Amended SRC Rules. In the case of the subject exempt transactions, a confirmation of exemption from the SEC that the offer and sale of the securities in the Philippines qualify as an exempt transaction under the Code was not required to be, and had not been, obtained. Nevertheless, in compliance with the Amended SRC Rules, notices of exemption were filed after the issuance of the securities qualifying as exempt transactions.

The securities discussed below were not registered with the SEC under the Code. Any future offer or sale thereof is subject to registration requirements under the Code, unless such offer or sale qualifies as an exempt transaction.

#### ***US\$500,000,000 Senior Perpetual Capital Securities***

On January 19, 2018, Petron issued US\$500,000,000.00 Senior Perpetual Capital Securities with an initial rate of distribution of 4.6% per annum. On January 22, 2018, the Senior Perpetual Capital Securities were listed in the Singapore Stock Exchange (“**SGX-ST**”). The net proceeds were applied for the repurchase, refinancing and/or redemption of undated subordinated capital securities.

#### ***Updates on Certain Securities of the Company***

The Company issued undated subordinated capital securities with an amount of US\$500,000,000 and US\$250,000,000 on February 6, 2013 and March 11, 2013, respectively. A portion of the securities in the total amount of US\$401,957,000 was purchased by the Company on January 22, 2018 pursuant to a tender offer made by the Company. The remaining securities in the aggregate amount of US\$348,043,000 were fully redeemed by the Company on August 6, 2018. The securities were delisted from The Stock Exchange of Hong Kong Limited on August 16, 2018.

Apart from the foregoing, there are no recent sales of unregistered or exempt securities, including recent issuances of securities constituting an exempt transaction. The Company has no registered debt securities.

## Security Ownership of Certain Beneficial Owners and Management

### Security Ownership of Certain Record and Beneficial Owners

As at February 28, 2019, the following are the owners of the Issuer's common stock in excess of 5% of total outstanding shares:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares held	Percentage of Ownership
Common Shares	<b>SEA Refinery Corporation ("SEA Refinery")</b> 19/F Liberty Center Dela Costa St., Salcedo Village, Makati City Major Stockholder	SEA Refinery Corporation	Filipino	4,696,885,564	50.10%
Common Shares	<b>PCD Nominee Corporation</b> (Filipino) 37 <sup>th</sup> Floor Tower 1 The Enterprise Center 6766 Ayala Avenue corner Paso de Roxas, Makati City Major Stockholder	PCD Nominee Corporation	Filipino	1,746,778,892	18.63%
Common Shares	<b>San Miguel Corporation ("SMC")</b> SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City Major Stockholder	San Miguel Corporation	Filipino	1,702,870,560	18.16%

### Security Ownership of Management

As at February 28, 2019, the following are the number of shares owned of record by the Issuer's directors and key executive officers:

#### Directors

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Directors</b>					
Common	Eduardo M. Cojuangco, Jr.	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Ramon S. Ang	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Estelito P. Mendoza	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.

Common	Lubin B. Nepomuceno	Filipino	5,000	D	0.00%
Series 2A Preferred			2,500	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Jose P. De Jesus	Filipino	500 / 225,000	D / I	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Mirzan Mahathir	Malaysian	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Ron W. Haddock	American	1	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Horacio C. Ramos	Filipino	500	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Aurora T. Calderon	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Virgilio S. Jacinto	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Nelly Favis-Villafuerte	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Reynaldo G. David	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Artemio V. Panganiban	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Margarito B. Teves	Filipino	500	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Carlos Jericho L. Petilla	Filipino	500	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.

### Officers

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Executive Officers</b>					
Common	Emmanuel E. Eraña	Filipino	-	-	0.00%
Series 2A Preferred			2,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Susan Y. Yu	Filipino	591,600	I	0.00%
Series 2A Preferred			10,500	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Albertito S. Sarte	Filipino	765,500	I	0.00%
Series 2A Preferred			5,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Rowena O. Cortez	Filipino	8,580	D	0.00%
Series 2A Preferred			600	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Freddie P. Yumang	Filipino	73,600	I	0.00%

Series 2A Preferred			3,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Archie B. Gupalor	Filipino	3,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Joel Angelo C. Cruz	Filipino	-	-	N.A.
Series 2A Preferred			400	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Rolando B. Salonga	Filipino	845	D	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Dennis S. Janson	Filipino	163 / 15,000	D / I	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Julieta L. Ventigan	Filipino	2,100	D	N.A.
Series 2A Preferred			1,000	I	N.A.
Series 2B Preferred			-	-	N.A.
<b>Directors and Executive Officers as a Group</b>		Common	<b>1,701,389</b>		<b>0.00%</b>
		Series 2A Preferred	<b>25,000</b>		<b>0.55%</b>
		Series 2B Preferred	<b>0</b>		<b>0.00%</b>

#### ***Voting Trust Holders of 5% or More***

The Company is not aware of any person holding 5% or more of the Company's outstanding voting shares under a voting trust or any similar agreement.

#### ***Change in Control***

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

#### ***Warrants and Options***

As of the date of this Prospectus, there are no existing or planned stock options / stock warrant offerings.

## INDUSTRY OVERVIEW

The information and data contained in this section has been taken from sources in the public domain, including BP Statistical Review of World Energy, International Energy Agency, International Monetary Fund, Malaysia Energy Information Hub, Energy Commission of Malaysia and the Philippine Department of Energy, unless indicated otherwise. The Company does not have any knowledge that the information herein is inaccurate in any material respect. Neither the Company and the JLU's nor any of their respective affiliates or advisors has independently verified the information included in this section.

### GLOBAL AND REGIONAL OIL MARKET

According to the International Energy Agency ("IEA"), global oil demand is estimated to grow by 1.3mb/d to reach 99.2mb/d in 2018, slightly down from the growth rate of 1.5mb/d observed in 2017 due to higher average oil prices in 2018. Apart from the five-year high growth rate of 1.9mb/d observed in 2015 when oil prices fell dramatically, 2018 growth rate is largely in line with the historical average oil demand growth rates between 1.3mb/d – 1.5mb/d over the past few years.

In 2019, the rate of growth for global oil demand is expected to rise slightly to 1.4mb/d. Factors driving the demand growth outlook are the prospect of lower prices and the start-up of petrochemical investments in China, offset by the slight downward revision to global GDP growth and significant downward revisions to demand in Turkey and Venezuela.

Non-OECD nations are expected to contribute to the majority of demand growth in 2018, with 0.9 mb/d out of the global 1.3mb/d yoy gain. Demand for non-OECD nations is forecasted to accelerate to 1.1mb/d in 2019 on the back of lower prices and robust growth in key countries like India and China.

### Global Oil Demand (2017 – 2019E)

(Million barrels per day, except percentages)

	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19	2019
Africa	4.4	4.3	4.2	4.3	4.3	4.3	4.3	4.2	4.4	4.3	4.5	4.4	4.3	4.4	4.4
Americas	30.9	31.6	31.7	31.8	31.5	31.6	31.7	32.3	32.4	32.0	31.9	32.1	32.5	32.5	32.3
Asia/Pacific	34.2	34.1	33.4	34.7	34.1	35.0	34.6	34.3	35.1	34.8	35.7	35.3	35.0	36.0	35.5
Europe	14.5	15.0	15.5	15.2	15.0	14.8	14.9	15.4	15.0	15.1	14.8	15.2	15.6	15.2	15.2
FSU	4.3	4.5	4.7	4.6	4.5	4.5	4.6	4.9	4.8	4.7	4.5	4.7	5.0	5.0	4.8
Middle East	8.2	8.7	8.9	8.2	8.5	8.1	8.5	8.7	8.3	8.4	8.1	8.6	8.9	8.2	8.5
<b>World</b>	<b>96.6</b>	<b>98.1</b>	<b>98.4</b>	<b>98.7</b>	<b>98.0</b>	<b>98.4</b>	<b>98.7</b>	<b>99.8</b>	<b>100.1</b>	<b>99.2</b>	<b>99.5</b>	<b>100.3</b>	<b>101.2</b>	<b>101.4</b>	<b>100.6</b>
Annual Chg (%)	1.0	2.1	1.5	1.6	1.6	1.9	0.6	1.4	1.4	1.3	1.1	1.7	1.4	1.3	1.4
Annual Chg (mtd)	1.0	2.0	1.5	1.6	1.5	1.8	0.6	1.4	1.4	1.3	1.1	1.6	1.4	1.3	1.4
Changes from last OMR (mtd)	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0

\* Including biofuels

Note: Figures from the fourth quarter of 2018 onwards are estimates.

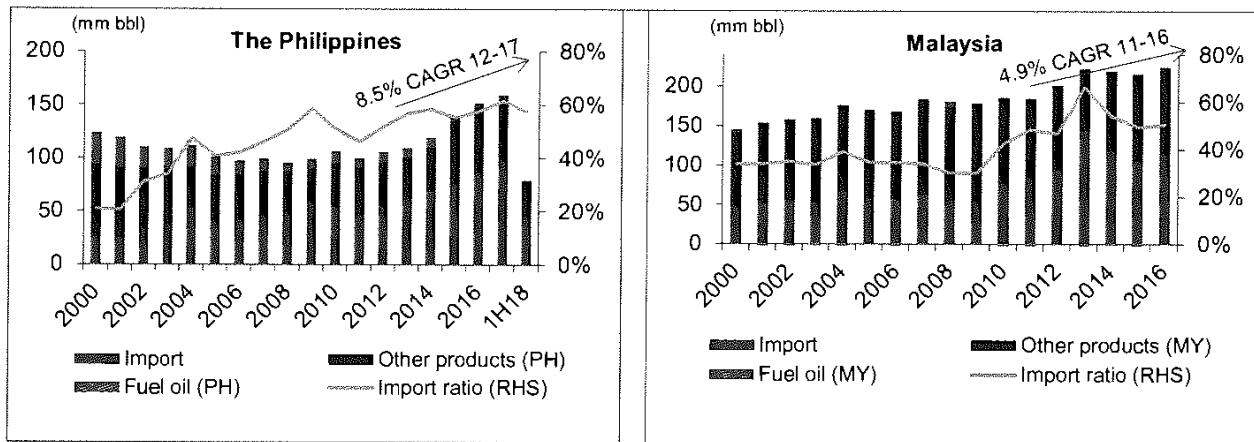
Asian oil demand has continued to drive growth in 2018 supported by strong growth in India and China. China's total oil product demand is estimated to have grown by 444 kb/d in 2018 to 13.0mb/d. Demand growth in China is expected to grow by 453 kb/d in 2019 on the back of stronger environmental policies and the move to more consumer-oriented development. Additionally, weaker consumer confidence and a government crackdown on peer-to-peer lending platforms may impact the auto loans market and consequent motor vehicle demand. In India, total oil product demand is estimated to have grown by 210 kb/d in 2018 to 4.8 mb/d and is expected to grow at a similar pace of 240 kb/d in 2019.



## THE PHILIPPINE AND MALAYSIAN OIL MARKETS

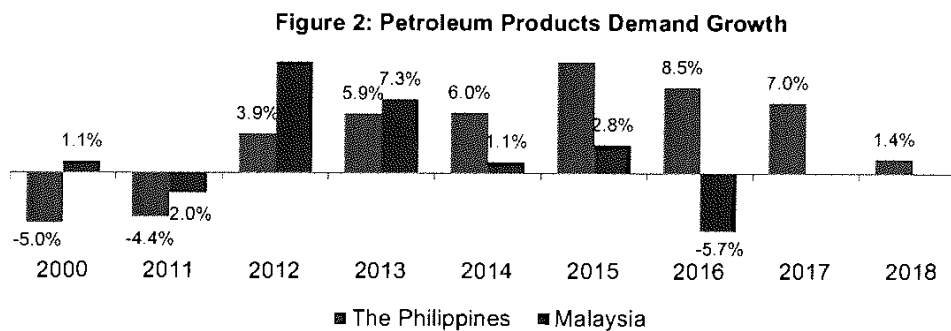
The Philippines and Malaysia are major importers of finished petroleum products, importing over 50% of their total consumption requirements. The charts below show demand, imports, and imports as a percentage of demand, for the periods indicated.

**Figure 1: Gross Imports as a Percentage of Total Petroleum Products Consumption in the Philippines and Malaysia**



Source: Philippine Department of Energy, Malaysia Energy Information Hub

Petroleum products demand in the Philippines and Malaysia have generally experienced growth, as shown in the chart below.

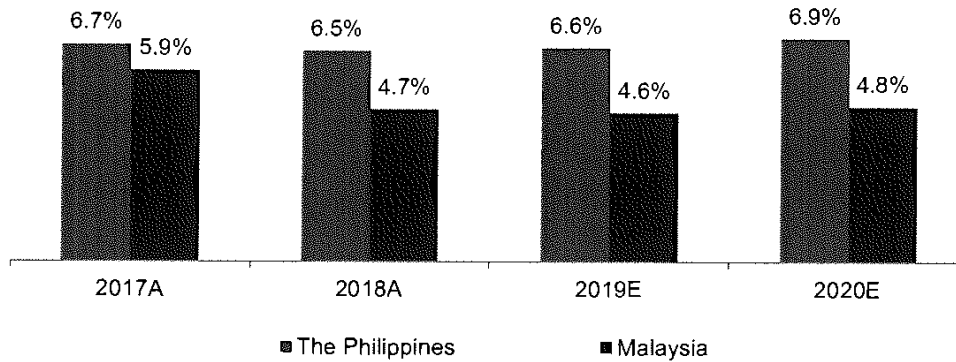


Source: Philippine Department of Energy, Malaysia Energy Information Hub

### Real GDP growth

According to the IMF, the Philippine and Malaysian economies are expected to exhibit stable real GDP growth at annual rates of 6.6% and 4.6%, respectively, as indicated in the chart below. This favorable economic backdrop is expected to contribute to energy and petroleum products demand growth in these countries.

**Figure 3: Real GDP Growth (2017 to 2020E)**



Source: International Monetary Fund

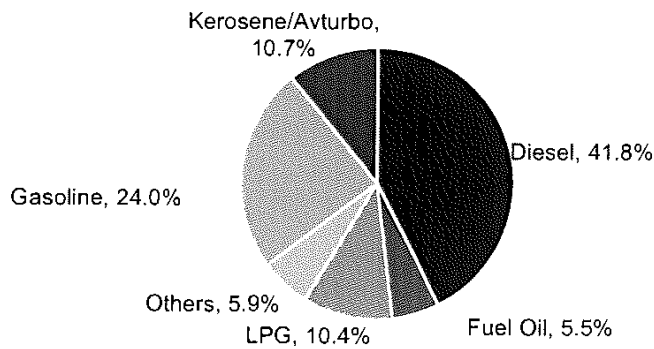
**Philippine Oil Market**

Based on data from the Philippine DOE, the country's crude oil imports reached 85.75 MMbbl in 2018, an increase of 10.4% from 77.64 MMbbl in 2017. Historically, the majority of crude oil imports to the Philippines has been from the Middle East of which, in 2018, 33.7% (28.88 MMbbl) was sourced from Saudi Arabia, the top supplier of crude oil for the country, followed by Kuwait, UAE, Qatar and Oman with a 26.3%, 20.7%, 4.9% and 1.3% share respectively. On the other hand, 3.8 MMbbl of crude oil was imported from ASEAN and from local production equivalent to 0.1% of the total crude mix. The remaining 9.7% was sourced from Russia, Nigeria, Oman, Taiwan and South Korea.

The current maximum working crude distillation capacity in the Philippines is 285.2 thousand barrels per stream day, based on data from the DOE.

Due to the shortfall in domestic supply, the Philippines is an importer of finished products. Product imports in 2018 totalled 97.57 MMbbl, slightly above 97.42 MMbbl in 2017. Imports of gasoline, LPG, kerosene/avturbo increased by 10.7%, 9.4% and 3.8%, respectively. However, imports of diesel oil and fuel oil decreased by 3.3% and 24.2%, respectively. In 2018, total demand of petroleum products grew by 1.4% to 168.81MMbbl from 166.54 MMbbl in 2017. The chart below shows the demand mix for 2018.

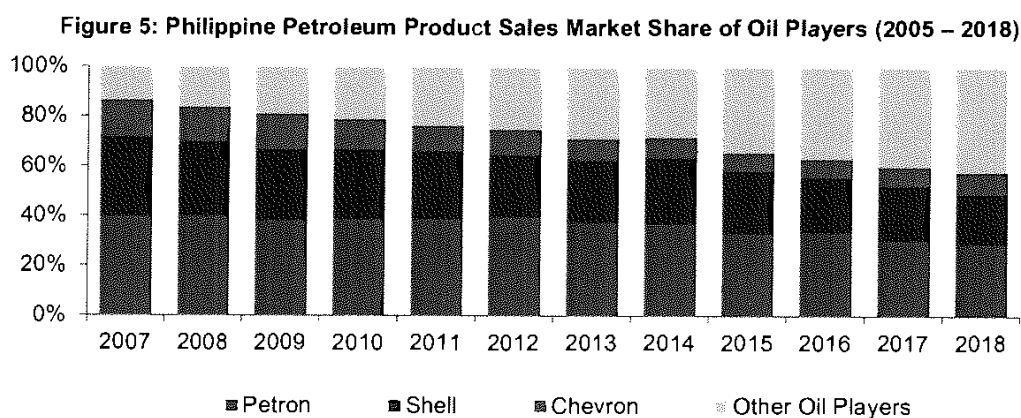
**Figure 4: Philippine Demand Breakdown by Product (2018)**



Source: Philippine Department of Energy

Petroleum product exports from the Philippines have not been historically significant. For 2018, exports increased by 16.7% from 14.6 MMbbl in 2017 to 17.0 MMbbl. The largest components of the export mix for 2018 were condensate (23.2%), gasoline (11.2%), propylene (10.8%), naphtha (9.9%) and mixed xylene (9.7%). Oil refiners accounted for 60.4% of the total export mix while the remaining 39.6% was accounted to export of other players, according to the DOE.

The Company has historically maintained a leading market share in the Philippine oil industry, with an overall market share of 28.5% as of 2018 in terms of sales volume sold by oil players. The chart below provides market share data for the Philippine oil industry for the periods indicated.



Source: Philippine Department of Energy (Others – includes imports of end-users)

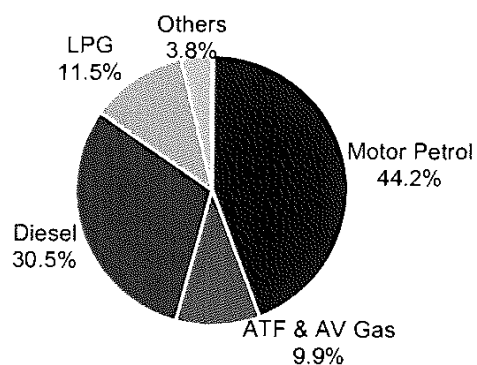
### Malaysia Oil Market

Malaysia is one of the largest producers of oil and gas in Southeast Asia. According to the 2018 BP Statistical Review of World Energy, Malaysia had proven oil reserves of 3.6 billion barrels and proven gas reserves of 2.7 trillion cubic meters as of end 2017. The country's natural gas production grew by 4.1%, to 78.4 billion cubic metres in 2017. The majority of Malaysia's crude oil comes from offshore fields, predominantly in the Malaya basin. Malaysia's benchmark crude oil is the Tapis Blend, which is categorized as light and sweet.

The oil, gas and energy sectors are significant contributors to Malaysia's national GDP. Petronas is Malaysia's integrated national oil and gas company and is the exclusive holder of ownership rights to all oil and gas exploration and production projects. The company is also responsible for all licensing procedures in Malaysia.

According to the Malaysia Energy Information Hub, the final consumption of petroleum products in Malaysia grew by 5.7% to 30,349 thousand tons of oil equivalent ("ktoe") in 2016. Motor petrol accounted for the largest consumption at 44.2%, followed by diesel at 30.5%, LPG at 11.5% and ATF & AV gas at 9.9%. In terms of a regional breakdown, Peninsular Malaysia accounted for 87% of petroleum product sales, with Sabah and Sarawak accounting for 6% and 7% in 2016, respectively, according to the National Energy Balance by the Suruhanjaya Tenaga (Energy Commission of Malaysia).

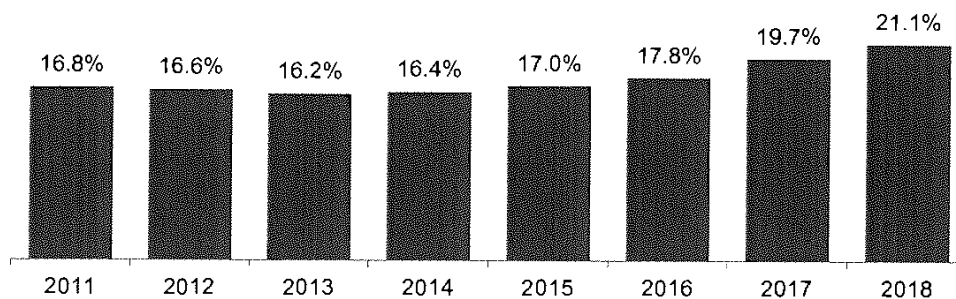
**Figure 6: Breakdown of Consumption of Petroleum Products in Malaysia (2016)**



Source: Malaysia Energy Information Hub

The Malaysian oil industry is dominated by Shell and Petronas, followed by the Company. In the retail segment, the Company had a retail market share of 21.1% for the year 2018 pursuant to Company estimates based on its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data. The following table shows the historical retail market share for the Company's Malaysian operations, which the Company acquired in March 2012.

**Figure 7: Petron Malaysia / ExxonMobil Malaysia Historical Retail Market Share (2011 – 2018)**



Source: Company estimates based on Company information and data from Fahrenheit Research and The Concilium Group Sdn Bhd

Over the last two years, Malaysia has been a net importer of gasoline, with imports mainly from Singapore. It has also been a net importer of LPG and ATF and AV gas. Conversely, Malaysia has been a net exporter of diesel, fuel oil and jet fuel/kerosene. Exports have predominantly been to countries in Asia, particularly India, Japan, Singapore, South Korea and Thailand.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

### Overview

Petron Corporation is the largest oil refining and marketing company in the Philippines and is a leading player in the Malaysian market. The Company has a combined refining capacity of 268,000 barrels per day ("bpd"). The Company refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia.

Petron operates the Philippines' largest and most modern refinery in Bataan, the Limay Refinery, which supplies approximately 30% of the country's total fuel requirements and has a production capacity of 180,000 bpd. The Company had an overall market share of 28.5% of the Philippine oil market for the year ended December 31, 2018 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the DOE.

The Limay Refinery processes crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha, and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. The completion of RMP-2, a US\$2 billion project for the Limay Refinery, enabled the Company to produce more valuable White Products, increase the production of petrochemicals, and made the Company the first oil company in the Philippines capable of producing Euro 4-standard fuels. In 2017, it launched the country's cleanest and most advanced gasoline that meets Euro 6 standards, the most stringent fuel technology and emission benchmark in the world today.

From the Limay Refinery, the Company moves its products, mainly by sea, to 32 terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 12 terminals in Luzon, eight in the Visayas and eight in Mindanao, as well as two airport installations in Luzon and two in Mindanao. Through this nationwide network, the Company supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Through its network of about 2,400 retail service stations in the Philippines as of December 31, 2018, the Company sells gasoline, diesel, and kerosene to motorists and to the public transport sector. The Company sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through its extensive dealership network.

The Company manufactures lubricants and greases through its blending plant in Pandacan in the Philippines, and these products are sold through the Company's service stations and sales centers. The Company owns and operates a fuel additive blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, Limited ("**Innospec**"), a global fuel additives supplier. Regional customers of Innospec and the Company's own requirements are served from the output of the Subic plant.

The Company diversified into petrochemicals, adding a mixed xylene recovery unit to the Limay Refinery in 2000 and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. On July 1, 2014, the Company acquired and took over from Philippine Polypropylene Inc. ("**PPI**"), an indirect subsidiary of the Company, the operations of the polypropylene plant in order to enhance the overall efficiency of its petrochemical operations. The polypropylene plant is located in

Mariveles, Bataan and is owned by Robinson International Holdings Limited ("RIHL"), an indirect subsidiary of the Company, which has the capacity to produce 160,000 metric tons of polypropylene resin annually.

The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream oil business in Malaysia. With this acquisition, the Company extended its portfolio of oil refining and marketing businesses outside the Philippines. The Company owns and operates the Port Dickson Refinery, which has a crude oil distillation capacity of 88,000 bpd, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and low-sulfur waxy residue ("LSWR"). As of December 31, 2018, the Company had 10 product terminals and a network of over 640 retail service stations in Malaysia. For the year ended December 31, 2018, the Company ranked third in the Malaysian retail market with a 21.1% share of the Malaysian retail market based on Company estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data.

The Company's products are primarily sold to customers in the Philippines and Malaysia. The Company also exports various petroleum products and petrochemical feedstock, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region. The Company's revenues from these export sales amounted to ₱37.4 billion, or 9% of total sales in 2017, and ₱51.5 billion, or 9% of total sales in 2018.

In 2016, 2017 and 2018, the Company's sales were ₱343.8 billion, ₱434.6 billion and ₱557.4 billion, respectively, and net income was ₱10.8 billion, ₱14.1 billion and ₱7.1 billion, respectively.

#### **Factors affecting results of operations**

*The Company's financial condition and results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected the Company's results in the past and that the Company expects to affect its financial results in the future. Factors other than those set out below could also have a significant impact on the Company's financial condition and results of operations in the future.*

#### **Crude Oil Prices**

Crude oil generally accounts for a large portion of the Company's total cost of goods sold. In 2018, crude oil accounted for approximately 52% of the Company's total cost of goods sold. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price, as adjusted to account for differences in product specifications and transportation and distribution costs. Therefore, the prices of the Company's principal products are highly dependent on international crude oil prices.

The Company is exposed to fluctuations in the price of crude oil, which is subject to volatile price movement caused by a number of factors beyond the Company's control, including changes in global supply and demand for crude oil, international economic conditions, global

conflicts or acts of terrorism, weather conditions and domestic and foreign governmental regulation. The Company holds crude oil and finished petroleum products inventory of approximately two months in the Philippines and approximately three weeks in Malaysia. The prices at which the Company sells its products generally rise and fall in line with international crude oil prices. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices would adversely affect the Company, as it would require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices. See *"Risk Factors — Risks Relating to the Company's Business and Operations — Volatility of the price of crude oil and petroleum products may have a material adverse effect on the Company's business, results of operations and financial condition."* Furthermore, a sharp rise in oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company.

The Company enters into commodity swaps and options to manage the price risks of crude oil and finished petroleum products. In 2013, the Company also started implementing measures to shorten the pricing cycle gap between its crude oil purchases and finished petroleum product sales. However, volatile crude oil prices could still adversely affect the Company, as the Company may not be able to pass on the effects of crude oil price changes to consumers in a timely manner.

## **Results of Operations**

### **2018 vs. 2017**

The Company posted a 50% drop in its consolidated net income to **₱ 7.07 billion** following a sustained decline in global crude prices that resulted in significant inventory holding losses during the last two months of 2018.

**Consolidated Sales volume** stood at **108.50 million barrels (MMB)**, slightly better than 107.76 MMB in 2017 primarily due to the growth in Malaysian operations, with its presence in the retail segment continued to gain momentum as it expands its service station network amid aggressive marketing initiatives. In the Philippines, incremental volume was contributed by gasoline, polypropylene, kerojet and LPG.

**Net sales** rose by 28% to **₱ 557.39 billion** from ₱ 434.62 billion in previous year largely due to the hike in selling prices at the back of higher regional prices of finished petroleum products coupled by the additional excise tax with the implementation of the first tranche of TRAIN law and the ₱ 2.27 average depreciation of the peso against the US dollar.

**Cost of Goods Sold (CGS)** went up by 33% or ₱ 130.86 billion to **₱ 522.82 billion** brought about by the escalation in price of benchmark Dubai crude oil which averaged US\$69.42/barrel versus US\$53.17/barrel average in 2017 as well as the additional excise tax due to TRAIN law.

The decline in **Gross Margin** from ₱ 42.66 billion to **₱ 34.56 billion** was primarily due to the unanticipated US\$22/barrel drop of Dubai crude prices which peaked at US\$79.39/barrel in October before sharply falling to US\$57.32/barrel in December, thus, resulting in significant inventory holding losses. The Company was also hit by the reduced product cracks prevailing in the region as well as higher crude premium.

**Selling and Administrative Expenses (OPEX)** grew to **₱ 15.64 billion**, 4% or ₱ 624 million more than previous year traced to higher terminalling fees as well as increases in non-cash items such as depreciation and provision for bad debts partly tempered by lower advertising expenses.

**Net Financing Costs and Other Charges** slipped by 4%, from ₱ 8.80 billion in previous year to **₱ 8.47 billion in 2018**. The favorable variance was due to the marked-to-market gain (MTM) on outstanding commodity hedges as against loss recognized in 2017 and absence of debt issue costs written-off last year related to the pre-termination of US dollar-denominated loans. However, these were partly offset by higher interest expense and bank charges as well as the absence of gains on asset disposals.

**Income tax expense** dipped by 29% to **₱ 3.39 billion** from previous year's ₱ 4.76 billion on account of lower pre-tax income, tempered by the tax on dividends received from foreign subsidiaries.

#### **2017 vs 2016**

2017 marked another milestone for Petron Corporation as it posted record high **consolidated net income of ₱ 14.09 billion**, 30% or ₱ 3.27 billion higher than previous year's ₱ 10.82 billion earnings. The company's deliberate thrust to sell higher margin fuels and petrochemicals sourced from its own production and focus to more profitable market segments drove its growth complemented by the strong performance of its Malaysian (PM) operations.

**Consolidated Sales volume** grew by 2% to **107.76 million barrels (MMB)** from 105.70 MMB in 2016 mainly driven by its PM operations. The Company's operations both in the Philippines and Malaysia continued to grow as its network of service stations increased during the year, further strengthening its presence in the Retail segment. Meanwhile, greater participation in the aviation sector was offset by reduced involvement in the less profitable market segments. On a per product basis, with the exception of Diesel and LPG, sales volume of all products went up led by gasoline and kero/jet.

**Net sales** surged by 26% or ₱ 90.78 billion to **₱ 434.62 billion** due to the escalation in selling prices driven by the strengthening regional market prices of finished petroleum products. This was further boosted by the ₱ 2.90 average depreciation of the peso against the US dollar.

**Cost of Goods Sold (CGS)** rose by 28% to **₱ 391.97 billion** from previous year's ₱ 306.13 billion prompted by the increase in cost per liter as Dubai crude price averaged US\$53.17/barrel compared to US\$41.27/barrel in 2016. The effect of higher refining cracks coupled by the savings from power cost contributed to the improvement in margin, partly negated by the decline in net inventory gain realized in 2017.

**Selling and Administrative Expenses (OPEX)** of **₱ 15.02 billion** went up by 8% or ₱ 1.10 billion owing to the increase in service stations' related expenses, rental of additional storage tanks, higher maintenance and repairs as well as IT-related expenses.

**Net Financing Costs and Other Charges** slid to **₱ 8.80 billion** from ₱ 9.42 billion in 2016 largely due to non-recurring gains from the compulsory divestment of service stations that were acquired by the Malaysian government, net forex/hedging gain vs. loss in 2016, decrease in bank charges and lower marked-to-market (MTM) losses on outstanding commodity hedges. Favorable variances were partly offset by higher interest expense and the full amortization of debt issue costs related to the pre-terminated US dollar-denominated loans in June 2017.

**Income tax expense** climbed by 34% to **₱ 4.75 billion** from previous year's ₱ 3.56 billion on account of higher pre-tax income.

#### **2016 vs 2015**

Petron Corporation sustained strong performance in 2016 with a **consolidated net income of ₱ 10.82 billion**, 73% or ₱ 4.55 billion higher than previous year's ₱ 6.27 billion earnings. The company's improved results was driven by the growth in sales volume, operational efficiency coupled with increased production run resulting in better yields, as well as effective risk management. 2016 also marked the start of RMP2's commercial operations which resulted in the production of higher valued products and the



benefit of processing cheaper crudes. However, thinner refining cracks partly toned down the company's margin.

**Consolidated Sales volume** increased by 6% to a record high of **105.70 million barrels (MMB)** from 99.1 MMB in 2015 with the 7% upsurge from both the Petron Philippine (PP) and Malaysian (PM) operations. The growth was attributable from aggressive service station network expansion, various marketing initiatives and greater participation in key industries such as power generation and aviation. Both markets saw solid growths across key segments such as Reseller, Industrial, LPG and Lubricants. Except for Fuel oil and Naphtha, all products registered volume improvements lead by gasoline and diesel sales.

**Net sales** declined by 5% or ₱ 16.34 billion to **₱ 343.84 billion** due to lower average selling prices. The reference market prices of finished products in the region weakened along with the relatively lower crude oil prices in 2016. The benchmark Dubai crude averaged US\$41.27/barrel in 2016, 19% lower than full year 2015 average of US\$50.91/barrel. Meanwhile, the drop in prices was tempered by the ₱ 2.00 average depreciation of the peso vis a vis the US dollar. The effect of lower selling prices was partially offset by the additional revenue from higher sales volume.

**Cost of Goods Sold (CGS)** dipped more by 7% to **₱ 306.13 billion** from previous year's ₱ 328.73 billion prompted by lower cost of crude and imported finished products partially countered by the cost of incremental volume sold. The effect of lower product cracks in 2016 was negated by the net inventory gains realized during 2016, a turnaround from the net inventory loss reported in the previous year.

**Selling and Administrative Expenses (OPEX)** of **₱ 13.92 billion** increased by 5% or ₱ 608 million traced to higher service stations' related expenses, warehousing and terminalling fees and accrual of retirement benefits.

**Net Financing Costs and Other Charges** went up to **₱ 9.42 billion** from ₱ 8.21 billion in 2015 largely due to the absence of capitalized interest from RMP2 project financing. The increase in interest expense was tempered by lower marked-to-market (MTM) losses on outstanding commodity hedge positions, reduced swap costs on foreign currency hedges and lower bank charges.

Despite the increase in income before income tax, **Income tax expense** dropped by 3% to **₱ 3.56 billion** from previous year's ₱ 3.66 billion upon the availment of the income tax holiday incentive of RMP2.

## **Financial Position**

### **2018 vs 2017**

**Petron's consolidated assets** as of December 31, 2018 grew 6% (₱ 20.12 billion) to **₱ 358.15 billion**, from end-December 2017 level of ₱ 338.03 billion mainly contributed by higher working capital.

**Financial assets at fair value** went up from ₱ 336 million to **₱ 1.13 billion** on account of higher MTM gains on outstanding commodity hedges.

**Investment in debt instruments** (current and non-current) amounted to **₱ 378 million**, 29% lower than the ₱ 531 million balance as of end 2017 with the maturity of investment in corporate bonds.

**Trade and other receivables - net** increased by 11% from ₱ 38.16 billion to **₱ 42.50 billion** reflecting the increase in fuel prices from a year ago and delayed collection of receivables from the Malaysian government.

**Inventories - net** surged to **₱ 63.87 billion**, 13% or ₱ 7.27 billion more than the ₱ 56.60 billion at end 2017 due to higher volume and prices of finished products.

**Other current assets** escalated from ₱ 33.18 billion to **₱ 37.08 billion** on account of higher input VAT and prepaid taxes.

**Property, plant and equipment – net** dipped by 8% or ₱ 13.71 billion to **₱ 163.98 billion**. Capital expenditures for the refinery, depots and service stations, net of depreciation and disposals during the year was more than offset with the reclassification of leased-out assets that primarily comprised the **₱ 16.54 billion Investment Property**.

**Deferred tax assets - net** increased from ₱ 207 million to **₱ 257 million** owing to the additional Net Operating Loss Carry-Over (NOLCO) of a subsidiary in Malaysia.

**Other noncurrent assets - net** climbed to **₱ 6.49 billion**, 9% or ₱ 526 million above the December 2017 level of ₱ 5.96 billion due to higher prepaid rent and the fair value of long-term derivative instruments.

**Short-term loans** surged to **₱ 83.00 billion** from ₱ 69.58 billion a year ago as additional funds were sourced to support the increase in working capital requirements given higher cost of inventories and receivables.

**Liabilities for crude oil and petroleum products** dropped by 30% from ₱ 36.92 billion to **₱ 25.99 billion** essentially due to lower volume of crude purchases outstanding as at year-end.

**Trade and other payables** increased to **₱ 28.47 billion** from ₱ 11.60 billion largely liabilities to various contractors and suppliers.

**Derivative liabilities** slid to **₱ 614 million** from ₱ 1.79 billion level in December 2017 owing to lower MTM loss on outstanding commodity hedges.

**Income tax payable** fell to ₱ 146 million from **₱ 808 million** due mainly to Petron Malaysia's lower taxable income in 2018.

**Long-term debt** (including current portion) went up from ₱ 101.71 billion to **₱ 118.00 billion** with the Parent Company's issuance of ₱ 20.00 billion retail bonds in October 2018.

**Retirement benefits liability** declined to **₱ 2.43 billion** from ₱ 4.89 billion primarily on account of the partial conversion of the Company's advances to the Retirement plan into contribution as well as the actual contribution made during the year.

**Deferred tax liabilities** amounted to **₱ 8.45 billion**, 14% higher than the ₱ 7.40 billion level a year ago largely due to the temporary differences arising from the accelerated method of depreciation used for tax reporting purposes.

**Asset retirement obligation** grew by 34% to **₱ 3.59 billion** from ₱ 2.68 billion attributed to the change in discount rate and lease term of existing leases.

**Other noncurrent liabilities** increased by 23% to **₱ 1.27 billion** mainly due to the premium costs of derivative instruments and higher cash bond from customers.

**Capital Securities** decreased by 19% to **₱ 24.88 billion** traced to the redemption of the US\$750 million Undated Subordinated Capital Securities (USCS) partly offset by the issuance of the US\$500 million Senior Perpetual Capital Securities (SPCS).

The negative balance of **Equity reserves** increased to **₱ 14.03 billion** from ₱ 5.17 billion due to currency translation loss on the redemption of USCS, partly tempered by the currency translation gains on investments in foreign subsidiaries as a result of the strengthening of the US dollar versus the Philippine peso.

**Non-controlling interests** rose by 12% to **₱ 6.71 billion** from the **₱ 5.96 billion** as of end of 2017 corresponding to its proportionate share in net income for the year, net of cash dividends declared to minority shareholders and currency translation adjustment.

### **2017 vs 2016**

The **consolidated assets** of Petron amounted to **₱ 338.03 billion** by the end of 2017, **6% or ₱ 19.14 billion higher** than end-December 2016 balance of **₱ 318.89 billion** mainly due to the increases in inventories and trade receivables.

**Financial assets at fair value through profit or loss** climbed to **₱ 336 million** from **₱ 221 million** on account of higher MTM gains on outstanding commodity hedges.

**Trade and other receivables – net** surged to **₱ 38.16 billion, 21% or ₱ 6.61 billion higher** than end-2016 level of **₱ 31.55 billion** due to the increase in fuel prices.

**Inventories – net** substantially increased by **28% or ₱ 12.46 billion to ₱ 56.60 billion** from **₱ 44.15** a year ago brought about by the escalation in cost of crude and finished products due to the strengthening of prices towards end 2017.

**Available-for-sale financial assets** (current and non-current) went up to **₱ 531 million** from **₱ 479 million** due mainly to Insurance subsidiaries' additional investment in government securities.

On October 30, 2017, the Parent Company consummated the sale of its shares in Manila North Harbour Port Inc (MNHPI) presented under **Investment in shares of stock of an associate** as of end 2016. The remaining unsold shares amounting to **₱ 9 million** was presented as **Asset held for sale** (included in the Other current asset) as of December 31, 2017.

**Investment property – net** was reduced to **₱ 75 million from** end-December 2016 level of **₱ 91 million** with the disposal of a parcel of land by a real estate subsidiary.

**Deferred tax assets – net** which mainly pertains to PM, increased by 7% or **₱ 13 million to ₱ 207 million** mainly due to the appreciation of the Ringgit versus the US dollar.

**Goodwill – net** accumulated to **₱ 8.28 billion** from **₱ 7.48 billion** resulting from currency translation gain of PM's goodwill with the appreciation of the Ringgit versus the US dollar.

**Other noncurrent assets – net** fell from **₱ 6.42 billion to ₱ 5.96 billion** mainly due to the amortization of catalysts and deferred input vat.

**Short-term loans** declined to **₱ 69.58 billion** from **₱ 90.37 billion** as the Parent Company's payment exceeded the availment coupled by PM's full settlement of its short-term loans.

**Liabilities for crude and petroleum products** grew by 23% (**₱ 6.95 billion**) to **₱ 36.92 billion** driven by higher prices of outstanding crude and product purchases.

**Trade and other payables** dropped by 28% from **₱ 16.16 billion to ₱ 11.60 billion** mainly due to the settlement of various payables to a related party, contractors and suppliers.

**Derivative liabilities** grew more than double from **₱ 778 million to ₱ 1.79 billion** attributed to the increase in MTM losses on outstanding commodity hedges.

**Long-term debt** (including current portion) increased to **₱ 101.71 billion** from end-2016's balance of **₱ 79.85 billion** owing to the Parent Company's availment of additional loan facilities partly offset by the full settlement of PM's loans.

**Income tax payable** increased from **₱ 626 million** to **₱ 808 million** owing to PM's higher taxable income.

**Retirement benefits liability** went up by 47% or **₱ 1.57 billion** to **₱ 4.89 billion** due to the re-measurement losses on plan assets.

**Deferred tax liabilities - net** rose by 29% from **₱ 5.73 billion** to **₱ 7.40 billion** brought about by the foreign exchange losses realized upon the pre-termination of certain dollar loans coupled by the increase in temporary differences arising from the accelerated depreciation method on fixed assets for tax purpose.

**Asset retirement obligation** increased to **₱ 2.68 billion** from **₱ 2.32 billion** on account of the recorded accretion expense during the period and the recognition of additional provision for new facilities.

**Other noncurrent liabilities** amounted to **₱ 1.04 billion**, up by 8% from end-2016 level due to higher LPG cylinder deposit.

**Retained earnings (attributable to the Parent Company)** grew by 17% or **₱ 7.13 billion** to **₱ 49.14 billion** emanating from the **₱ 12.74 billion** share in net profit recorded during the year, partly reduced by the cash dividends declared and distributions paid of **₱ 5.61 billion**.

The negative balance of **Equity reserves** decreased by 28% or **₱ 2.03 billion** to **₱ 5.17 billion** due to the currency translation gains on investments in foreign operations brought about by the strengthening of the US dollar versus the Philippine peso.

**Non-controlling interests** increased by 38% to **₱ 5.96 billion** from the **₱ 4.33 billion** as of December 31, 2016 due to the share in net income and currency translation adjustment, reduced by cash dividends paid to minority shareholders.

### **2016 vs 2015**

As of end 2016, **Petron's consolidated assets** grew by 8% or **₱ 24.63 billion** to **₱ 318.89 billion** from previous year's **₱ 294.27 billion** due to additional fixed assets acquired during the year and higher inventories.

**Cash and cash equivalents** was reduced by 8% (**₱ 1.55 billion**) to close at **₱ 17.33 billion** as funds generated from operations were used to pay both short and long-term loans, interest, dividends and distributions and capital investments.

**Financial assets at fair value through profit or loss** dropped from **₱ 509 million** to **₱ 221 million**, or by 57% attributed to lower marked-to-market (MTM) gains on outstanding commodity hedges.

The value of **Inventories – net**, grew to **₱ 44.15 billion** from end-2015's **₱ 30.82 billion** due to higher volume and cost of crude oil and finished products by end 2016.

**Other current assets** decreased by 6% or **₱ 2.03 billion** to **₱ 32.50 billion**, with the utilization of the Parent Company's value-added tax credit certificates in payment of taxes.

**Available-for-sale financial assets** (current and non-current) of **₱ 479 million** ended lower by 23% than previous year's **₱ 621 million** traced mainly to the maturity of investment in corporate bonds held by an insurance subsidiary.

**Property, plant and equipment – net** stood at **₱ 176.60 billion**, 9% or **₱ 15.00 billion** more than the **₱ 161.60 billion** level as of end-2015 brought about by the acquisition of the 140-megawatt solid fuel-fired power plant.

The sale of a parcel of land by a real estate subsidiary resulted in the decline in **Investment property - net** from **₱ 112 million** to **₱ 91 million** as of end-2016.

**Deferred tax assets** decreased by 8% or **₱ 17 million** to **₱ 194 million** essentially on account of Petron Malaysia's (PM) lower deductible temporary differences.

**Other noncurrent assets - net** fell to **₱ 6.42 billion** from **₱ 6.73 billion** in 2015 primarily due to the collection of advances to Petron Corporation Employee Retirement Plan and amortization of catalysts, prepayments and intangibles, tempered by the recognition of the power plant's deferred input tax.

**Short-term loans** were lower by 9% or **₱ 9.11 billion** from **₱ 99.48 billion** to **₱ 90.37 billion** with the net payment of loans during the year.

**Liabilities for crude oil and petroleum products** increased to **₱ 29.97 billion** from **₱ 16.27 billion**, or by 84% on account of higher volume and cost of crude oil and finished products as of end 2016.

**Trade and other payables** significantly increased by **₱ 6.81 billion** to **₱ 16.16 billion** due to outstanding payables to contractors and suppliers.

**Derivative liabilities** moved up to **₱ 778 million** or by **₱ 175 million** chiefly due to the increase in MTM commodity hedging losses partly offset by the decline in MTM losses on currency hedges.

**Income tax payable** ballooned from **₱ 183 million** to **₱ 626 million** due to PM's higher taxes payable on reported taxable earnings in 2016.

**Long-term debt - net** (including current portion) rose by 10% to **₱ 79.85 billion** with the issuance of the **₱ 20 billion** retail bonds in October 2016 partly offset by the repayment of existing loans.

**Retirement benefits liability** dipped by 40% (**₱ 2.19 billion**) to **₱ 3.32 billion** mainly caused by the recognition of re-measurement gains on plan assets.

**Deferred tax liabilities** surged by 23% from **₱ 4.64 billion** to **₱ 5.73 billion** prompted by the timing differences generated by the accelerated depreciation of the Parent company's RMP2 and the re-measurement gains on retirement plan assets as well as utilization of the minimum corporate income tax paid in previous years.

**Asset retirement obligation** amounted to **₱ 2.32 billion** and registered a 28% or **₱ 515 million** hike from end-December 2015 level on account of the additional provision for the refinery facilities.

**Other noncurrent liabilities** of **₱ 959 million** climbed by 6% driven by higher LPG cylinder deposits.

The negative balance of **Equity reserves** declined from **₱ 8.77 billion** to **₱ 7.20 billion** triggered by the re-measurement gains on plan assets.

**Non-controlling interests (NCI)** increased from **₱ 471 million** to **₱ 4.33 billion** essentially due to the reversal of the remaining NCI in foreign subsidiaries to the Parent Company.

## **Cash Flows**

### **2018 vs 2017**

Cash generated from the Company's internal operations of ₱ 32.25 billion were partially used to finance the increase in working capital requirements and settlement of interests and taxes, netting to ₱ 5.05 billion. Excess internally generated funds plus cash sourced from financing activities of ₱ 5.95 billion were used to fund capital expenditure related to network expansion as well as various refinery and terminal projects amounting to ₱ 11.14 billion. Cash position as of end 2018 stood at ₱ 17.41 billion.

In Million Pesos	December 31, 2018	December 31, 2017	Change
Operating inflows	5,047	15,753	(10,706)
Investing outflows	(11,141)	(11,211)	70
Financing inflows (outflows)	5,949	(4,715)	10,664

#### **2017 vs 2016**

In 2017, the Company generated ₱ 15.75 billion from its operating activities net of the increase in working capital requirements and payment of interest and taxes. Meantime, excess cash from operations together with the proceeds from sale of MNHPI shares and assets in Malaysia were used to finance various capital projects in the Refinery, terminals and service stations. Likewise, financing activities used up ₱ 4.72 billion mostly to pay cash dividends and distributions.

#### **2016 vs 2015**

The Company's operation internally generated cash of ₱ 37.06 billion was partly used to pay for interests and taxes, netting an inflow of ₱ 29.27 billion. The excess cash from operations were used to fund the acquisition of additional property, plant and equipment, and for settling short-term and long-term loans, dividends and distributions. Net decrease in cash and cash equivalents during 2016 amounted to ₱ 1.55 billion.

#### **Discussion of the Company's key performance indicators:**

Ratio	December 31, 2018	December 31, 2017	December 31, 2016
Current Ratio	1.0	1.2	0.8
Debt to Equity Ratio	3.2	2.4	2.6
Return on Equity (%)	7.6	15.0	12.6
Interest Rate Coverage Ratio	2.1	3.2	2.9
Assets to Equity Ratio	4.2	3.4	3.6

**Current Ratio** - Total current assets divided by total current liabilities.

This ratio is a rough indication of a company's ability to service its current obligations. Generally, higher current ratio indicates greater ability of the company to pay currently maturing obligations.

**Debt to Equity Ratio** - Total liabilities divided by total stockholders' equity (including non-controlling interest).

This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. It expresses the degree of protection provided by the owners for the creditors. The higher the ratio, the greater the risk being assumed by creditors. A lower ratio generally indicates greater long-term financial safety.

**Return on Equity** - Net income divided by average total stockholders' equity.

This ratio reveals how much profit a company earned in comparison to the total amount of shareholder equity fund in the statements of financial position. A business that has a high return on equity is more likely capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.

**Interest Rate Coverage Ratio** – Earnings before interests and taxes divided by interest expense and other financing charges.

This ratio is used to assess the company's financial stability by examining whether it is profitable enough to pay off its interest expenses. A ratio greater than 1 indicates that the company has more than enough interest coverage to pay off its interest expense.

**Assets to Equity Ratio** – Total assets divided by total equity (including non-controlling interest).

This ratio is used as a measure of financial leverage and long-term solvency. The function of the ratio is to determine the value of the total assets of the company less any portion of the assets that are owned by the shareholders of the corporation.

## **INTEREST OF NAMED EXPERTS**

### **Legal Matters**

All legal issues relating to the issuance of the Preferred Shares which are subject of this Offer shall be passed upon by SyCip Salazar Hernandez & Gatmaitan (“**SyCip Law**”) for the Joint Issue Managers and the Joint Lead Underwriters and Bookrunners, and Picazo Buyco Tan Fider & Santos (“**Picazo Law**”) for the Company.

SyCip Law and Picazo Law have no direct or indirect interest in Petron. However, SyCip Law and Picazo Law may, from time to time be engaged by the Company to advise on the transactions of the Company and perform legal services on the same basis that SyCip Law and Picazo Law provide such services to its other clients.

### **Independent Auditors**

The consolidated financial statements of Petron as at December 31, 2016, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018 have been audited by R.G. Manabat & Co., a member firm of KPMG, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus.

The Company's Audit and Risk Management Committee of the Board reviews and approves the scope of audit work of the independent auditors and the amount of audit fees for a given year. The financial statements will then be presented for approval by the stockholders in the annual meeting. As regards to services rendered by the external auditor other than the audit of financial statements, the scope of and amount for the same are subject to review and approval by the Audit and Risk Management Committee.

The Company's audit fees for each of the last two fiscal years for professional services rendered by the external auditor were ₱6.8 million, ₱6.8 million and ₱7.0 million for 2016, 2017 and 2018, respectively. Said fees include compensation for audit services and other related services such as review and agreed-upon procedures. There were no fees paid for accounting, compliance, advisory, planning and any other form of tax. There were no other fees paid to the independent auditors other than for the above-described services.

### **Changes in and Disagreements with Accountants**

The Company has not had any changes in or disagreements with its independent accountants/auditors on any matter relating to financial or accounting disclosures.

### **No interest in the Company**

There is no arrangement that any of the foregoing experts shall receive a direct or indirect interest in the Company or was a promoter, co-manager, voting trustee, director, officer, or employee of the Company.



## **TAXATION**

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership, and disposition of the Preferred Shares. The statements made regarding taxation in the Philippines are based on the laws in force at the date of this Prospectus and are subject to any changes in law occurring after such date. The following is a discussion of the material Philippine tax consequences of the acquisition, ownership, and disposition of the Shares. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the Preferred Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates or tax incentives under special laws. Prospective purchasers of the Preferred Shares are advised to consult their own tax advisers concerning the tax consequences of their investment in the Preferred Shares.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien engaged in trade or business in the Philippines;" otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not engaged in trade or business in the Philippines". A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

The term "non-resident holder" means a holder of the Preferred Shares:

- who is an individual who is neither a citizen nor a resident of the Philippines, or an entity which is a non-resident foreign corporation; and
- should an income tax treaty be applicable, whose ownership of the Preferred Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

### **Philippine Taxation**

On January 1, 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("**TRAIN**") took effect. The TRAIN amended various provisions of the Tax Code, including those on ordinary income tax of individuals, capital gains tax on the sale and disposition of shares of stock, estate tax, donor's tax, and documentary stamp tax.

### **Sale, Exchange or Disposition of Shares after the IPO**

#### ***Taxes on Transfer of Shares Listed and Traded at the PSE***

Unless an applicable income tax treaty exempts the sale from income and/or percentage tax (*please see discussion below on tax treaties*), a sale or other disposition of shares of stock through the facilities of the PSE by a resident or a non-resident holder (other than a dealer in securities) is subject to a percentage tax usually referred to as a stock transaction tax at the rate of six-tenths of one percent (6/10 of 1%) of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed, which shall be paid by the seller or transferor. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain income tax treaties, the exemptions from capital gains tax may not be applicable to stock transaction tax.

In addition, Value-Added Tax (VAT) of 12% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client, the seller or transferor.

The stock transaction tax will not apply if the shares are sold outside the facilities of the PSE, including during a trading suspension. PSE Memorandum CN-No. 2012-0046 dated August 22, 2012 provides that immediately after December 31, 2012, the Philippine SEC shall impose a trading suspension for a period

of not more than six (6) months, on shares of a listed company who has not complied with the Rule on Minimum Public Ownership ("MPO") which requires listed companies to maintain a minimum percentage of listed securities held by the public at 10% of the listed companies issued and outstanding shares at all times. The sale of such listed company' shares during the trading suspension may be effected only outside the trading system of the PSE and shall therefore be subject to taxes on the sale of shares that are not listed or traded at the stock exchange (i.e., capital gains tax and documentary stamp tax, and may even include donor's tax).

The stock transaction tax will also not apply if the shares sold are issued by a corporation that does not meet the MPO requirement, even if the sale is done through the facilities of the PSE. Revenue Regulations No. 16-2012 ("R.R. 16-12") provides that the sale, barter, transfer, and/or assignment of shares of listed companies that fail to meet the MPO requirement after December 31, 2012 will be subject to capital gains tax and documentary stamp tax. R.R. 16-12 also requires publicly listed companies to submit public ownership reports to the BIR within 15 days after the end of each quarter.

#### **Capital Gains Tax, if the Sale Was Made outside the PSE**

The net capital gains realized by a citizen, resident alien, non-resident alien, whether or not engaged in trade or business within the Philippines, or a domestic corporation (other than a dealer in securities) during each taxable year from the sale, exchange or disposition of shares of stock outside the facilities of the PSE, are subject to capital gains tax at the rate of 15% of the net capital gains realized during the taxable year.

The net capital gains realized by a resident foreign corporation or a non-resident foreign corporation during each taxable year from the sale, exchange or disposition of shares of stock in a domestic corporation outside the facilities of the PSE are subject to the following rates:

Not over ₱100,000 .....	5%
On any amount in excess of ₱100,000.....	10%

If an applicable income tax treaty exempts net gains from such sale from capital gains tax, an application for tax treaty relief has to be filed with the BIR in accordance with BIR regulations, and approved by the BIR, to avail of the exemption. (*Please see discussion below on tax treaties.*)

The transfer of shares shall not be recorded in the books of a company, unless the BIR has issued a Certificate Authorizing Registration ("CAR").

#### **Tax on Dividends**

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to a final withholding tax at the rate of 10%, which shall be withheld by the Company. Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines are subject to a 20% final withholding tax on the gross amount thereof, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax at 25% of the gross amount, subject, however, to the applicable preferential tax rates under income tax treaties executed between the Philippines and the country of residence or domicile of such non-resident alien individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by a resident foreign corporation are not subject to income tax while those received by a non-resident foreign corporation are generally subject to income tax at a final withholding tax rate of 30%. The 30% income tax rate for dividends paid to a non-resident foreign corporation may be reduced to a lower rate of 15% if tax sparing applies, which is when (i) the country where the non-resident foreign corporation is domiciled imposes no tax on foreign sourced dividends or (ii) the country of domicile of the non-resident foreign corporation allows at least 15% credit equivalent for taxes deemed to have been paid in the Philippines.

In order to avail of the 15% tax sparing rate, Revenue Memorandum Circular No. 80-91 (*Publishing the Resolution of the Supreme Court dated March 7, 1990 in G.R. No. 76573 entitled "Marubeni Corporation vs. Commissioner of Internal Revenue and Court of Tax Appeals" re: pre-requisites for the availment of 15% preferential tax rate under then Section 24 (b)(1) [now Sec. 25(b)(5)(B)] of the Tax Code, as amended dated August 12, 1991*) states that the non-resident foreign holder has to submit the following documents to the payor of the cash dividends: (i) an authenticated certification issued by the foreign tax authority that the dividends received by the non-resident foreign corporation from the domestic corporation were not among the items considered in arriving at the income tax due from the non-resident foreign corporation; (ii) the income tax return of the non-resident foreign corporation for the taxable year when the dividends were received; and (iii) an authenticated document issued by the foreign tax authority showing that the foreign Government allowed a credit on the tax deemed paid in the Philippines or did not impose any tax on the dividends. The income recipient may also file a request for a ruling from the BIR that the 15% income tax rate is applicable to its receipt of the dividends and the request has to comply with Revenue Memorandum Order No. 9-2014 (*Requests for Rulings with the Law and Legislative Division dated February 6, 2014*) and other relevant BIR issuances. The income recipient should thereafter provide the payor of the cash dividends with proof of its filing of an application for a ruling with the BIR before the deadline for the remittance to the BIR of the withholding tax on the dividends.

The abovementioned tax rates are without prejudice to applicable preferential tax rates under income tax treaties in force between the Philippines and the country of domicile of the non-resident holder. (*Please see discussion on tax treaties below.*)

If the regular tax rate is withheld by the Company instead of the reduced rates applicable under an income tax treaty, the non-resident holder of the shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

Transfer taxes (e.g. documentary stamp tax, local transfer tax) may be payable if the dividends declared are property dividends, depending on the type of property distributed as dividends. Stock dividends distributed pro rata to any holder of shares of stock are generally not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as stock dividends by the shareholder is subject to stock transaction tax if the transfer is through a local stock exchange; or if the transfer is made outside of the exchange, capital gains tax; and documentary stamp tax.

#### Preferential Rates under the Income Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

	Dividends (%)	Stock transaction tax on sale or disposition effected through the PSE (%) <sup>(9)</sup>	Capital gains tax due on disposition of shares outside the PSE (%)
Canada	25 <sup>(1)</sup>	0.6	May be exempt <sup>(13)</sup>
China	15 <sup>(2)</sup>	Exempt <sup>(10)</sup>	May be exempt <sup>(13)</sup>
France	15 <sup>(3)</sup>	Exempt <sup>(11)</sup>	May be exempt <sup>(13)</sup>
Germany	15 <sup>(4)</sup>	Exempt <sup>(12)</sup>	May be exempt <sup>(13)</sup>
Japan	15 <sup>(5)</sup>	0.6	May be exempt <sup>(13)</sup>
Singapore	25 <sup>(6)</sup>	0.6	May be exempt <sup>(13)</sup>
United Kingdom	25 <sup>(7)</sup>	0.6	Exempt <sup>(14)</sup>

United States

25<sup>(8)</sup>

0.6

May be exempt<sup>(13)</sup>

Notes:

- (1) 15% if the recipient company which is a resident of Canada controls at least 10% of the voting power of the company paying the dividends; 25% in all other cases.
- (2) 10% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends; 15% in all other cases.
- (3) 10% if the recipient company (excluding a partnership) holds directly at least 10% of the voting shares of the company paying the dividends; 15% in all other cases.
- (4) 5% if the recipient company (excluding a partnership) holds directly at least 70% of the capital of the company paying the dividends; 10% if the recipient company (excluding a partnership) holds directly at least 25% of the capital of the company paying the dividends.; 15% in all other cases
- (5) 10% if the recipient company holds directly at least 10% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends; 15% in all other cases.
- (6) 15% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting shares of the paying company were owned by the recipient company; 25% in all other cases.
- (7) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends; 25% in all other cases.
- (8) 20% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting shares of the paying corporation were owned by the recipient corporation; 25% in other cases. Notwithstanding the rates provided under the Convention between the Government of the Republic of the Philippines and the Government of the United States of America with respect to Taxes on Income, corporations which are residents of the United States may avail of the 15% withholding tax rate under the tax-sparing clause of the Philippine Tax Code provided certain conditions are met.
- (9) If the stock transaction tax is not expressly included in the tax treaty, the income recipient will be subject to stock transaction tax at the rate of 0.6% of the gross selling price as provided under Section 127 of the Tax Code as amended by the Section 39 of the TRAIN.
- (10) Article 2(1)(b) of the Agreement between the Government of the Republic of the Philippines and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed on November 18, 1999.
- (11) Article 1 of the Protocol to the Tax Convention between the Government of the Republic of the Philippines and the Government of the French Republic Signed on January 9, 1976 was signed in Paris, France on June 26, 1995 signed on June 26, 1995.
- (12) Article 2 (3)(a) of Agreement between the Government of the Republic of the Philippines and the Federal Republic of Germany for the Avoidance of Double Taxation with Respect to Taxes on Income and Capital signed on September 9, 2013.

(13) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.

(14) Under the income tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

When availing of capital gains tax exemption on the sale of shares of stock under an income tax treaty, a tax treaty exemption ruling from the BIR shall be necessary in order to completely implement the transfer. For sale of shares made outside the PSE, a CAR from the BIR is required before the transfer is registered in the stock and transfer book. The BIR issues the CAR only after verifying that the applicable taxes have been paid. Thus, in lieu of proof of payment of capital gains tax, the tax treaty relief ruling should be submitted to the BIR office processing the CAR.

The requirements for a tax treaty relief application in respect of capital gains tax or the stock transaction tax on the sale of shares are set out in Revenue Memorandum Order No. 72-2010 (*Guidelines on the Processing of Tax Treaty Relief Applications (TTRA) Pursuant to Existing Philippine Tax Treaties* dated August 25, 2010), BIR Form No. 0901-C, and other BIR issuances. These include proof of residence in the country that is a party to the income tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable income tax treaty. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

The tax treaty relief application has to be filed with the BIR before the first taxable event as defined under Revenue Memorandum Order No. 72-2010, which in respect of capital gains tax, is before the deadline for the payment of the documentary stamp tax on the sale of shares.

With respect to the availment of preferential rates for dividends under an income tax treaty, most tax treaties to which the Philippines is a party provide for a reduced tax rate of 15% in cases where the dividend arises in the Philippines and is paid to a resident of the other contracting state. Most income tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the dividend, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant dividend-earning interest is effectively connected with such permanent establishment.

The BIR prescribed certain procedures for availment of tax treaty relief on dividends under Revenue Memorandum Order No. 8-2017 (*Procedure for Claiming Tax Treaty Benefits for Dividend, Interest and Royalty Income of Nonresident Income Earners*, dated October 24, 2016). The preferential treaty rates shall be applied by the withholding agent/income payor provided that the non-resident income recipient submits, before the dividends are credited or paid, a Certificate of Residence for Tax Treaty Relief (CORTT) Form that complies with Revenue Memorandum Order No. 8-2017. After the remittance of the withholding tax to the BIR, the withholding agent/income payor shall submit within 30 days an original copy of the duly accomplished CORTT Form.

### **Documentary Stamp Tax**

Beginning 1 January 2018, the original issue of shares is subject to a documentary stamp tax ("DST") of ₱2.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. The Philippines imposes a DST upon the transfer outside the PSE of shares issued by a Philippine corporation at the rate of ₱1.50 on each ₱200, or a fractional part thereof, of the par value of the shares.

The DST is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable by either or both the vendor or the vendee of the shares.

However, the sale, barter or exchange of shares of stock listed and traded at the PSE is exempt from documentary stamp tax.

#### ***Estate and Gift Taxes***

Shares issued by a domestic corporation are deemed to have a Philippine situs and their transfer by way of a succession or donation is subject to Philippine estate and donor's taxes.

The transfer by a deceased Philippine resident to his heirs of the Preferred Shares shall be subject to an estate tax which is levied on the net estate of the deceased at a rate of 6.0%. A holder of the Preferred Shares who is a Philippine resident shall be subject to donor's tax based on the total gifts in excess of ₱250,000.00 exempt gift made during the calendar year on the transfer of the Preferred Shares by donation at a rate of 6.0%.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. The estate tax and the donor's tax, in respect of the Preferred Shares, shall not be collected: (1) if the decedent at the time of his death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (2) if the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

In case the Preferred Shares are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Preferred Shares exceeded the value of the consideration may be deemed a gift, and donor's taxes may be imposed on the transferor of the Preferred Shares, based on Section 100 of the Philippine Tax Code, provided that a transfer of property made in the ordinary course of business (a transaction which is a bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

#### ***Taxation outside the Philippines***

Shares of stock in a domestic corporation are considered under Philippine law to be situated in the Philippines and any gain derived from their sale is entirely from Philippine sources; hence, such gain is subject to Philippine income tax and the transfer of such shares by gift (donation) or succession is subject to the donors' tax or estate tax.

The tax treatment of a non-resident holder in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of its domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations of non-resident holders of shares of stock under laws other than those of the Philippines.

**EACH PROSPECTIVE HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE PREFERRED SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.**

## **THE PHILIPPINE STOCK MARKET**

*The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the Joint Issue Managers, Joint Lead Underwriters, and Joint Bookrunners, or any of their respective subsidiaries, affiliates or advisors in connection with the offer and sale of the Preferred Shares.*

### **Brief History**

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. The PSE previously maintained two trading floors, one in Makati City and the other in Pasig City, which were linked by an automated trading system that integrated all bid and ask quotations from the bourses. In February 2018, the PSE transferred to its new office located at the PSE Tower, Bonifacio Global City, Taguig City. The PSE Tower houses the PSE corporate offices and a single, unified trading floor.

In June 1998, the Philippine SEC granted the Self-Regulatory Organization status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE had an authorized capital stock of ₱120 million, of which 61.2 million shares were subscribed and fully paid-up as of June 30, 2018. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President of the PSE.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's Main Board or the Small, Medium and Emerging Board. Recently, the PSE issued Rules on Exchange Traded Funds ("ETF") which provides for the listing of ETFs on an ETF Board separate from the PSE's existing boards.

The PSE has a benchmark index, referred to as the PSEi, which reflects the price movements of the 30 largest and most active stocks at the PSE. The PSEi is a free float market capitalization-weighted index.

With the increasing calls for good corporate governance and the need to consistently provide full, fair, accurate and timely information, the PSE adopted a new online disclosure system to support the provision of material information coming from listed companies and enhance access to such reports by the investing public. In December 2013, the PSE Electronic Disclosure Generation Technology (EDGE), a new disclosure system co-developed with the Korea Exchange, went live. The EDGE system provided a dedicated portal for listed company disclosures and also offered a free-to download mobile application for easy access by investors.

In June 2015, the PSE shifted to a new trading system, the PSEtrade XTS, which utilizes NASDAQ's X-stream Technology. The PSEtrade XTS, which replaced the NSC trading platform provided by NYSE Euronext Technologies SAS, is equipped to handle large trading volumes. It is also capable of supporting the future requirements of the PSE should more products and services be introduced.

In November 2016, the Exchange received regulatory approvals to introduce new products in the stock market – the Dollar Denominated Securities and the Listing of PPP Companies.

In June 2018, the PSE received approval from the Philippine SEC to introduce short selling in the equities market.

The PSE launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of 10 guidelines embodying principles of good business practice and based on internationally recognized corporate governance codes and best practices

The table below sets out movements in the composite index as of the last business day of each calendar year from 2006 to 2018, and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	PSEi Level	Number of Listed Companies	Market Capitalization (in ₱ billion)	Value Turnover (in ₱ billion)
2006	2,982.54	239	7,173.19	572.63
2007	3,621.60	244	7,976.84	1,338.25
2008	1,872.85	246	4,072.16	763.90
2009	3,052.68	248	6,032.22	994.15
2010	4,201.14	253	8,866.11	1,207.38
2011	4,371.96	253	8,696.96	1,422.59
2012	5,812.73	254	10,930.09	1,771.71
2013	5,889.83	257	11,931.29	2,546.18
2014	7,230.57	263	14,251.72	2,130.12
2015	6,952.08	265	13,465.57	2,151.41
2016	6,840.64	265	14,438.77	1,929.50
2017	8,558.42	267	17,583.13	1,958.36
2018	7,466.0	267	16,150.0	1,740.0

Source: PSE

### Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Equities trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m. for the morning session, and resumes at 1:30 p.m. and ends at 3:30 p.m. for the afternoon session. Trading days are Monday to Friday, except legal and special holidays and days when the BSP clearing house is closed.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of that security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:



- In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50% of the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60%. All orders breaching the 60% static threshold will be rejected by the PSE.
- In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20% for security cluster A and newly-listed securities, 15% for security cluster B and 10% for security cluster C); otherwise, such order will be rejected by the PSE.

### Non-Resident Transactions

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

### Settlement

The Securities Clearing Corporation of the Philippines ("**SCCP**") is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the PSE;
- guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund; and
- performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book entry system of the PDTC. Each PSE Trading Participant maintains a Cash Settlement Account with one of the nine existing Settlement Banks of SCCP which are BDO Unibank, Inc., Rizal Commercial Banking Corporation, Metropolitan Bank & Trust Company, Deutsche Bank, Union Bank of the Philippines, The Hongkong and Shanghai Banking Corporation Limited, Maybank Philippines, Inc., Asia United Bank, and China Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("**CCCS**") system on May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each clearing member. All cash debits and credits are also netted into a single net cash position for each clearing member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

## Scriptless Trading

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares in favor of the PCD Nominee Corporation ("**PCD Nominee**"), a corporation wholly-owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares lodged in the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of the PCD Nominee through the PDTC participant will be recorded in the issuing corporation's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to the PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP Central Clearing and Central Settlement system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare

and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of the PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the PCD Nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

#### **Amended Rule on Lodgment of Securities**

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

For listing applications, the amended rule on lodgment of securities is applicable to:

- The offer shares/securities of the applicant company in the case of an initial public offering;
- The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Philippine SEC in the case of a listing by way of introduction;
- New securities to be offered and applied for listing by an existing listed company; and
- Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent of the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on the listing date.
- On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the listed company's registry as of confirmation date.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgement of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the PSE shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the PSE.

### **Issuance of Stock Certificates for Certificated Shares**

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

### **Amended Rule on Minimum Public Ownership**

Under the PSE Amended Rule on Minimum Public Ownership, listed companies are required, at all times, to maintain a minimum percentage of listed securities held by the public of 10.0% of the listed companies' total issued and outstanding shares (i.e., exclusive of treasury shares), or at such percentage that may be prescribed by the PSE. For purposes of determining compliance with the MPO, shares held by the following are generally considered "held by the public": (i) individuals (for as long as the shares held are not of a significant size (i.e., less than 10.0%) and are non-strategic in nature); (ii) trading participants (for as long as the shares held are non-strategic in nature); (iii) investment and mutual funds; (iv) pension funds; (v) PCD nominees if this account constitutes a number of shareholders, none of which has significant holdings (provided that if an owner of shares under the PCD Nominee has a shareholding that is 10% or more of the total issued and outstanding shares, then this shareholder is considered a principal stockholder); and (vi) social security funds.

Listed companies which become non-compliant with the MPO on or after January 1, 2013 will be suspended from trading for a period of not more than six (6) months and will automatically be delisted if it remains non-compliant with the MPO after the lapse of the suspension period. Suspended or delisted shares will not be traded on the exchange. In addition, sale of shares of listed companies that do not maintain the MPO are not considered publicly listed for taxation purposes and should, therefore, be subjected to capital gains tax and documentary stamp tax.

In accordance with the SEC Memorandum Circular No. 13 Series of 2017 issued on December 1, 2017, the MPO requirement on initial public offerings is increased from 10.0% to 20.0%. For existing publicly listed companies, the existing rules and/or guidelines of an exchange on minimum public float duly approved by the SEC still apply. The PSE rule on MPO requires that listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of 10.0% of the listed companies' issued and outstanding shares, exclusive of any treasury shares, or as such percentage that may be prescribed by the PSE. As of date, the SEC is looking at increasing the MPO requirement of existing listed companies to 15.0%, such proposed rules on MPO is yet to be issued by SEC for comments by the public.




**ANNEXES**

**PETRON CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME FOR  
THE YEARS ENDED DECEMBER 31, 2016, 2017, AND 2018**

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OF COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

PETRON CORPORATION

By:

  
**RAMON S. ANG**  
President

SUBSCRIBED AND SWORN to before me on 25 MAR 2019 in MAKATI CITY, Philippines, affiant exhibiting to me his Passport with No. P4589066A issued on 2 October 2017 as competent evidence of identity.

Doc. No. 7 ;  
Page No. 3 ;  
Book No. II ;  
Series of 2019.

**FRANCES ALYSSA U. SANTOS**  
Appointment No. M-514  
Notary Public for Makati City  
Until December 31, 2019  
Liberty Center Plaza, 2nd Floor  
104 H.V. Dela Costa Drive, Makati City  
Roll No. 72910  
PTR No. 7339300/Makati City/01-00-2019  
IBP No. 060470/Makati City/01-03-2019



**PETRON CORPORATION AND SUBSIDIARIES**

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

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

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

*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>	<b>(793)</b>	<b>1,856</b>
<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>	<b>3,299</b>	<b>522</b>
<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.