

A FORCE FOR
CHANGE
2018 ANNUAL REPORT

95%
RMP-2 CRUDE
UTILIZATION RATE

379,000
BARRELS OF
ADDITIONAL STORAGE

OVER **2,400**
SERVICE STATIONS IN
THE PHILIPPINES

97%
NATIONWIDE
DELIVERY
PERFORMANCE

2,700
EMPLOYEES IN THE
PHILIPPINES



Our Vision and Mission

To be the leading provider of total customer solutions in the energy sector and its derivative businesses.

We will achieve this by:

- Being an integral part of our customers' lives, delivering consistent customer experience through innovative products and services;
- Developing strategic partnerships in pursuit of growth and opportunity;
- Leveraging on our refining assets to achieve competitive advantage;
- Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence;
- Caring for community and the environment;
- Conducting ourselves with professionalism, integrity, and fairness; and
- Promoting the best interest of all our stakeholders.

Contents

2	We are Petron
4	Message to Stockholders
13	85 Years of Serving Our Customers' Needs and More
18	Optimizing Our Refining Capabilities
22	Laying Stronger Foundations for Future Growth
26	Cultivating a Culture of Excellence
28	Raising the Bar Higher in Malaysia
34	Empowering Our Communities
44	Board of Directors
48	Corporate Governance
62	Financial Highlights
64	Audit Committee Report
65	Financial Statements
66	Statement of Management's Responsibility for Consolidated Financial Statements
68	Report of Independent Auditors
75	Consolidated Statements of Financial Position
77	Consolidated Statements of Income
78	Consolidated Statements of Comprehensive Income
79	Consolidated Statements of Changes in Equity
82	Consolidated Statements of Cash Flows
84	Notes to the Consolidated Financial Statements
195	Terminals and Airport Installations
196	Products List



5,000
INDIVIDUALS SERVED
IN PETRON CLINICS

4,000
BENEFICIARIES
OF LIVELIHOOD
ASSISTANCE PROGRAM
SINCE 2011

OVER **16,000**
SCHOLARS
SINCE 2002

85
HECTARES ADOPTED
FOR REFORESTATION
ON 85TH YEAR

85 years of fueling success

ABOUT THE COVER

In 2018, Petron celebrated 85 years of fueling the nation. Throughout many decades of socio-economic changes, we have taken a pivotal role in ensuring a steadfast supply of world-class fuels, driving economic growth, and fueling millions of lives. This is our promise to the Filipino people and a commitment we will carry out in the next 85 years and beyond. We are Petron. We fuel success. We fuel progress. We are a Force for Change.



we are **PETRON**

Petron Corporation is the largest oil refining and marketing company in the Philippines and is a leading player in the Malaysian fuel industry. We have a combined refining capacity of 268,000 barrels-per-day, producing a full-range of world-class fuels and petrochemicals to fuel the lives of millions of Filipinos and Malaysians.

Here in the Philippines, we supply nearly 40% of the country's total fuel requirements through the operation of our 180,000 barrel-per-day oil refinery in Bataan. Considered one of the most advanced facilities in the region, our refinery processes crude oil into a full range of petroleum products including gasoline, diesel, LPG, jet fuel, kerosene and petrochemicals.

From Bataan, we move our products mainly by sea to nearly 30 terminals located across the archipelago. Through our robust distribution network, we fuel strategic industries such as power-generation, manufacturing, mining, agribusiness, among others. Petron also supplies jet fuel at key airports to international and domestic carriers.

Through 2,400 service stations – the most extensive in the country – we retail gasoline, diesel, and autoLPG to motorists and the public transport sector. Our wide range of world-class fuels includes Blaze 100 Euro 6, XCS, Xtra Advance, Turbo Diesel and Diesel Max. We also sell our LPG brands Gasul and Fiesta Gas to households and commercial consumers through an extensive retail network.

We source our fuel additives from our blending facility at the Subic Bay Freeport. This gives us the unique capability to formulate additives suited for Philippine driving conditions.

We have partnered with popular food and service locator chains to give our customers a one-stop, full-service experience. We have San Mig Food Ave. and Treats convenience stores in select stations, offering a wide variety of food, beverages, and personal items for motorists-on-the-go.

In line with our efforts to increase our presence in the region, we continue to expand our business in Malaysia, which comprises integrated refining, distribution, and marketing. We operate an 88,000 barrel-per-day refinery in Port Dickson, 12 storage facilities and a retail network of more than 640 service stations.

As part of the San Miguel Group – one of the largest and most diversified conglomerates in the Philippines – we are committed to expand and grow our business to ensure that we have a positive impact in markets where we are present.

We are guided by our vision “to be the leading provider of total customer solutions in the energy sector and its derivative businesses.”





Eduardo M. Cojuangco, Jr.
Chairman

Message to stockholders

“ Despite external factors that threatened our performance, we stayed committed to our promise to fuel the nation’s needs – holding fast to the values that have sustained us over the last 85 years.

”

Dear fellow stockholders,

The year 2018 was one of great challenges but also great opportunities for our business. We had to contend with several factors beyond our control, among them volatile oil prices, uncertain market conditions, and significant policy changes, alongside competition’s persistent efforts to increase market share.

A supply glut and geopolitical tension in the Middle East caused oil prices to drop in the last quarter. From hitting US\$84 per barrel in October, benchmark Dubai crude plummeted to less than US\$53 per barrel by year-end. The steep decline in oil prices put pressure on the margins of downstream companies around the world, including Petron as higher-price inventories were sold at lower prices.

Locally, it was the implementation of TRAIN Law, which raised excise taxes on several petroleum products, that hit us the hardest. TRAIN resulted in a steep rise in the country’s inflation rate, which peaked at 6.7% in September and October, and caused pump prices to reach record highs. The price war among stations also intensified as more small players entered the industry.

Looking back, we were able to overcome the many challenges of 2018. Despite external factors that threatened our performance, we stayed committed to our promise to fuel the nation’s needs – holding fast to the values that have sustained us over the last 85 years while executing strategies that would ensure that we remain the largest and fastest-growing oil company in the Philippines.



Ramon S. Ang
President and Chief Executive Officer

“ Our 180,000 barrel-per-day oil refinery in Bataan hit an annual utilization rate of 95 percent, its highest on record, as it further increased production of high-value fuels and petrochemicals. ”

Rising above challenges

Our fundamentals remained strong despite a tough business environment. We reported consolidated sales of P557.4 billion for full year 2018, up 28% from the P434.6 billion recorded in 2017. Combined sales volume from our Philippine and Malaysian operations reached 108.5 million barrels, slightly higher than the 107.8 million barrels sold in 2017.

But because of the sudden decline in global crude prices, resulting in an inventory loss of P10 billion towards the end of 2018, our net income dropped 50% to P7.1 billion. This would have been higher if not for our inventory losses, which comprises part of our cost of sales. Thus, operating income also saw a decline at P18.9 billion, 32% lower than P27.6 billion of the previous year.

While our profit performance was not as spectacular as previous years, we remained the market leader, capturing 40% of the market and maintaining our lead in the highly-competitive Retail, Industrial, and LPG segments.

Our 180,000 barrel-per-day oil refinery in Bataan hit an annual utilization rate of 95%, its highest on record, as it further increased production of high-value fuels and petrochemicals. In 2018, petrochemical and polypropylene sales grew by 3% and 28%, respectively, versus 2017. This drove the increase in export volume, which surpassed last year by over 7%.

Petron Malaysia also turned in good results driven by its strong Retail performance, reflecting higher demand for our high-performance fuels.

“As the only homegrown oil major, our unique understanding of the market inspired us to be more innovative, creative, and daring in satisfying the dynamic needs of our customers.”

Cementing our leadership

Keeping in mind that volume remains the main driver of our business, we continued to pursue programs that will further cement our leadership in this major segment. This has propelled us to further expand our reach and bring the unique **Petron Best Day** experience to more customers.

Our network expansion program continued to blaze ahead of competition. We added over 150 stations in the Philippines and Malaysia, bringing our total count to over 3,000. In our desire to give the complete one-stop shop experience, we continued to improve our stations, partnering with more establishments and opening additional convenience stores.

We also cemented our lead in the LPG trade as we boosted the availability of our safe and economical LPG brands, **Gasul** and **Fiesta**. LPG sales grew 5% as we established new branch stores and locked in major commercial accounts.

The same principle has allowed us to grow our major share in the Industrial trade with our volumes increasing by 7% during the year. As we aimed to fuel progress, we continued to power strategic industries including aviation, manufacturing, agriculture, transportation, and power generation.

We give our best

As the only homegrown oil major, our unique understanding of the market inspired us to be more innovative, creative, and daring in satisfying the dynamic needs of our customers.

Cementing our authority in products innovation, our premium diesel brand, **Turbo Diesel** was further enhanced as a high-performance, technologically-advanced fuel. We scaled up our promotions of this product, as well as our other powerful automotive fuels, all with **TriAction Advantage** by fueling the motoring community both in local and international platforms. We also improved our engine oils offering with the launch of our top-tier line, the **Petron High Temperature Protection**.

We strengthened our loyalty programs to further differentiate the Petron brand. As a result, we now have 5.8 million **Petron Value Card** holders and over 2,500 active **Petron Fleet Card** accounts, overall contributing a notable 43% to our Reseller volumes. We also supported the government's move to provide much-needed relief in diesel prices through our **Super Driver Card**, which provides public utility jeepneys with added discounts and benefits.

Building on our strengths

Our way of doing business is always geared towards excellence, making sure each step is strategic from thought to execution. From end to end, we ensure that we provide the most value for our customers.

Under our **Logistics Master Plan**, we continued to improve our logistical capabilities by increasing our storage capacity and constructing new facilities in high-growth areas. We catered to the growing demand in the aviation sector through our expanded Jet-A1 facilities at the Mactan Airport in Cebu and the newly commissioned Panglao International Airport in Bohol.

With nearly 30 terminals nationwide, we have in place measures to ensure safety and efficiency in every aspect of our operations. In 2018, all our terminals sustained their IMS certification while our Operations Group accumulated 81 million safe man-hours, higher than 2017's 73 million safe man-hours.

Our conscientious efforts to optimize resources not only benefited us in terms of savings but also increased satisfaction at the receiving end. Through our delivery optimization programs, we were able to enhance nationwide delivery performance to 97%.

The same can be said for Petron Malaysia as we increased our logistics capacities in support of our business expansions. We completed a new 50,000-barrel tank at our terminal in Bagan Luar and installed a new LPG filling machine at our Port Dickson Terminal.

Enriching lives for good

Our success would only mean so much if we are unable to share it with others.

In 2018, our flagship CSR program, **Tulong Aral ng Petron** fueled the dreams of nearly 3,400 scholars from elementary to college. We also provide our scholars with an environment conducive to learning through **Brigada Eskwela**, where Petron's **Volunteers in Action** work together to refurbish public school classrooms nationwide.

The country's longest-running roadside assistance program, **Lakbay Alalay** celebrated its 33rd year. In Malaysia, we continued to work closely with their Road Safety Department to bring our long-running road safety program to more universities, schools, and service stations.

As we turned a milestone 85 years in business, we adopted 85-hectares of land for reforestation in several areas in Luzon, Visayas, and Mindanao. Our employees, local residents, and representatives from the LGU and DENR all pitched in to help us carry out our commitment to fuel environmental protection.

We also reinforced our pledge to community development with the opening of our newest health clinic in Rosario, Cavite.

85 years of being a Force for Change

Everyday, we fuel the lives of millions of Filipinos. This is our purpose – we fuel success, we fuel progress, and we fuel real and sustainable change.

Our growing retail presence means new opportunities for our countrymen to participate in the downstream business with a company they can trust, and in doing so, generate more employment and economic activity. Our logistics upgrades also drive progress in our communities as we partner with local businesses. RMP-2, the single largest investment made by a Filipino company in the country, powers key industries and testifies to the Filipino's innate ingenuity and talent.

Challenging business environments have come and gone in our more than eight decades of existence. Nonetheless, we remain steadfast and focused on ensuring the continued growth and profitability of our company. Looking ahead, we are set to expand our Polypropylene Plant, which would provide us with better margins. Our new Lube Oil Blending Plant, in turn, will significantly increase our lube trade's performance and operating efficiencies.

Driven by our values of excellence, leadership, and strong partnerships, we shall remain committed to reinventing and growing our business. We thank you, our shareholders, business partners, and customers for your continued trust and support. Together, we will continue to steer our company to new heights and be a Force for Change in the years to come.



Eduardo M. Cojuangco, Jr.
Chairman



Ramon S. Ang
President and Chief Executive Officer

“

Everyday, we fuel the lives of millions of Filipinos. This is our purpose – we fuel success, we fuel progress, and we fuel real and sustainable change.

”



Fueling growth and progress

We see a horizon of opportunities before us which we commit to explore, experience, and conquer.





“ We continued to broaden our reach, refine our commitment to product and service excellence, and create value in a manner consistent with our promise of being a Force for Change. ”

85 YEARS

of serving our customers' needs and more

In 2018, we celebrated 85 years of fueling the nation – a milestone made more significant by our continued leadership despite a challenging year. Focusing on serving the dynamic needs of our customers, we continued to broaden our reach, refine our commitment to product and service excellence, and create value in a manner consistent with our promise of being a Force for Change.

We pursued our retail expansion program while striving to fuel progress in areas where we are present. We opened 120 new stations – more than any of our competitors – and in the process, created new employment and economic opportunities across the country.

As we built new stations, we also improved our existing ones to enhance customer service. This includes the rehabilitation of nine stations, upgrade of pumps and tanks at 120 stations, completion of our lighting program at 11 stations, and improvement of restrooms at 715 stations.



over 2,400
service stations
nationwide



Analisa Yu
Petron dealer - Palo, Leyte

In the business of goodwill

Analisa Yu, a service station dealer from Palo, Leyte, epitomizes the same excellence that Petron strives to bring to its customers through its over 2,400 service stations.

When she opened the first of her two Petron stations in 1992, she also began a lifelong commitment to be of service to the people of Palo and its neighboring towns. She started the business at a young age of 24, but even then, she understood the value of thinking ahead and being hands-on, earning many firsts and reaching milestones in record time.

As a form of thanksgiving, she made it a tradition to celebrate the anniversary of her first station, which incidentally falls on her birthday by handing out free meals to the customers. "I believe one really must be giving. I would not have done well without my customers."

In trying times, she quickly mobilizes her team to help with relief operations. Hers was also the very first station to rise from the devastation of Yolanda, fueling the early recovery in this part of Leyte.

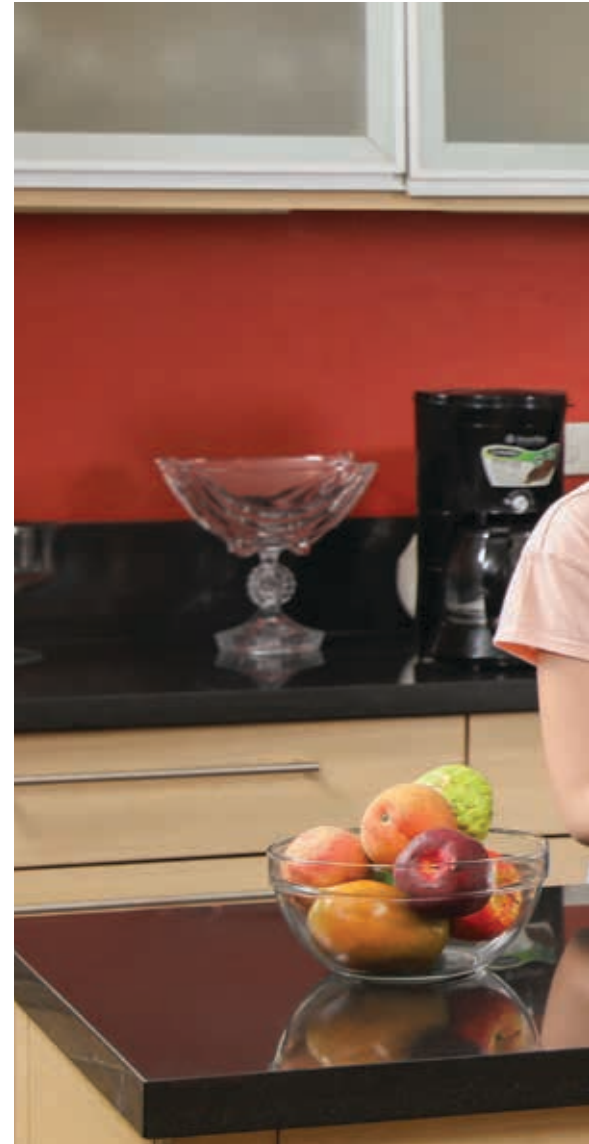
She is as tireless in advocating the value of service to her customers as she is to her stakeholders as well as her family. As head of the **Petron Dealers Association (PETDA)** in VisMin, Analisa goes out of her way to help her fellow dealers succeed. Her legacy is her service through which she continues to make a lasting impact in her community.

In terms of station count, we maintained the largest network in the Philippines with more than 2,400 stations, ensuring that there's always a Petron station nearby. To provide more convenience, we partnered with over 100 food and lifestyle brands and increased the number of our **San Mig Food Ave.** and **Treats** stores.

We saw consistent volume growth in our Industrial trade driven by our leadership in the aviation sector. We sealed new and renewed supply agreements with leading local and international airlines highlighting our world-class aviation fuels.

More households and commercial establishments continued to use our LPG products, **Gasul** and **Fiesta**, thanks to their safe, efficient, and economical features. In line with stronger demand, we opened 127 new branch stores and began offering these products at close to 400 stations. We also gained almost 1,500 new commercial accounts, including **San Miguel Food's Kambal Pandesal**.

We completed eight **Petron Car Care Center (CCC)** and its scaled down version, **Car Care Center Express (CCCE)** outlets to better serve motorists who require automotive maintenance and repair services. Carrying our full line of lubricants and specialty products, our CCC and CCCEs employ well-trained technicians and make use of only state-of-the-art tools and equipment. The market penetration rate for our Lubes and Greases registered double-digit growth during the year as we penetrated nearly 18,000 outlets.



For generations, Filipinos rely on our safe, efficient, and economical Petron Gasul.



Petron Car Care Centers employ skilled mechanics and make use of only state-of-the-art tools and equipment.



Customers who require more than just refueling can stop by our Treats stores for items they need everyday.



Our trailblazing High Temperature Protection (HTP) engine oils provide unparalleled engine protection against extreme operating temperatures.

We are at the forefront of fuel innovation as we further built on our portfolio of top-of-the-line products. We launched a new line of high-performance engine oils that provides unparalleled engine protection against extreme temperatures. **Petron High Temperature Protection (HTP)** uses Polyalphaolefin Base Oil, making it suitable for heavy, stop and go traffic, heavy loads, etc.

Led by our Research and Development Team, we improved our premium **Turbo Diesel** with 60-cetane to deliver optimum performance comparable to 100-octane gasoline.



Petron Turbo Diesel powered the Rainforest Challenge Grand Finals in Malaysia as well as the Philippine Championship Race.

Its enhanced formulation was tested in the **Petron TriAction Performance Run – Diesel Edition**, a 230.7-kilometer road trip involving a week-long series of tests on challenging mountain roads in Northern Luzon. All participating vehicles logged in outstanding results and averaged 20% better than the official Fuel Efficiency Ratings (FER) posted in the 2017 DOE Fuel Economy Run. Turbo Diesel in tandem with **Petron Rev-X** also powered the Rainforest Challenge (RFC), one of the toughest off-road races in the world.

Our **Diesel Max** also proved its merits in a road trip across the islands, traversing nearly 3,000-kilometers of Philippine roads from Manila to Mindanao and back. Despite extreme temperatures and heavy loads, Diesel Max delivered consistent pulling power on the mountain roads as well as smooth acceleration on highways while maintaining clean emissions. As the official fuel of the 2018 Vios Cup, our 95-RON **Petron XCS** provided the same **TriAction** benefits namely, better mileage, better power, and better engine protection to the participating vehicles.

Aside from staying committed to offering the best products and services, we also continued to introduce promos and discount opportunities to reward our most loyal customers. We also forged new partnerships with other sought-after brands to fuel convenience.

All are key to our success and in ensuring that we always give every customer we serve a **Petron Best Day**.



The Lalamove-branded Petron Value Card (PVC) gives partner drivers access to special bonus points, discounts, and other benefits.



Ces Molina
Petron Blaze Spiker

Playing for keeps

There is only a handful of women volleyball players who have stayed with one Philippine Superliga (PSL) franchise. And there is only one player in the **Petron Blaze Spikers** who has celebrated all six championships of the team.

Frances Xinia Molina or Ces is a certified Petron Blaze Spiker. The former National Collegiate Athletics Association (NCAA) superstar from San Beda College joined the Petron team in the 2014 PSL All-Filipino Conference and has been one of its pillars ever since.

She repays the trust given to her by Petron with her fierce dedication to excel in the game, learning from every opportunity, playing her heart out, and motivating her teammates to always be at their best.

That the Petron Blaze Spikers is the most bemedaled PSL team to date is a result of its players' commitment to always work hard, play as a unit, and stay loyal to the team.

"Petron has really taken good care of me since I started. That's why I never went anywhere else. This is where I grew and gained independence," says Ces.

Expressing her respect and appreciation of Petron's commitment to change lives for the better, she shares: "Petron has changed the lives of many people besides us players."

And for all of these, Ces knows that she has found her family with the Petron Blaze Spikers and she is playing for keeps.

Optimizing

our refining capabilities



95%
crude utilization
rate of RMP-2

It was another impressive year for the **Petron Bataan Refinery (PBR)**, marked by major operational breakthroughs. By enabling the full utilization of PBR's 180,000-barrel-per-day capacity, RMP-2 continued to propel our growth forward and strengthen our role in nation-building.

In 2018, we achieved our highest annual crude run equivalent to a 95% utilization rate, surpassing last year's 90% and higher than the global average utilization of 85%. This continuing improvement in our annual utilization rate underlines RMP-2's promise to increase our fuel supply security and to fuel progress not just in Bataan, but the rest of the country.



We accelerated our polypropylene production, delivering our highest annual production output of 160,000 MT.



“ This continuing improvement in our annual utilization rate underlines RMP-2’s promise to increase our fuel supply security and to fuel progress not just in Bataan, but the rest of the country.

”





“ We are nearing completion of our polypropylene plant expansion, which will give us higher margins for relatively smaller volumes. With this, we are that much closer to realizing our vision to become the country’s leading producer of resin by 2020. ”

We also accelerated our polypropylene production, delivering our highest annual production output of 160,000 metric tons (MT), significantly higher than last year’s 115,000 MT. Crucial to this was our development of new polypropylene products and three new product grades suitable for hot-filled containers, food containers, and high-speed fiber manufacturing machines.

We are nearing completion of our polypropylene plant (PPP) expansion, which will give us higher margins for relatively smaller volumes. With this, we are that much closer to realizing our vision to become the country’s leading producer of resin by 2020.

Alongside our commitment to refining excellence, we also achieved new milestones on environmental, health, and safety management. PBR marked its 10th year of upholding its Integrated Management System (IMS) Certification to signify that our processes, environment

systems, and workplace safety are, at the very least, at par with global standards. Total safe-man hours in PBR for the year reached 913,000 thousand without lost time incidents.

In 2018, we passed the IMS External Audit of TUV SUD PSB Phils. on Quality Management System (QMS ISO version 2015) and Occupational Health and Safety Management (BS OHSM version 2007), and the surveillance audit of the Environmental Management System (ISO 14001 version 2015). Our PPP also passed the second surveillance audit of its Quality Management System (QMS ISO version 2015).

To further inculcate eco-friendly practices at the Refinery, we started a waste reduction program which prevents the use of single-use plastics such as styrofoam, straws, plastic utensils, and plastic bottles. This was complemented by an environmental awareness campaign to encourage employees to take a more personal stake in minimizing our environmental footprint.

Laying stronger foundations for future growth



379K barrels
of additional
storage capacity

Fueled by our robust logistics supply chain, we remained dedicated to providing customers with a steady supply of fuel to build a stronger nation. Following a thorough review of our strategic objectives vis-à-vis market conditions, we continued to pursue our **Logistics Master Plan (LMP)** while keeping an eye on operational efficiency and excellence.



“ We continued to pursue our Logistics Master Plan while keeping an eye on operational efficiency and excellence. ”

In anticipation of future demand, we increased the number of storage tanks in key locations, giving us an additional 379,000 barrels of storage for high-value, white products.

We also met the increased requirements in the aviation sector with our Jet-A1 expansion at the brand-new airport terminal in Mactan in Cebu. At the same time, we were the first and so far, only oil company to establish an into-plane facility at the newly commissioned Panglao International Airport in Bohol, serving an average of 713,000 liters per month.

Our Subic Operations, meanwhile, received its first Jet-A1 importation through our Customs Bonded Warehouse (CBW), an initiative that further facilitates sales growth by addressing tax disadvantage.

We also provided logistical support to our LPG trade with the construction of new facilities at our San Fernando Terminal to cater to the growing retail and commercial market in Central Luzon. In addition, we installed LPG filling machines at various high-volume LPG plants across the country.

The growing demand for our superior products pushed us to raise the bar on our product delivery performance. Focusing on product delivery security and improvement, we launched our Central Monitoring System (CMS) and continued with our Tank Truck Modernization Program to ensure a safer and more reliable fleet. This resulted in a 97% nationwide delivery performance in 2018, even higher than 2017's 95%.



Even as we focused on enhancing and expanding our systems and facilities, we maintained our adherence to global standards on health, safety, and environment. As a result, all our terminals remained IMS-certified.

Our Operations Group's safety performance further improved with an accumulated 81 million safe man-hours in 2018, higher than 2017's 73 million.

Our terminal in Mandaue, Navotas, and Batangas also reached new milestones based on their individual safety records.

In support of our safety mandate, our personnel are trained in disaster preparedness particularly in the aspect of fire control and prevention. This was particularly tested when we helped control residential fires in our fenceline communities in Rosario, Iloilo, and Zamboanga, preventing any further damage.

As we promote a culture of environmental sustainability, eight of our terminals obtained Platinum status in our internal environmental management program. We also intensified our water conservation efforts in synergy with our parent company San Miguel Corporation's Water for All program, which aims to reduce scarce water production by 50% by 2025.



Regular firefighting drills are conducted to sharpen skills in fire control and emergency response.

Environmental Health and Safety Performance

Management Systems

Integrated Management System	29 Terminals
Occupational Health/Safety Management System, OHSAS 18001:2007	Petron Bataan Refinery 29 Terminals
Quality Management System, ISO 9001	Petron Bataan Refinery 29 Terminals
Environmental Management System, ISO 14001	29 Terminals
International Ship & Port Facility Security	15 Terminals

Greening Programs

Terminal Ecowatch Program	Encompasses six environmental areas in its assessment: <ul style="list-style-type: none"> • Wastewater Quality Management • Air Quality Management • Solid Waste Management • Toxic and Hazardous Waste Management • Environmental Impact Assessment • Environmental Management Systems
---------------------------	---

Environmental Certificates and Awards

Platinum rating awarded to 8 Terminals in the 2018 Terminal Ecowatch Program, with 2017 awardees maintaining their Platinum status	Bawing Terminal Davao Terminal Iloilo Terminal Mandaue Terminal Nasipit Terminal Subic Terminal Tacloban Terminal Tagoloan Terminal
Bureau of Fire Protection Certificate of Appreciation for efficient and quick response to residential fire incident	Rosario Terminal Zamboanga Terminal
Department of Education Salamat Awardee	Poro Terminal
Department of Environment and Natural Resources-Environmental Management Bureau Best Adopter	Bawing Terminal
Department of Environment and Natural Resources - Environmental Management Bureau Plaque of Appreciation for continuous support on "Adopt-an-Estero" Program	Zamboanga Terminal
Philippine Coast Guard Certificate of Recognition	Rosario Terminal
Department of Environment and Natural Resources - Environmental Management Bureau MIMAROPA Certificate of Appreciation	Palawan Terminal
Certificate of Recognition for the active participation in Bantayan sa Hari and Pelaez Coastal Cleanup	Mandaue Terminal
Top 11 Education Stakeholder and Benefactor for CY 2018	Mactan Aviation Terminal

Cultivating a culture of excellence



We maintained our leadership through the hard work and dedication of our employees, who share in our vision. Truly, our people are our most important assets and our partners in success.





In support of our growing business, we brought in a total of 336 new employees in 2018, closing the year with a manpower count of 2,681. As we aim to foster professional growth, we dedicated an average of 31 hours of training per employee through various programs for specific skills and competency gaps.

We also updated our general management and leadership development program to identify key talents and prepare them for future responsibilities. At the same time, we prioritized the growth of our high potential talents through our mentoring and coaching program to further facilitate their advancement in the organization.

In Petron, caring for our employees also means ensuring their satisfaction and security through tailored and competitive packages, a safe and healthy working environment, and activities that cater to their well-being.

Our employees are entitled to a comprehensive medical assistance program, which covers medical examinations, vaccinations, health advisories, and safety trainings. Their dependents, as well as members of our host communities, can also avail of the same benefits.

Moreover, we give our people an outlet for their other interests and talents outside of their daily work. Various sports tournaments, talent competitions, and other fun and friendly contests are held year-round to promote teamwork, camaraderie, and a well-balanced atmosphere.

2018 Social Performance			
			
Labor Practices	Health and Safety	Human Rights	Product Responsibility
<p>2,681 Number of employees (Philippines)</p>	<p>913,000 Safe-man hours for PBR in 2018</p>	<p>Zero Incidence of child labor in any aspect of operations</p>	<p>45,680 Feedback and inquiries received and handled by Petron Customer Relations Group and Sales Support Services</p>
<p>4.83% Attrition rate, lower than industry's 15%</p>	<p>81 million accumulated Safe-man hours for Operations</p>	<p>Zero Incidence of discrimination in any aspect of operations</p>	
<p>100% Percentage of employees receiving regular performance reviews</p>		<p>Zero Operations and Suppliers identified in which the right to exercise freedom of association and collective bargaining may be at risk</p>	

“

We maintained our leadership through the hard work and dedication of our employees, who share in our vision. Truly, our people are our most important assets and our partners in success.

”

Raising the bar higher in Malaysia



over **640**
service stations

The year 2018 was also not without challenges for Petron Malaysia. But as in the Philippines, our Malaysian operations remained strong, resilient, and responsive to the dynamic and highly competitive market. We continued to change the landscape through innovative offerings, achieving remarkable growth across all aspects of the business.

Our retail expansion program allowed us to bring our products and services closer to more consumers with our network of service stations now reaching more than 640 stations. In response to higher demand for our products, more service stations now offer our high-performance **Blaze 100 Euro 4M** and our clean and environment-friendly **Turbo Diesel Euro 5**.

Focusing on customer service excellence, we continued to redefine convenience at service stations through our **Fuel Happy** programs, including setting a new benchmark for cleanliness in restrooms.



In another groundbreaking move, Petron Malaysia was the first to offer LPG products at service stations in the country.

“ Our Malaysian operations remained strong, resilient, and responsive to the dynamic and highly competitive market. ”



As we put a premium on partnerships, we strengthened our ties with our valued allies like Malaysia Airlines and Marvel to further improve our **Petron Miles Card** loyalty program, which had over 3 million users by the end of the year. We also intensified our support for motorsports and extreme sports in the country as well as in the region through our participation in the Formula 4 South East Asia Championship and the 4x4 Rainforest Challenge.

We reached a major milestone when we were chosen to be one of the government's fuel suppliers. This underscores our commitment to nation-building as well as the superior quality of our products. As the nation's

reliable fuel partner, we also continued to power industries essential to the country's growth through our commercial business.

Our aviation business, meanwhile, delivered another solid performance as we served a range of multinational and regional carriers at the Kuala Lumpur International Airport. We even enhanced our services by investing in new facilities to cater to the growing demand.

Petron Gasul registered strong sales, and with the expansion of our dealer network, continued to serve the needs of more households, commercial outlets, and industries. We also marked another industry first by offering this product at service stations alongside our other services – a convenience we offer under one roof.

In line with our efforts to bring our customers utmost convenience, Petron Malaysia was named Most Valuable Brand in the Oil and Gas category in the BrandLaureate Awards. We were also recognized at the Putra Brand Awards for the fourth consecutive year.

We initiated improvements in our Port Dickson Refinery (PDR) to strengthen our capacity to produce fuels that meet or even exceed government standards. We will soon be able to produce more environment-friendly diesel products that comply with Euro 5 specifications with the nearing completion of the Diesel Hydrotreater project in 2020. Similarly, we enhanced our supply chain and increased our logistics capacities to ensure operational excellence at all times.



Our enhanced supply chain and increased logistics capacities ensure operational excellence at all times.



Safety remained a central consideration in the way we do business. Thus, we recorded 16 years without Lost Time Injury (LTI) at PDR and 21.8 years without LTI across our terminals. Safety is also consistently practiced at our stations, where we achieved 2.2 million man-hours without LTI.

In recognition of our operational excellence, PDR received the Prime Minister's Hibiscus Award for 'Exceptional Achievement in Environmental Performance' in 2017/2018. We also bagged the Grand Award for 2017 Occupational Safety & Health excellence performance by the Malaysian Society for Occupational Safety & Health (MSOSH). Seven terminals under the Group also won various gold awards in MSOSH.

“ We initiated improvements in our Port Dickson Refinery to strengthen our capacity to produce fuels that meet or even exceed government standards. ”



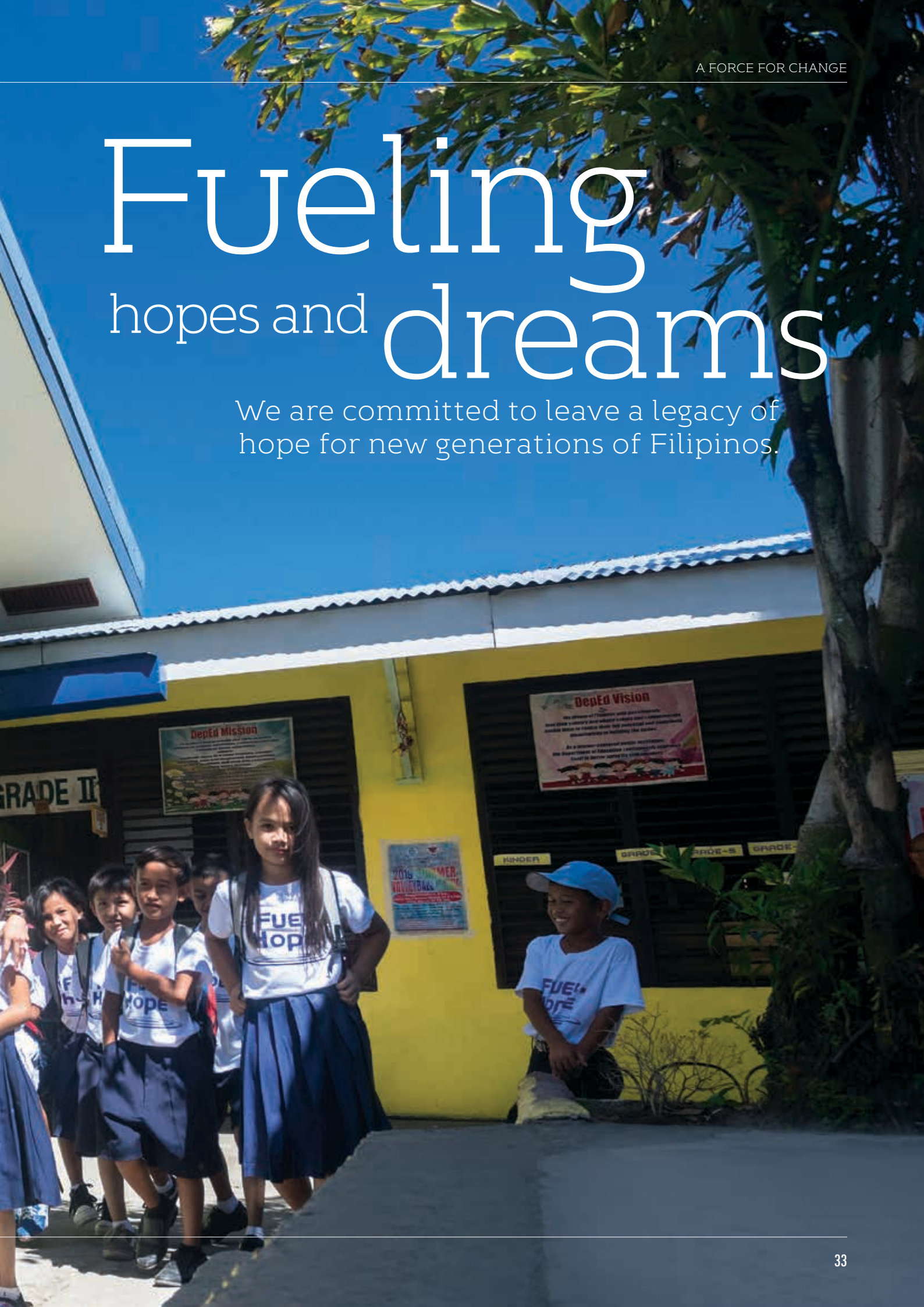
PETRON SCHOOL

ANIBONG ELEMENTARY SCHOOL, TACLOBAN CITY



Fueling hopes and dreams

We are committed to leave a legacy of hope for new generations of Filipinos.



Empowering OUR communities



over **16,000**
scholars
since 2002

For 85 years, Petron has been a Force for Change in the lives of Filipinos. Steadfast in our promise to uplift the lives of our communities, we continued to provide sustainable solutions to the most pressing issues in our society in ways that made use of our strengths as an oil industry leader.

Through the extensive efforts of Petron Foundation, Inc. (PFI), we were able to strengthen our commitment to fuel **HOPE (Helping Overcome Poverty Through Education)** through our programs on education, environment, health, livelihood, and community engagement.

The **Tulong Aral ng Petron (TAP)** program continued to empower the youth as it successfully supported a total of 3,334 scholars from elementary to college in schools across the country.

Engr: Ronel Sembrano, a TAP scholar since grade 1 and the fourth TAP graduate to work for Petron, is now part of our Operations Team. In addition, the Petron Bataan Refinery's college scholarship program has produced 183 graduates, all of which are now hired by our Refinery.



TAP scholars are provided with school supplies, shoes, uniforms, and daily meal allowances.

“

We continued to provide sustainable solutions to the most pressing issues in our society in ways that made use of our strengths as an oil industry leader.

”



Mark Joel Dela Cruz
TAP scholar turned Petron employee

Paying it forward

Graduating with a bachelor's degree in Mechanical Engineering from the Mapua Institute of Technology, Mark Joel Dela Cruz says he owes his success to being a **Tulong Aral ng Petron (TAP)** scholar. But what he treasures most aside from his achievements are the life lessons that being a TAP scholar has taught him.

He compares this journey to being handed an entire book to write on after being content with having just a small piece of paper.

"This analogy shows that it is a great deal to be given an opportunity to dream and to reach that dream. It is rare to be offered help and be given a chance to exceed our limitations," he explains.

Petron continues to provide opportunities to those who have the potential to succeed but lack the resources to do so. Mark, who was a TAP scholar from Grade 4, is now working in Petron as a North Luzon Area Engineer. But his story and his aspirations do not end there.

"The experience I had with Petron not only nurtured my capabilities but also honed me to become a better person. Now, I want to give back and share everything Petron has taught me. I am committed to extend a hand to any child who wants to reach his or her dream—just like what Petron has done for me."

We also partnered with the Ateneo Center for Educational Development in training 100 teachers from TAP partner schools, enhancing their teaching strategies and classroom management via the **Teacher Training Program**. This complements the **Best U Can Be (BUCB)** workshop, where TAP high school scholars are engaged in life skills and leadership trainings.

Our **Youth in Entrepreneurship and Leadership Development (YIELD)** Program continued to provide on-the-job training for incoming Grade 10 students of Muntinlupa Business High School (MBHS) on back office and food service operations at our stations.

We started enriching the livelihood of families in Rosario, Cavite as mothers of TAP scholars in the area underwent training in sewing old promotional materials into sturdy tarpaulin bags. This expanded their skillset and introduced more business opportunities while helping save the environment.





Beneficiaries of the livelihood program in Rosario, Cavite are assured of having a consistent market for their output with Petron.

Sewing together for success



Joan Ramos
President, Rosario TAP Livelihood Association

The day is always busy for Joan Ramos. After helping her children get ready, the 41-year old resident of Rosario, Cavite walks them to school, then spends the day fulfilling her duties as an active **Tulong Aral ng Petron (TAP)** parent and the president of its livelihood group before going back home to take care of her family.

Known as the **Rosario TAP Livelihood Association**, this group was established in 2014, the same year Petron's scholarship program was introduced to the town. It has since been nonstop for Joan or 'Ate Jo' as she is fondly called. She is one of its first members, helping the group form its foundations, keeping it intact, and pushing to elevate their work from rag making to dress making, and now to making tarpaulin

bags commissioned by Petron for its Annual Stockholders' Meeting.

After four years as a Petron beneficiary and partner, she continues to guide other TAP parents. "We can now sustain our daily needs and get our children's allowance from the income we earn through the livelihood group. Even our other children who are not TAP scholars, we are now able to support."

Joan has always shown incredible grit and kindness. And in keeping with the values of Petron, she has made it her mission to use her personal growth as an instrument to ensure a better future for her family and the success of her community.



With the help of employee volunteers Petron fuels a more sustainable future through various environmental programs.

Planting seeds of hope



Edilberto Caidlang
CENR Officer - Palo, Leyte

Supertyphoon Yolanda was still not far from the minds of the people of Tacloban when Petron broached the idea of a mangrove reforestation project.

With it came the promise of sustainable development by giving members of the community a means to protect themselves from future disasters as well as new opportunities to make a living.

Under the **Puno ng Buhay** program, Petron initially adopted five hectares along the coast of Petron's fenceline community in Brgy. Anibong. Since 2013, Petron's collaboration with the local government and the Department of Environment and Natural Resources (DENR) has resulted in 12,500 mangrove seedlings planted with nearly eight tons of carbon sequestered per hectare.

For its part, DENR provides technical assistance and conducts training and Information Education Campaigns (IEC) for

the townsfolk. Palo, Leyte CENR Officer Forester Edilberto Caidlang is particularly optimistic about working with Petron.

"As one of our environmental partners, Petron has helped restore our mangrove areas and also contribute to nation-building by providing livelihood opportunities to our community in Anibong from seedling production, site preparation to maintenance and protection in the area," he says.

With the mangroves growing into a healthy coastal forest, Brgy. Anibong is confident about weathering any storms in the future. And similar to other communities where Petron has committed to reforest, these efforts are planting seeds of hope to protect and sustain future generations.



85 hectares adopted for reforestation on 85th year

Fulfilling our mission towards greening the nation, we sustained our leadership in the implementation of the **Bataan Integrated Coastal Management Program (BICMP)**, a project that contributes to reinforcing our advocacy to raise awareness on the threatened marine turtle species. We supported the annual Pawikan Festival in Morong, Bataan by sponsoring an Environmental Forum and Night Patrol as pre-festival events.

In 2018, we celebrated our 85th anniversary in the industry. We marked this important milestone by adopting at least 85-hectares for reforestation in various sites in the Philippines including Puerto Princesa, Palawan; Tagbilaran, Bohol; Tacloban, Leyte; Roxas, Capiz; and Nasipit, Agusan del Norte. This sustainable plan is expected to see 200,000 new trees in the next three years as it expands towards Cebu, Iloilo, and Davao.

Petron Foundation together with San Miguel Foundation continued to fund scholarships for the Professional Masters in Tropical Marine Ecosystems Management (PM-TMEM) of the UP Marine Science Institute. This is to expand the academic horizon of our local marine specialists.

Having disaster-preparedness as one of Petron's best assets, we were at the front line in making sure relief operations were efficiently delivered to the towns that endured Typhoon Ompong. We distributed rice to nearly 3,000 families in Cagayan Province and Ilocos Norte with the help of our dealers and LGU partners. This, along with several community-based programs and medical missions, are integral to the fulfillment of our Corporate Social Responsibility (CSR).



Petron also promotes Pawikan conservation through its partnership with the Bataan Provincial Government and the Municipality of Morong.





“ 2018 also marked the inauguration of our third Petron Clinic in Rosario, Cavite.

2018 also marked the inauguration of our third Petron Clinic in Rosario, Cavite. Like our clinics in Pandacan, Manila and Limay, Bataan, the newest Petron Clinic makes sure that the locals have easy access to specialized medical facilities such as X-Ray, Ultrasound, ECG and Laboratory services.

Continuing to deepen the Filipino identity is the multi-awarded student art competition **Vision Petron**. For 2018, its theme *Tuklas Kultura* put emphasis on the numerous expressions of Filipino culture. Students from different parts of the country were invited to submit their works on painting, music, photography, and film, all exhibiting how the current generation incorporates our heritage in their daily lives.

Established as a benchmark in providing road safety assistance to motorists, **Lakbay Alalay** is now on its third decade of advocating safety on the road. Passionately supported by Petron employee volunteers, safety checks by automobile partners, medical assistance, and several traffic awareness campaigns are just few of the things made readily available at selected Petron stations nationwide.

”



The nearly two-decade old Vision Petron has endeared itself to students and continues to draw thousands of participants each year.



Shella Pareja, one of the nurses at the Petron Rosario Clinic, attends to a patient.

Opening doors to a healthier community

There is no better word to describe Petron's mission to uplift the lives of its communities than "malasakit." And in inaugurating its third clinic in Rosario, Cavite in December 2018, it has opened the doors to a facility that provides specialized medical services to complement the basic services of the nearby health centers and private clinics.

As with Pandacan and Limay, these clinics are part of the Petron terminal and refinery operations as mandated by the Department of Labor and Employment (DOLE) for the health and safety of its employees.

Moreover, Petron is extending its services to provide free medical, laboratory, x-ray/ultrasound services and medicines to residents of its fenceline communities.

Shella Pareja, the clinic's attending nurse, feels fulfilled to be part of the team that makes the locals' life easier.

"Since we can provide almost everything the patients need, they don't have to keep going back and forth. It helps that they can just go to one specific place for their medical needs and save money instead of going to different clinics."

The Petron Clinic is an integral part of the Municipality of Rosario with the health care service it readily provides.



Caring for the environment and the communities we serve is also deeply embedded in Petron Malaysia.



Caring for the environment and the communities we serve is also deeply embedded in Petron Malaysia.

Together with local government agencies, we continued to do our share in protecting the environment through our green initiatives, which focus on cleaning and improving the condition of various rivers and coastlines in Malaysia.






In partnership with the Road Safety Department of Malaysia, we also intensified our road safety initiative in the country as we continued to educate the youth to become safe and responsible road users. We also renewed our commitment to creating safer communities through our collaboration with the Royal Malaysia Police under the **Go-To Safety Point programme**.

We continued our support for the **Negeri Sembilan Human Capital Award of Distinction** for schools in our refinery's host state to recognize individuals and groups in academic, youth and sports excellence. We also deepened our commitment to promoting arts as a tool for nation-building through Petron Malaysia's **Vision Petron**. More of our employees also devoted time to volunteering activities in support of our CSR initiatives.

Our work as an enabler of change is never finished. We will continue to build on what we have accomplished and fuel hope by helping those in most need.



2018 CSR activities (Philippines)		
 Education	 Environment	 Community
<p>16,000 Number of Tulong Aral ng Petron (TAP) scholars since 2002</p> <p>3,334 TAP scholars (elementary to college) for SY 2017-2018</p> <p>432 TAP graduates (elementary, senior high school and college) in April 2018</p> <p>497 Number of additional scholars (elementary and high school) nationwide as part of TAP expansion</p> <p>107 Number of Petron Schools built (since 2002)</p> <p>330 Classrooms repaired/refurbished in 88 schools under Brigada Eskwela in 2018</p> <p>10,241 Teachers, school heads and administrators benefited from Teacher Training (since 2002)</p> <p>1,296 Muntinlupa Business High School 3rd year students who took part in the on-the-job training under Petron's Youth in Entrepreneurship and Leadership Development (YIELD) program since 2006</p>	<p>38 Tree planting activities by Petron terminals</p> <p>96,258 Mangrove propagules and seedlings planted</p> <p>85 Number of hectares adopted for reforestation</p> <p>354 tons Amount of carbon sequestered from Petron reforestation sites (30 hectares)</p> <p>51 kilometers Length of coastline cleaned from coastal cleanup activities</p>	<p>100 Percentage of Petron terminals undertaking social development initiatives</p> <p>21,486 Hours spent on volunteer work</p> <p>4,927 Total number of individuals from Limay, Bataan, Pandacan, Manila, and Rosario, Cavite served in Petron clinics</p> <p>2,279 Total number of beneficiaries from medical and dental missions</p> <p>3,998 Beneficiaries of Petron's Livelihood Loan Assistance Program (since 2011)</p> <p>135 Number of Petron engineering scholars employed by the Petron Bataan Refinery after graduation</p> <p>58 No. of college students from different colleges and universities who rendered on-the-job training at the Refinery</p>

Board of Directors



Eduardo M. Cojuangco, Jr.

Eduardo M. Cojuangco, Jr., Filipino, born 1935, 83, 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. He 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 University of the Philippines Los Baños College of Agriculture 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

Ramon S. Ang, Filipino, born 1954, 65, 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 ("SRC"), 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), and Petron Oil (M) Sdn. Bhd. ("POMSB") (Malaysia), 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 and 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. Previously, 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 Manila Electric Company ("MERALCO"); and Chairman of Manila North Harbour Port Inc. ("MNHPI"). Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five 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"), 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

Lubin B. Nepomuceno, Filipino, born 1951, 68, 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 other company listed with the Philippine Stock Exchange ("PSE").

Margarito B. Teves

Margarito B. Teves, Filipino, born 1943, 75, has served as an Independent Director of the Company since May 20, 2014. He is the Chairman of the Corporate Governance Committee and a member of the Audit Committee of the Company. He is also an Independent Director of SMC and Atok Big Wedge Corporation ("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, SMC and Atok are also listed with the PSE.

Aurora T. Calderon

Aurora T. Calderon, Filipino, born 1954, 64, has served as a Director of the Company since August 13, 2010. She is an alternate member of the Executive Committee and a member of the Audit Risk Oversight and the Related Party Transaction Committees of the Company. 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, SRC, 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 Elzalde 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, SMC and Petron-affiliate Top Frontier are also listed with the PSE.

Ron W. Haddock

Ron W. Haddock, American, born 1940, 78, 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 any directorship in any other company listed with the PSE.

Virgilio S. Jacinto

Virgilio S. Jacinto, Filipino, born 1956, 62, has served as a Director of the Company since August 13, 2010. He is a member of the Corporate Governance Committee and an alternate member of the Executive Committee of the Company. 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 any directorship in any other company listed with the PSE.

Mirzan Mahathir

Mirzan Mahathir, Malaysian, born 1958, 60, 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 any directorship in any other company listed with the PSE.



Artemio V. Panganiban

Artemio V. Panganiban, Filipino, born 1936, 82, 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 of the Company. He is a columnist for the Philippine Daily Inquirer and officer, adviser or consultant to several business, civic, educational and religious organizations. He is 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 ten books and has received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21st 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.

Nelly F. Villafuerte

Nelly F. Villafuerte, Filipino, born 1937, 82, 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 a 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 any directorship in any other company listed with the PSE.

Estelito P. Mendoza

Estelito P. Mendoza, Filipino, born 1930, 89, served as a Director of the Company from 1974 to 1986; thereafter, since January 8, 2009. He is a member of the Corporate Governance and the Audit Committees of the Company. 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, 31st 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, SMC and PNB are also listed with the PSE.

Horacio C. Ramos

Horacio C. Ramos, Filipino, born 1945, 74, has served as a Director of the Company since May 15, 2018. He is the President of Clariden Holdings, Inc. (2012 - present). He was a Director of SMC (2014 - 2016), the Secretary of the Department of Environment and Natural Resources (February 12 - June 30, 2010), the Director of Mines and Geosciences Bureau (June 1996 - February 2010). He holds a degree of Bachelor of Science in Mining Engineering from the Mapua Institute of Technology obtained in 1967, 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 other company listed with the PSE.

Jose P. de Jesus

Jose P. de Jesus, Filipino, born 1934, 84, 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 Metroworks 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 Corason 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 other company listed with the PSE.

Reynaldo G. David

Reynaldo G. David, Filipino, born 1942, 76, has served as an Independent Director of the Company since May 12, 2009. He is the Chairman of the Audit Committee and is a member of the Risk Oversight, Corporate Governance and the Related Party Transaction Committees of the Company. 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; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. Other past positions include: Independent Director of ISM and 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 any directorship in any company listed with the PSE.

Carlos Jericho L. Petilla

Carlos Jericho L. Petilla, Filipino, born 1963, 55, has served as Independent Director of the Company since May 15, 2018. He is the Chairman of the Related Party Transactions Committee of the Company. He is the founder in 2001, and President and Chief Executive Officer of International Data Conversion Solutions, Inc. (2015 - present; 2001 - 2004); the 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), the Provincial Governor of the Province of Leyte (2004 - 2012), and an 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.

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

Corporate Governance

Petron Corporation (“Petron” or the “Company”) believes that corporate governance is a necessary component of what constitutes sound strategic business management and it therefore undertakes every effort necessary to create awareness within the organization.

Petron is committed to pursuing good corporate governance and using good corporate governance principles and practices in the attainment of corporate goals. The Company keeps abreast of new developments in, and leading principles and practices on, good corporate governance. It continuously reviews its own policies and practices as it competes in a continually evolving business environment while taking into account the Company’s corporate objectives and the best interests of its stakeholders and the Company.

[Corporate Governance Manual](#)

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 Securities and Exchange Commission (“SEC”) pursuant to its Memorandum Circular No. 19 (2016) (the “Company Corporate Governance Manual”).

The Company Corporate Governance Manual institutionalizes the principles, policies, programs, and procedures of good corporate governance in the entire organization.

Petron is in compliance with the Company Corporate Governance Manual.

The Company Corporate Governance Manual recognizes and upholds the rights of stakeholders in the Company and reflects the key internal control features necessary for good corporate governance, such as the duties and responsibilities of the Board of Directors and the board committees, the active operation of the Company in a sound and prudent manner; the presence of organizational and procedural controls supported by an effective management information and risk management reporting systems, and the adoption of independent audit measures that monitor the adequacy and effectiveness of the Company’s governance, operations and information systems.

Pursuant to the Company Corporate Governance Manual, the Board of Directors has appointed Atty. Joel Angelo C. Cruz, Vice President – Office of the General Counsel and Corporate Secretary (“OGCCS”), as the Compliance Officer tasked to monitor compliance with the Company Corporate Governance Manual and applicable laws, rules and regulations. The Compliance Officer directly reports to the Chairperson of the Board of Directors and has direct access to the Board of Directors.

The Compliance Officer, through the OGCCS, periodically releases memoranda to employees, officers and directors on good governance policies being adopted by the Company and new corporate governance requirements set by applicable law, rules and regulations.

Shareholders' Rights

The Company is committed to respect the legal rights of its stockholders.

Voting Rights of Common and Preferred Shares

Common stockholders have the right to elect, remove and replace directors and vote on corporate acts and matters that require their consent or approval in accordance with the Corporation Code of the Philippines (and effective February 23, 2019, the Revised Corporation Code of the Philippines) (the "Corporation Code").

At each stockholders' meeting, a common stockholder is entitled to one vote, in person or by proxy, for each share of the capital stock held by such stockholder; subject to the provisions of the Company's by-laws, including the provision which specifically provides for cumulative voting in the election of directors.

Preferred stockholders generally have no right to vote, except in respect of certain corporate acts as provided and specified in the Corporation Code, including, but not limited to, the following cases: (a) amendment of the Company's articles of incorporation or by-laws; (b) the extension or shortening of the Company's corporate term; (c) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets of the Company; (d) an increase or decrease in capital stock; or (e) a merger or consolidation involving the Company.

The Board of Directors is required by the Company Corporate Governance Manual to be transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders are encouraged to personally attend such meetings and, if they cannot attend, they are apprised ahead of time of their right to appoint a proxy. The definitive information statement for stockholders' meeting provides a sample proxy for the convenience of the stockholders.

Right to Information of Shareholders

Accurate and timely information is made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

In 2018, the notice and agenda of the annual stockholders' meeting held on May 15, 2018, together with the definitive information statement, were first released on April 10, 2018, 35 days before the meeting. The notice and agenda were further published in the Philippine Daily Inquirer and The Manila Bulletin on April 14, 2018 and April 15, 2018, respectively. The rationale for each agenda item was explained in the notice and agenda.

Through the definitive information statement prepared by the Company for each annual stockholders' meeting, the Company publicizes its most recent audited financial statements showing in reasonable detail its assets and liabilities and the result of its operations.

At the annual meeting of the stockholders, the Board of Directors presents to the stockholders a financial report of the operations of the Company for the preceding year, which includes financial statements duly signed and certified by an independent public accountant, and allows the stockholders to ask and raise to Management questions or concerns. Duly authorized representatives of the Company's external auditor are also present at the meeting to respond to appropriate questions concerning the financial statements of the Company.

In addition to the foregoing, the Company maintains an investor relation unit and replies to requests for information and email and telephone queries from the stakeholders. The Company keeps stakeholders informed through its timely disclosures to the Securities and Exchange Commission ("SEC"), the Philippine Stock Exchange ("PSE"), and the Philippine Dealing & Exchange Corp. ("PDEX"), its regular quarterly briefings and investor briefings and conferences, and its website and social media accounts. The Company website makes available for viewing and downloading the Company's disclosures and filings with the SEC, PSE and PDEX, its media releases, and other salient information of the Company, including its governance, business, operations, performance, corporate social responsibility projects and sustainability efforts.

Right to Dividends

Stockholders have the right to receive dividends, subject to the discretion of the Board of Directors.

It is the policy of the Company to declare dividends when its retained earnings exceed 100% of its paid-in capital stock, except: (a) when justified by definite corporate expansion projects or programs approved by the Board of Directors; (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 a need for special reserve for probable contingencies.

On March 13, 2018, a cash dividend of P0.15 per common share was declared and paid out on April 18, 2018.

The dividends for the Series 2A and Series 2B preferred shares issued by the Company in 2014 are fixed at the rate of 6.30% per annum and 6.8583% per annum, respectively, calculated in reference to the offer price of P1,000 per share on a 30/360-day basis and shall be payable quarterly in arrears, whenever approved by the Board of Directors. Since the listing of the Series 2 preferred shares in November 2014, cash dividends were paid out in February, May, August and November.

On March 13, 2018, cash dividends of (a) P15.75 per Series 2A preferred share were declared for two quarters and paid out on May 3, 2018 and August 3, 2018, respectively, and (b) P17.14575 per Series 2B preferred share were also declared for two quarters and paid out on May 3, 2018 and August 3, 2018, respectively. Further, on August 7, 2018, cash dividends of (a) P15.75 per Series 2A preferred share were declared for two quarters and paid out on November 5, 2018 (with November 3 falling on a Saturday) and February 4, 2019 (with February 4 falling on a Sunday), respectively, and (b) P17.14575 per Series 2B preferred share were also declared for two quarters and paid out on November 5, 2018 (with November 3 falling on a Saturday) and February 4, 2019 (with February 3 falling on a Sunday), respectively.

Appraisal Right

The stockholders have the right to dissent and demand payment of the fair value of their shares in the manner provided for under the Corporation Code upon voting against a proposal for any of the following corporate acts: (a) a change or restriction in the rights of any stockholder or class of shares; (b) creation of preferences in any respect superior to those of outstanding shares of any class; (c) extension or shortening of the term of corporate existence; (d) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets; (e) merger or consolidation; and (f) an investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation is organized.

Rights of Minority Shareholders

Minority stockholders are granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the stockholders' meeting, provided the items are for legitimate business purposes and in accordance with law, jurisprudence and best practice.

The Company's by-laws and the Company Corporate Governance Manual specifically provide that a special meeting of the stockholders may be called at the written request of one or more stockholders representing at least 20% of the total issued and outstanding capital stock of the Company entitled to vote, and which request states the purpose or purposes of the proposed meeting and delivered to and called by the Corporate Secretary at the Company's principal office.

The Company Corporate Governance Manual expressly provides that the vote of at least 2/3 of the stockholders is necessary to remove a director.

**Participation in Shareholders' Meetings:
Venue, Proxy, Voting Procedures and Open Forum**

All the meetings of the stockholders are held in the principal place of business of the Company or any location within Metro Manila, Philippines as may be designated by the Board of Directors. The annual stockholders' meeting of the Company is generally held at the Valle Verde Country Club in Pasig City, Metro Manila.

The Company encourages shareholders' voting rights and exerts efforts to remove excessive unnecessary costs and other administrative impediments to the meaningful participation in meetings and/or voting in person or by proxy by all its stockholders, whether individual or institutional investors.

The Company releases to the stockholders, together with the notice of the meeting and the definitive information statement for the annual stockholders' meeting, a sample proxy form for their convenience.

During the annual stockholders' meetings, the Company provides shuttle services in strategic points in the vicinity of the Valle Verde Country Club to provide free transportation to stockholders to and from the meeting venue.

Before the stockholders' meeting starts, the Corporate Secretary explains the voting and voting tabulation procedures.

As mentioned above, at each stockholders' meeting, a common stockholder is entitled to one vote, in person or by proxy, for each share of the common capital stock held by such stockholder, subject to the provisions of the Company's bylaws, including the provision on cumulative voting in the case of the election of directors.

Under the Company's by-laws, cumulative voting is allowed in the election of directors. A common stockholder may therefore distribute his/her votes per share to as many persons as there are directors to be elected, or he/she may cumulate his shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares he/she has, or he/she may distribute them on the same principle among as many candidates as he/she shall see fit; provided, that the total number of votes cast by him/her shall not exceed the number of shares owned by him/her as shown in the books of the Company multiplied by the whole number of directors to be elected.

Preferred stockholders have no right to vote, except on certain corporate acts specified in the Corporation Code.

If at any stockholders' meeting a vote by ballot shall be taken, the Company's by-laws require the Chairperson to appoint two Inspectors of Votes who will act as the Chairperson and the Vice Chairperson of the Voting Committee and, in turn, designate the other members of the Voting Committee. The Voting Committee to be created will adopt its own rules to govern the voting and take charge of the voting proceedings and the preparation and distribution of the ballots. Each member of the Voting Committee, who needs not be a stockholder, will subscribe to an oath to faithfully execute his/her duties as an inspector of votes with strict impartiality and according the best of his/her ability. In any event, the external auditor of the Company will be requested to supervise the voting proceedings.

The stockholders are allowed to ask and raise to Management questions or concerns at the open forum during each annual meeting of the stockholders.

Board of Directors

The compliance with the principles of good corporate governance starts with the Board of Directors.

Responsibility, Duties and Functions

The Board of Directors is responsible for overseeing management of the Company and fostering the long-term success of the Company and securing its sustained competitiveness and profitability in a manner consistent with the fiduciary responsibilities of the Board of Directors and the corporate objectives and best interests of the Company and its stakeholders.

The Board of Directors determines and formulates the Corporation's vision, mission, and strategic objectives and the means to attain them. The Board of Directors yearly reviews and approves the corporate strategies of the Company, together with company business plans and capital expenditure and operating budgets. It also periodically evaluates and monitors the overall performance of Management and the implementation of the strategies, plans and budgets for the year.

The specific functions of the Board of Directors include the appointment of competent, professional, honest and highly motivated management officers for an effective management succession planning program of the Company, and the encouragement of the use of alternative dispute resolutions for the settlement of issues between the Company and its stockholders or other third parties, including regulatory authorities.

Conflict of Interest and Abstention from Voting in Case of Conflict

A director's office is one of trust and confidence. A director should therefore act in the best interest of the Company and its stakeholders in a manner characterized by transparency, accountability and fairness.

The Company Corporate Governance Manual requires a director to exercise leadership, prudence and integrity in directing the Company towards sustained progress.

The Company Corporate Governance Manual further expressly requires a director to conduct fair business transactions with the Company by fully disclosing any interest in any matter or transaction to be acted upon by the Board of Directors and excuse himself/herself in the decision-making process of the Board of Directors with respect to it. In general, a director is required to ensure that personal interest does not cause actual or potential conflict of interest with, or bias against, the interest of the Company or prejudice decisions of the Board of Directors.

Multiple Board Seats

The Company Corporate Governance Manual requires a director to exercise due discretion in accepting and holding directorships in other companies and ensure that his/her capacity to diligently and efficiently perform his/her duties and responsibilities and regularly update his/her knowledge and skills as a director of the Company is not compromised.

A director is expressly required to notify the Board of Directors before accepting a directorship in another company.

Composition and Diversity of Background and Skills

The Board of Directors is composed of 15 members (currently with four independent directors) who are elected from the list of nominees short-listed by the Corporate Governance Committee. The Corporate Governance Committee determines whether the nominees have all the qualifications and none of the disqualifications, as well as the qualities that will enable the Board of Directors to fulfill its responsibilities and duties, including the pursuit of the Company's corporate strategies. The directors are elected annually at the stockholders' meeting and hold the position until their successors have been duly elected and qualified pursuant to the Company's by-laws.

The Company Corporate Governance Manual expressly recognizes that optimal decision-making in the Board of Directors will be achieved with board diversity. Thus, the differences in age, skills, industry experience, background, gender, competence and knowledge, and other distinctions between and among directors are considered and balanced in determining optimum board composition.

Newly elected directors are given an orientation program by the OGCSS covering the profile and business of the Company and its corporate policies, including the CG Manual. The Company sponsors annual corporate governance seminars for the continuing education of the directors and the officers and their compliance with the corporate governance seminar requirements under Memorandum Circular No. 20 (Series of 2013) of the SEC.

The only executive directors of the Company are Messrs. Ramon S. Ang and Lubin B. Nepomuceno and neither of them serves as a director of more than two listed companies outside the San Miguel Group to which the Company belongs.

The membership of the Board of Directors is a combination of executive and non-executive directors (who include the four independent directors as of 2018) in order that no director or small group of directors can dominate the decision-making process. The non-executive directors possess such qualifications and stature that enable them to effectively participate in the deliberations of the Board of Directors. The diverse and varied skills, background and expertise of the directors ensure that matters that come before the Board of Directors are extensively discussed and evaluated.

The names, profiles, backgrounds and shareholdings of the directors, including the remuneration paid them, are disclosed in the definitive information statement of the Company made available prior to annual stockholders' meetings as well as in the SEC Form 17-A and the Annual Corporate Governance Report of the Company. All these reports can be accessed in the company website.

The Company may use professional search firms or other external sources of candidates (such as director databases set up by director or shareholder bodies) when searching for candidates to the Board of Directors, as may be necessary.

Meetings and Seminars Attended

In 2018, the Board of Directors had six meetings held on February 13, March 13, May 8, May 15, August 7 and November 6. Thirteen of the current directors attended all the board meetings held in 2018 during their term, with the remaining two current directors attending at least 83% of all the board meetings held in 2018.

The schedule of the meetings for any given year is presented to the directors the year before. The Board of Directors was advised of the schedule of the board meetings for 2018 at the board meeting held on November 6, 2018. Should any matter requiring immediate approval by the Board of Directors arise, such matters are reviewed, considered and approved at meetings of the Executive Committee, subject to the Company's by-laws. Special meetings of the Board of Directors may also be called when necessary in accordance with the Company's by-laws.

In keeping abreast of the latest best practices in corporate governance and complying with applicable legal requirements, including SEC Memorandum Circular No. 13 (Series of 2013), all the directors of the Company attended a corporate governance seminar in 2018 conducted by providers duly accredited by the SEC.

The attendance of the directors at the meetings and corporate governance seminar held in 2018 is set out below:

DIRECTOR'S NAME	February 13 Special Board Meeting	March 13 Regular Board Meeting	May 8 Regular Board Meeting	May 15 Annual Stockholders' Meeting	May 15 Organizational Meeting	August 7 Regular Board Meeting	November 6 Regular Board Meeting	Attendance at a Corporate Governance Seminar in 2018
Eduardo M. Cojuangco, Jr.	✓	✓	✓	✓	✓	✓	✓	✓
Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	✓
Estelito P. Mendoza	✓	✓	✓	✓	✓	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	✓	✓	✓	✓	✓
Eric O. Recto*	✓	✓	✓	N/A	N/A	N/A	N/A	N/A
Jose P. De Jesus	✓	✓	✓	✓	✓	✓	✓	✓
Ron W. Haddock	✓	✓	✓	✓	✓	✓	✓	✓
Mirzan Mahathir	✓	✓	✓	✓	✓	✓	✓	✓
Romela M. Bengzon*	✓	✓	✓	N/A	N/A	N/A	N/A	N/A
Aurora T. Calderon	✓	✓	✓	✓	✓	✓	✓	✓
Virgilio S. Jacinto	✓	✓	✓	✓	✓	✓	✓	✓
Nelly Favis-Villafuerte	✓	✓	✓	✓	✓	✓	✓	✓
Artemio V. Panganiban	✓	✓	✓	✓	✓	✓	✓	✓
Reynaldo G. David	✓	✓	✓	✓	✓	✓	✓	✓
Margarito B. Teves	✓	✓	✓	✓	✓	✓	✓	✓
Horacio C. Ramos**	N/A	N/A	N/A	✓	✓	✓	✓	✓
Carlos Jericho L. Petilla***	N/A	N/A	N/A	✓	✓	✓	✓	✓

Legend: ✓ Present N/A Absent

* - Ceased to be a director on May 15, 2018

** - New director elected at the May 15, 2018 Annual Stockholders' Meeting

*** - New Independent Director elected at the May 15, 2018 Annual Stockholders' Meeting

Independent Directors

The Company currently has four independent directors in its Board of Directors namely, Mr. Reynaldo G. David, former Supreme Court Chief Justice Artemio V. Panganiban, Mr. Margarito B. Teves, and Mr. Carlos Jericho L. Petilla.

Mr. Reynaldo G. David has been appointed as the Lead Independent Director.

The Company Corporate Governance Manual defines an independent director as "a person who, apart from his fees and shareholdings, has no business or relationship with the Corporation, which could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director."

An independent director is required by the Company Corporate Governance Manual to submit to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an independent director at the time of his/her election and/or re-election as an independent director.

The Chairperson; the President and Chief Executive Officer

The positions of Chairperson and Chief Executive Officer (“CEO”) are held by two different individuals.

Mr. Eduardo M. Cojuangco, Jr. acts as the Chairperson of the Company and is a non-executive director.

Mr. Ang is the President and CEO of the Company.

Under the Company’s by-laws, the Chairperson presides at all board and stockholders’ meetings. Under the Company Corporate Governance Manual, the Chairperson is responsible for matters such as the following: (a) ensuring that the meetings of the Board of Directors are held in accordance with the Company’s by-laws or as the Chairperson may deem necessary; (b) supervising the preparation of the agenda of the meeting; and (c) facilitating discussions on key issues.

Board Committees

The Board of Directors constituted the board committees described below in accordance with the principles of good corporate governance and pursuant to the Company’s by-laws.

The Company Corporate Governance Manual sets out the role, authority, duties and responsibilities, and the procedures of each committee and guides the conduct of its functions.

Executive Committee

The Executive Committee is composed of not less than three members, which shall include the Chairperson of the Board of Directors and the President, with two alternate members. When the Board of Directors is not in session, the Executive Committee may exercise the powers of the former in the management of the business and affairs of the Company, except with respect to (a) the approval of any action for which stockholders’ approval is also required, (b) the filling of vacancies in the Board of Directors, (c) the amendment or repeal of the by-laws or the adoption of new by-laws, (d) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable, (e) a distribution of dividends to the stockholders, and (f) such other matters as may be specifically excluded or limited by the Board of Directors.

In 2018, the Executive Committee was chaired by Mr. Eduardo M. Cojuangco, Jr., with Messrs. Ramon S. Ang and Lubin B. Nepomuceno as members. Ms. Aurora T. Calderon and Atty. Virgilio S. Jacinto acted as alternate members of the Executive Committee.

The Executive Committee held four meetings in 2018, with attendance as shown below. The resolutions approved by the Executive Committee were passed with the unanimous vote of the committee members in attendance (whether regular members or alternate members) and later presented to and ratified by the Board of Directors at the board meeting held after each approved resolution.

MEMBERS	January 8	January 5	January 19	January 25
Eduardo M. Cojuangco, Jr.	N/A	✓	✓	✓
Ramon S. Ang	N/A	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	✓
Aurora T. Calderon (Alternate Member)	✓	N/A	N/A	N/A
Virgilio S. Jacinto (Alternate Member)	✓	N/A	N/A	N/A

Legend: ✓ Present N/A Absent

Audit Committee

The Audit Committee is composed of at least three appropriately qualified non-executive directors, majority of whom are independent directors. The Chairperson is an independent director and is not the Chairperson of the Board of Directors or of any other board committee. The members of the Audit Committee are required to have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.

The Audit Committee is responsible for overseeing the senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. The Audit Committee 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.

Among its functions set out in the Corporate Governance Manual and the Audit Committee Charter, the Audit Committee primarily recommends to the Board each year the appointment of the external auditor to examine the accounts of the Company for that year and performs oversight functions over the Company's internal and external auditors to ensure that they act independently from each other or from interference of outside parties and that they are given unrestricted access to all records, properties and personnel necessary in the discharge of their respective audit functions.

The Audit Committee is chaired by Mr. Reynaldo G. David, an independent director of the Company and a certified public accountant, and its members are Independent Directors former Chief Justice Artemio V. Panganiban and Mr. Margarito B. Teves, Atty. Estelito P. Mendoza, and Ms. Aurora T. Calderon. Mr. Ferdinand K. Constantino acts as advisor to the committee.

In 2018, the Audit Committee held four meetings on March 13, May 8, August 7 and November 6, with attendance as indicated.

MEMBERS	March 13	May 8	August 7	November 6
Reynaldo G. David (Chairperson)	✓	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	✓
Estelito P. Mendoza	✓	✓	✓	✓
Artemio V. Panganiban	✓	✓	✓	✓
Aurora T. Calderon	✓	✓	✓	✓

Legend: ✓ Present N/A Absent

Corporate Governance Committee

The Corporate Governance Committee is composed of at least three independent directors as members. The Chairperson of the committee is an independent director.

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.

The Corporate Governance Committee is chaired by Independent Director Mr. Margarito B. Teves, with Independent Directors former Chief Justice Artemio V. Panganiban and Mr. Reynaldo G. David, Atty. Estelito P. Mendoza and Atty. Virgilio S. Jacinto as members.

In 2018, the Corporate Governance Committee held two meetings on the dates below, with all the members in attendance:

MEMBERS	March 13	May 8
Margarito B. Teves (Chairperson)	✓	✓
Reynaldo G. David	✓	✓
Artemio V. Panganiban	✓	✓
Estelito P. Mendoza	✓	✓
Virgilio S. Jacinto	✓	✓

Legend: ✓ Present N/A Absent

Risk Oversight Committee

The Risk Oversight, is composed of at least three members, the majority of whom are independent directors. The Chairperson is an independent director and is not the Chairperson of the Board of Directors or any other board committee. At least one member of the committee has relevant thorough knowledge and experience on risk and risk management.

The Risk Oversight Committee that shall be responsible for the oversight of the enterprise risk management system of the Company to ensure its functionality and effectiveness.

The Risk Oversight Committee is chaired by Independent Director former Chief Justice Artemio V. Panganiban, with independent director Mr. Reynaldo G. David and Ms. Aurora T. Calderon as members.

Related Party Transaction Committee

The Related Party Transaction Committee is composed of least three non-executive directors, two of whom are independent directors. The Chairperson is an independent director.

The Related Party Transaction Committee is tasked with reviewing all material related party transactions of the Company.

The Related Party Transaction Committee is chaired by Independent Director Mr. Carlos Jericho L. Petilla, with Independent Director Mr. Reynaldo G. David and Ms. Aurora T. Calderon as members.

Annual Assessment of Board, Committee and Individual Directors Performance

The Board of Directors adopted in August 2013 a new format for the annual self-assessment by each director that covers board, committee and individual performance. The assessment form is accomplished by the director each year-end.

The self-assessment forms cover the evaluation of the (a) fulfillment of the key responsibilities of the Board of Directors, including the consideration of the interests of minority shareholders and stakeholders and their equitable treatment in its decision-making processes, the pursuit of good corporate governance, the establishment of a clear strategic direction for the Company designed to maximize long-term shareholder value, the review and approval of financial statements and budgets, and the appointment of directors who can add value and contribute independent judgment to the formulation of sound policies and strategies of the Company and officers who are competent and highly motivated; (b) relationship between the Board of Directors and the Management of the Company, including having a clear understanding of where the role of the Board of Directors ends and where that of Management begins, the participation of the Board of Directors and the board committees in major business policies or decisions, the continuous interaction with Management for a better understanding of the businesses, and the consideration of the correlation between executive pay and Company performance; (c) effectiveness of board and committee processes and meetings through the adequacy of the frequency, duration and scheduling of board and committee meetings, the ability of the Board of Directors to balance and allocate its time effectively in discussing issues related to the Company's strategy and competitiveness, the attendance at board and committee meetings and the conduct of meetings in a manner that ensures open communication, meaningful participation, and timely resolution of issues, the wide and diverse range of expertise and occupational and personal backgrounds of the directors, and the institutionalization of a formal review process for monitoring the effectiveness of the Board of Directors and the individual directors; and (d) individual performance of the directors including a director's understanding of the mission, values and strategies of the Company, his/her duties as a director and the Company's articles of incorporation, by-laws and governing policies and applicable law, rules and regulations, the attendance at meetings and the conscious effort to avoid entering into situations where a director may be placed in a conflict of interest with that of the Company.

External Audit

R.G. Manabat & Co./KPMG ("KPMG") was the independent auditor of the Company for year 2018. KPMG was first appointed in 2010 and re-appointed yearly upon the review by the Audit Committee and recommendation by the Board of Directors. The partner of KPMG who led the audit of the Company for its 2018 financial statements was first appointed in 2015.

The Company Corporate Governance Manual requires the external auditor to observe and enable an environment of good corporate governance as reflected in the financial records and reports of the Company, undertake an independent audit, and provide objective assurance on the manner by which the financial statements are prepared and presented to the shareholders.

Duly authorized representatives of KPMG are expected to attend the Company's annual stockholders' meetings to respond to appropriate questions concerning the financial statements of the Company. KPMG auditors are also given the opportunity to make a representation or statement in case they decide to do so.

As in the previous years, representatives of KPMG attended the annual stockholders' meeting held on May 15, 2018.

Internal Audit

The Company has in place an independent internal audit function performed by the Internal Audit Department ("IAD") presently led by Mr. Ronaldo T. Ferrer, the Vice President – Internal Audit.

The Audit Committee considers the appointment of the internal auditor and the terms and conditions for his engagement and removal.

The IAD provides the Board of Directors, Management, and shareholders with reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate, and complied with.

The IAD is guided by the International Standards on Professional Practice of Internal Auditing. The IAD Head, in order to achieve the necessary independence to fulfill his responsibilities, directly reports functionally to the Audit Committee and administratively to the President.

The Company Corporate Governance Manual requires the head of the IAD to submit to the Audit Committee and the Management an annual report on IAD's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee, and which shall include significant risk exposures, control issues and such other matters as may be needed or requested by the Board of Directors and Management.

Disclosure System

The Company Corporate Governance Manual recognizes that the essence of corporate governance is transparency. The Company has established corporate disclosure policies and procedures that (a) are practical and in accordance with best practices and regulatory expectations and (b) will ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that gives a fair and complete picture of the financial condition, results and business operations of the Corporation.

All material information about the Company which could adversely affect its viability or the interest of its stockholders and other stakeholders (such as earnings results, acquisition or disposal of significant assets, board changes, related party transactions, shareholdings of directors and changes to ownership) are fully, fairly, accurately and timely disclosed to the public.

All information disclosed by the Company is released through the approved stock exchange procedure for Company announcements and the Company's annual report. The Company's website is also updated as soon as disclosures are approved by the PSE.

Stakeholder Relations

The Corporation maintains open and easy communication with its stakeholders, including for purposes of providing redress for any concern relating their rights, through stakeholder engagement touchpoints in the Company such as the Investor Relations Office, the Office of the Corporate Secretary and its customer care, corporate communications group and stock transfer agent.

In addition, the Company keeps the public informed through the Company's timely PSE, PDEX, and SEC disclosures, its regular quarterly briefings and investor briefings and conferences and the Company's website and replies to information requests and email and telephone queries.

The Company's disclosures and filings with the SEC, PSE, and PDEX (including its annual reports, SEC Form 17-A, reports on SEC Form 17-C, and Integrated Annual Corporate Governance Report), its media releases, and other salient information on the Company, including its governance, business, operations, performance, corporate social responsibility projects and sustainability efforts are found in the Company website www.petron.com.

Code of Conduct and Ethical Business Policy; Whistle-blowing and Non-Retaliation Policy; Policy on Securities Dealing

Code of Conduct and Ethical Business Policy

On May 8, 2018, the Board of Directors of the Company adopted the updated Code of Conduct and Ethical Business Policy of the Company. The Code of Conduct and Ethical Business Policy sets the standards for ethical and business conduct of the directors, officers and employees and expresses the commitment of the Company to conduct its business fairly, honestly, impartially and in good faith, and in an uncompromising ethical and proper manner.

All the directors, officers and employees of the Company are expressly required to comply with the Company's Code of Conduct and Ethical Business Policy and conduct themselves in a manner that avoids even the mere appearance of improper behavior:

Among the standards set by the Code of Conduct and Ethical Business Policy include (a) the open, honest and arm's length dealings with its dealers customers, dealers, suppliers, vendors, contractors, creditors, financial institutions and joint venture partners, (b) the supply of products and services of the highest quality backed by efficient after sales service, (c) the conduct of business in a manner that preserves the environment, protects the health and safety of its employees, customers, suppliers, contractors, and other stakeholders and the general public, (d) the observance of the vision and the mission of the Company and its core values of professionalism, integrity, fairness, commitment to excellence, and care of the environment, and includes the prohibitions against conflict of interest, bribery, gifts, disclosure of non-public information of the Company and misuse of company property, and (e) professional competence of the employees.

The procedure under the Code of Conduct and Ethical Business Policy requires anyone with any information or knowledge of any prohibited act or violation to promptly report the same to the Department Head, any Vice President, the Human Resources Management Department, the IAD or the General Counsel. Disciplinary measures may be imposed after an investigation.

All incoming employees are oriented with the policies of the Company, including the Code of Conduct and Ethical Business Policy. And as part of their pre-employment requirements, all such incoming employees are required to declare in writing (a) all their existing businesses that may directly or indirectly conflict their performance of their duties once hired and their undertaking to inform the Company of any conflict of interest situation that may later arise and (b) their acceptance of the company policies, rules and procedures, including those relating to conflict of interest, gifts, and insider trading.

Anti-Bribery and Anti-Corruption

The Company Corporate Governance Manual embodies the company policy against corrupt practices and the company commitment to do business with integrity by avoiding corruption and bribery of all kinds and by observing all applicable anti-bribery and anti-corruption laws in every jurisdiction in which it does business.

The Code of Conduct and Ethical Business Policy also specifically prohibits bribery and any solicitation, receipt, offer or making of any illegal payments, favors, donations or comparable gifts which are intended to obtain business or uncompetitive favors. The said acts are also punished under Company Rules and Regulations on Discipline with penalties ranging from light suspension to dismissal.

Conflict of Interest

The Code of Conduct and Ethical Business Policy expressly provides a proscription against engaging in any activity in conflict with the interest of the Company and it requires a full disclosure of any interest which any employee or his/her immediate family and friends may have in the Company.

Employees are also generally restricted from accepting a position of responsibility (such as consultancy or directorship) with any other company or provide freelance services to anyone.

Whistle-blowing and Non-Retaliation Policy

For the past years, the Company observed the San Miguel Corporation and Subsidiaries Whistle-blowing Policy for itself and its subsidiaries. On May 6, 2013, the Company, in its pursuit of further ensuring that its business is conducted in the highest standards of fairness, transparency, accountability and ethics as embodied in its Code of Conduct and Ethical Business Policy, adopted the Petron Corporation and Subsidiaries Whistle-blowing Policy.

The Petron Corporation and Subsidiaries Whistle-blowing Policy provides for the procedures for the communication and investigation of concerns relating to accounting, internal accounting controls, auditing and financial reporting matters of the Company and its subsidiaries.

The policy expressly provides the commitment of the Company that it shall not tolerate retaliation in any form against a director, officer, employee or any the other interested party who, in good faith, raises a concern or reports a possible violation of the policy.

Policy on Securities Dealing

Under the Petron Corporation Policy on Dealings in Securities, the directors, officers and employees of the Company are required to exercise extreme caution when dealing in the Company's securities and ensure that such dealings comply with this policy and the requirements under the Securities Regulation Code ("SRC").

The officers, directors and employees of the Company who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information are prohibited from dealing in the securities of the Company during the blackout periods of (a) 10 business days before and five business days after the deadline for the Company to make a structured disclosure or any disclosure of its financial results for any year, half-year, quarter or any other interim period and (b) five business days before and five business days after any non-structured disclosure of any material information other than financial results.

Under the Company Corporate Governance Manual, the directors and officers are obliged to report to the OGCCS any dealings in securities of the Company within three business days after such dealings.

In addition, all incoming employees are required to submit a written confirmation of their acceptance of the company rules against insider trading as part of their pre-employment requirements.

The OGCCS, headed by Atty. Cruz, the Compliance Officer of the Company, periodically releases memoranda relating to the corporate governance policies of the Company, updates to corporate governance practices, filing obligations in respect of dealings in shares of the Company, and applicable blackout periods.

Financial Highlights

Amounts in Million Pesos, except per share and sales volume data

	2018	2017	2016
Net Sales	557,386	434,624	343,840
Gross Profit	34,562	42,655	37,715
Operating Income	18,921	27,638	23,797
Net Income	7,069	14,087	10,822
EBITDA	31,803	38,343	32,189
Total Assets	358,154	338,030	318,893
Earnings per share	0.28	0.86	0.60
Cash Dividends paid per common share	0.15	0.10	0.10
Sales Volume (in thousand barrels)	108,498	107,760	105,702

Resilient despite an unpredictable oil market environment

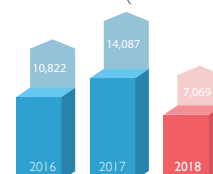
In 2018, the Company's consolidated net income stood at P7.07 billion, down 50% from P14.09 billion in previous year. The Company's financial performance was greatly affected by the unexpected collapse in crude prices starting late October 2018 as well as weak product cracks. Benefits derived from strong local sales, stable refinery operations and margins from high-value fuel and petrochemicals during the first nine months were reduced by the significant net inventory holding losses and lower refinery margins incurred in the fourth quarter by both the Philippine and Malaysian Operations.

Consolidated sales volume reached an all-time high of 108.5 million barrels from 107.8 million barrels in 2017 as the company maintained its leadership in the domestic market both in the Philippines and Malaysia. Petron Malaysia intensified its presence in the retail market by expanding its network of service stations while embarking on aggressive marketing strategies. In the Philippines, the refinery in Bataan attained its highest annual utilization rate of 95% thereby providing more available high-value fuels and petrochemicals for sale in the domestic and export markets.

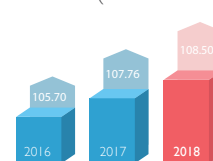
Volume growth and higher average global oil prices particularly during the first three quarters of the year with benchmark crude Dubai averaging US\$69.42 per barrel in 2018 from US\$53.17 per barrel in 2017, contributed to the 28% increase in sales revenue.

With increased operating efficiency, earnings before interests, taxes, depreciation and amortization (EBITDA) of P31.80 billion declined at a much lower rate of 17% as against the 50% drop in net income.

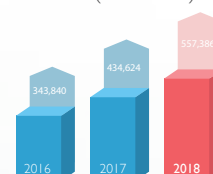
Net Income (in millions)



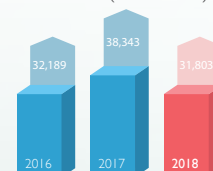
Sales Volume (in millions barrels)



Sales (in millions)



EBITBA (in millions)



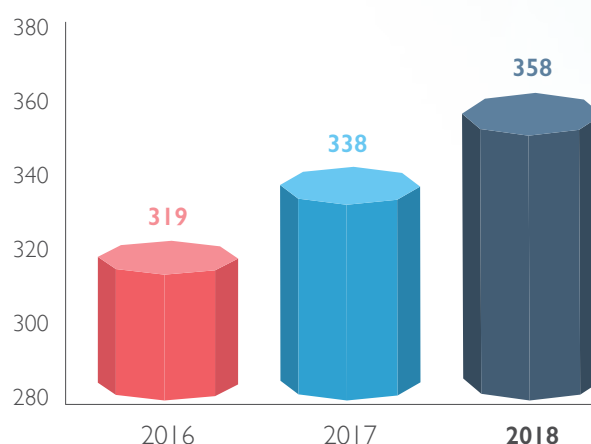
Increased working capital requirements

At the end of 2018, consolidated assets stood at P358.15 billion, up 6% or P20.12 billion mainly from increased working capital. Better volume and prices of finished products resulted in higher inventories and trade receivables, compounded by the delayed collection of claims from the Malaysian government. Other current assets also went up with the increase in input VAT and prepaid taxes.

Total liabilities rose to P271.97 billion, 14% above previous year's P238.41 billion primarily from higher short-term loans to augment the increase in working capital requirements and long-term debt from the issuance of P20 billion retail bonds in October 2018.

Total equity declined by 13% to P86.19 billion with the redemption of the US\$750 million Undated Subordinated Capital Securities.

Total assets in billion pesos



Stable cash position

In Million Pesos	2018	2017	2016
Beginning Cash Balance	17,014	17,332	18,881
Operating Inflows	5,047	15,753	29,269
Investing Outflows	(11,141)	(11,211)	(19,165)
Financing Inflows (Outflows)	5,949	(4,715)	(12,025)
Effects of Exchange Rate Changes	536	(145)	372
Ending Cash Balance	17,405	17,014	17,332

Cash balance at P17.41 billion was relatively flat versus previous year.

Cash generated from operations net of the increase in working capital requirements and the mandatory payments of interest and taxes amounted to P5.05 billion. Available cash combined with funds sourced from financing activities of P5.95 billion were used to finance the capital projects related to network expansion and refinery and terminal facilities totaling P11.14 billion.

Audit Committee Report

The Board of Directors
Petron Corporation

The Audit Committee assists the Board of Directors in its oversight function with respect to the adequacy and effectiveness of internal control environment, compliance with corporate policies and regulations, integrity of the financial statements, the independence and overall direction of the internal audit function, and the selection and performance of the external auditor.

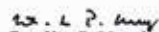
In the performance of our responsibilities, we report that in 2018:

- We reviewed and discussed with Controllers management the quarterly and annual financial statements of Petron Corporation and Subsidiaries and endorsed these for approval by the Board;
- We endorsed the re-appointment of R.G. Manabat & Co./KPMG as the Company's independent auditors for 2018;
- We reviewed with R.G. Manabat & Co./KPMG the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements;
- We reviewed with R.G. Manabat & Co./KPMG, the audit observations and recommendations on the Company's internal controls and management's response to the issues raised;
- We reviewed with the Internal Audit Asst. Vice President the annual internal audit plan, approved the same, and satisfied ourselves on the independence of the internal audit function; and
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.


The Board Audit Committee is satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2018.



Reynaldo G. David
Chairperson
Independent Director



Estelito P. Mendoza
Director



Artemio V. Panganiban
Independent Director



Aurora T. Calderon
Director



Margarito B. Teves
Independent Director

Financial Statements

Statement of Management's Responsibility for Financial Statements

Report of Independent Auditors

Consolidated Statements of Financial Position

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Equity

Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of **Petron Corporation (the "Company") and Subsidiaries (collectively referred to as the "Group")**, is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

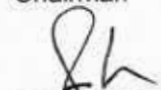
In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease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

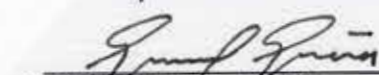
The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the Board, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



EDUARDO M. COJUANGCO, JR.
Chairman

RAMON S. ANG
President and Chief Executive Officer

EMMANUEL E. ERAÑA
Senior Vice President and Chief Finance Officer

Signed this 12th day of March 2019

SUBSCRIBED AND SWORN TO before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 14 2019, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

Name	Competent Evidence of Identity	Date/Place of Issue
Eduardo M. Cojuangco, Jr.	Passport No. EC3542719	27 Feb 2015/ DFA Manila
Ramon S. Ang	Passport No. EC3542718	27 Feb 2015/ DFA Manila
Emmanuel E. Eraña	Passport No. P0502156B	01 Feb 2019/ DFA NCR East

Doc. No. 119 ;
 Page No. 26 ;
 Book No. V ;
 Series of 2019


DONVIC P. QUEZON
 Notary Public for Mandaluyong City
 San Miguel Avenue, 1550 Mandaluyong City
 Appointment No. 0382-13
 Until December 31, 2019
 Attorney's Roll No. 56723
 PTR No. 3810844/01-04-19/Mandaluyong
 Lifetime IBP No. 08324
 ICLE Compliance No. V-0020700/4-20-2016

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders

Petron Corporation

SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Revenue Recognition (P557,386 million)

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

The risk

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

Our response

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

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

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

The risk

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

Our response

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

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

Valuation of Inventories (P63,873 million)

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

The risk

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

Our response

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

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

Valuation of Goodwill (P8,532 million)

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

The risk

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

Our response

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

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

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

R.G. MANABAT & CO.



DARWIN P. VIROCEL

Partner

CPA License No. 0094495

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

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

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

PTR No. MKT 7333639

Issued January 3, 2019 at Makati City

March 12, 2019

Makati City, Metro Manila

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

		December 31	
	Note	2018	2017
ASSETS			
Current Assets			
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
Total Current Assets		162,022	145,490
Noncurrent Assets			
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
Total Noncurrent Assets		196,132	192,540
		P358,154	P338,030
LIABILITIES AND EQUITY			
Current Liabilities			
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
Total Current Liabilities		156,018	124,495
Noncurrent Liabilities			
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
Total Noncurrent Liabilities		115,950	113,916
Total Liabilities		271,968	238,411

Forward

		December 31	
	<i>Note</i>	2018	2017
Equity Attributable to Equity Holders of the Parent Company	21		
Capital stock		P9,485	P9,485
Additional paid-in capital		19,653	19,653
Capital securities		24,881	30,546
Retained earnings		49,491	49,142
Equity reserves		(14,031)	(5,171)
Treasury stock		(10,000)	(10,000)
Total Equity Attributable to Equity Holders of the Parent Company		79,479	93,655
Non-controlling Interests	13	6,707	5,964
Total Equity		86,186	99,619
		P358,154	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>	2018	2017	2016
SALES	28, 31, 37	P557,386	P434,624	P343,840
COST OF GOODS SOLD	22	522,824	391,969	306,125
GROSS PROFIT		34,562	42,655	37,715
SELLING AND ADMINISTRATIVE EXPENSES	23	(15,641)	(15,017)	(13,918)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	26, 37	(9,689)	(8,487)	(7,557)
INTEREST INCOME	26, 37	706	535	507
SHARE IN NET INCOME OF AN ASSOCIATE	10	-	63	66
OTHER INCOME (EXPENSES) - Net	26	517	(907)	(2,435)
		(24,107)	(23,813)	(23,337)
INCOME BEFORE INCOME TAX		10,455	18,842	14,378
INCOME TAX EXPENSE	27, 36, 37	3,386	4,755	3,556
NET INCOME		P7,069	P14,087	P10,822
Attributable to:				
Equity holders of the Parent Company	32	P6,218	P12,739	P10,100
Non-controlling interests	13	851	1,348	722
		P7,069	P14,087	P10,822
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	32	P0.28	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
NET INCOME		P7,069	P14,087	P10,822
OTHER COMPREHENSIVE INCOME (LOSS)				
<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)
		(794)	(793)	1,856
<i>Items that may be reclassified to profit or loss</i>				
Net loss on cash flow hedges	35	(110)	-	-
Exchange differences on translation of foreign operations		1,372	3,303	523
Unrealized fair value losses on investments in debt instruments at FVOCI	7	(10)	(4)	(2)
Share in other comprehensive loss of a joint venture		-	(1)	-
Income tax benefit	27	36	1	1
		1,288	3,299	522
OTHER COMPREHENSIVE INCOME - Net of tax		494	2,506	2,378
TOTAL COMPREHENSIVE INCOME FOR THE YEAR - Net of tax		P7,563	P16,593	P13,200
Attributable to:				
Equity holders of the Parent Company		P6,570	P14,772	P12,742
Non-controlling interests		993	1,821	458
		P7,563	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)

	Note	Equity Attributable to Equity Holders of the Parent Company										
		Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of December 31, 2017		P 9,485	P 19,653	P 30,546	P 15,160	P 33,982	(P 2,146)	(P 3,025)	(P 10,000)	P 93,655	P 5,964	P 99,619
Adjustment due to adoption of Philippine Financial Reporting Standard (PFRS) 9	3	-	-	-	-	42	-	-	-	42	(2)	40
As of January 1, 2018, as adjusted		9,485	19,653	30,546	15,160	34,024	(2,146)	(3,025)	(10,000)	93,697	5,962	99,659
Net loss on cash flow hedges - net of tax	35	-	-	-	-	-	-	(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	13	-	-	-	-	(20)	-	11	-	(9)	(11)	(20)
Transactions with owners		-	-	(5,665)	-	(5,911)	-	(9,212)	-	(20,788)	(248)	(21,036)
As of December 31, 2018		P 9,485	P 19,653	P 24,881	P 15,160	P 34,331	(P 2,940)	(P 11,091)	(P 10,000)	P 79,479	P 6,707	P 86,186

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)		-	-	-	-	12,739	(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
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P10,455	P18,842	P14,378
Adjustments for:				
Depreciation and amortization	25	11,543	10,979	9,505
Interest expense and other financing charges	26	9,689	8,487	7,557
Retirement benefits costs	30	523	508	579
Share in net income of an associate	10	-	(63)	(66)
Interest income	26	(706)	(535)	(507)
Unrealized foreign exchange losses (gains) - net		2,484	(880)	529
Other losses (gains) - net		(1,738)	594	538
Operating income before working capital changes		32,250	37,932	32,513
Changes in noncash assets, certain current liabilities and others	33	(15,616)	(13,043)	4,550
Cash generated from operations		16,634	24,889	37,063
Contribution to retirement fund	30	(1,068)	(100)	(135)
Interest paid		(9,035)	(7,492)	(7,014)
Income taxes paid		(1,980)	(1,920)	(902)
Interest received		496	376	257
Net cash flows provided by operating activities		5,047	15,753	29,269
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	11	(10,416)	(13,142)	(19,122)
Proceeds from sale of property and equipment		58	1,195	336
Acquisition of investment property	12	(852)	-	-
Proceeds from sale of investment property		-	16	18
Increase in other noncurrent assets		(79)	(969)	(536)
Proceeds from disposal (acquisition) of:				
Investment in shares of stock of an associate	10	-	1,750	-
Investments in debt instruments		148	(61)	139
Net cash flows used in investing activities		(11,141)	(11,211)	(19,165)

Forward

	Note	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans	33	P339,581	P298,669	P226,360
Payments of:				
Loans	33	(312,564)	(298,199)	(230,924)
Cash dividends and distributions	21, 33	(6,160)	(5,773)	(5,537)
Issuance of senior perpetual capital securities	21	24,881	-	-
Redemption of undated subordinated capital securities	21	(39,769)	-	-
Acquisition of additional interest in a subsidiary	13	(20)	-	-
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		5,949	(4,715)	(12,025)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		536	(145)	372
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		391	(318)	(1,549)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		17,014	17,332	18,881
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	5	P17,405	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 MRG Veloso Holdings, Inc. (MHI) which was merged with LLCDC as approved by the SEC on May 10, 2018 (Note 13).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

New and Amended Standards, Interpretation and Framework Not Yet Adopted

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

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

To be Adopted 2019

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

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

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

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

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

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

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

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

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

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9)*. The amendments cover the following areas: (a) Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.
- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)*. The amendments clarify that: (a) current service cost and net interest for the period are determined using the actuarial assumptions when amendment, curtailment or settlement occurs; and (b) the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI.

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

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

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

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
 - *Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12 Income Taxes)*. The amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, OCI or equity.

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

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

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

To be Adopted 2020

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

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

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

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

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

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

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

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

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

To be Adopted 2021

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

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

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

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

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

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

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

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Current versus Noncurrent Classification

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

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

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

Financial Assets and Financial Liabilities

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

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Debt Issue Costs

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

Offsetting Financial Instruments

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

Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

Inventories

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

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

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

Business Combination

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

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

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

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

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

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

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

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

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

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

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

Business Combinations under Common Control

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

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

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

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

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

Non-controlling Interests

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

Investment in Shares of Stock of an Associate

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

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

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

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

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

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

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

Interest in Joint Ventures

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

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

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

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

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

Investment Property

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

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

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

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

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

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

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

Intangible Assets

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

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

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

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

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

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

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

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

Asset Held for Sale

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

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

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

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

Impairment of Nonfinancial Assets

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

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

Cylinder Deposits

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

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

Provisions

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

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

Capital Stock

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

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

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

Additional Paid-in Capital

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

Treasury Stock

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

Capital Securities

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

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

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

Retained Earnings

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

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

Cost and Expense Recognition

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

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

Leases

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

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

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

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

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

Borrowing Costs

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

Research and Development Costs

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

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

Employee Benefits

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

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

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

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

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

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

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

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

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

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

Foreign Currency

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

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

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

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Related Parties

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

Basic and Diluted Earnings Per Common Share (EPS)

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

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

Operating Segments

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

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

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

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

Accounting Policy Applicable before January 1, 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Cash and Cash Equivalents

This account consists of:

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

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

6. Financial Assets at Fair Value

This account consists of:

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

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

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

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

7. Investments in Debt Instruments

This account consists of:

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

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

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

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

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

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

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

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

8. Trade and Other Receivables

This account consists of:

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Inventories

This account consists of:

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

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

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

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

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

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

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

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

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

10. Investment in Shares of Stock of an Associate

This account consists of:

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

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

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

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

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

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

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

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

11. Property, Plant and Equipment

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

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
Cost							
January 1, 2017	P28,903	P162,263	P16,172	P4,652	P14,004	P25,319	P251,313
Additions	563	1,307	405	232	237	6,954	9,698
Disposals/reclassifications	2,162	20,628	159	(68)	(315)	(24,983)	(2,417)
Currency translation adjustment	876	1,106	700	135	705	139	3,661
December 31, 2017	32,504	185,304	17,436	4,951	14,631	7,429	262,255
Additions	694	446	424	209	45	8,598	10,416
Disposals/reclassifications	1,661	2,117	(299)	31	131	(3,738)	(97)
Reclassification to investment property (Note 12)	(15,244)	-	-	-	(10,207)	-	(25,451)
Currency translation adjustment	517	370	247	48	218	39	1,439
December 31, 2018	20,132	188,237	17,808	5,239	4,818	12,328	248,562
Accumulated Depreciation and Amortization							
January 1, 2017	18,738	38,251	11,987	3,529	2,204	-	74,709
Additions	1,315	7,200	868	416	162	-	9,961
Disposals/reclassifications	(380)	25	(1,064)	(241)	(342)	-	(2,002)
Currency translation adjustment	532	820	416	93	36	-	1,897
December 31, 2017	20,205	46,296	12,207	3,797	2,060	-	84,565
Additions	861	7,539	948	481	89	-	9,918
Disposals/reclassifications	(396)	(16)	(903)	(101)	(10)	-	(1,426)
Reclassification to investment property (Note 12)	(8,083)	-	-	-	(1,060)	-	(9,143)
Currency translation adjustment	240	258	127	27	12	-	664
December 31, 2018	12,827	54,077	12,379	4,204	1,091	-	84,578
Carrying Amount							
December 31, 2017	P12,299	P139,008	P5,229	P1,154	P12,571	P7,429	P177,690
December 31, 2018	P7,305	P134,160	P5,429	P1,035	P3,727	P12,328	P163,984

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

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

Capital Commitments

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

12. Investment Property

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

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

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

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

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

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

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

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

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches below:

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

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

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

Investment in Shares of Stock of Subsidiaries

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

a. PAHL

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

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

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

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

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

b. PGL

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

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

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

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

c. LLCDC and MHI

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

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

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

d. *NVRC*

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

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

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

e. *Petrogen*

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

Goodwill

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

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

Impairment of Goodwill from Petron Malaysia

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

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

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

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

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

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

Impairment of Goodwill from PAHL

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

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

Non-controlling Interests

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

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

14. Other Assets

This account consists of:

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

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

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

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

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

15. Short-term Loans

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

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

16. Liabilities for Crude Oil and Petroleum Products

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

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

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

17. Trade and Other Payables

This account consists of:

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

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

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

18. Long-term Debt

This account consists of:

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

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

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

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

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

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

Movements in debt issue costs follow:

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

Repayment Schedule

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

2018

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

2017

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

19. Asset Retirement Obligation

Movements in the ARO are as follows:

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

20. Other Noncurrent Liabilities

This account consists of:

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

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

21. Equity

a. Capital Stock

Common Shares

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

Preferred Shares

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

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

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

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

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

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

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

	2018	2017
Series 2A Preferred Shares	47	48
Series 2B Preferred Shares	30	31
	77	79

b. Retained Earnings

i. Declaration of Cash Dividends

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

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

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

ii. Appropriation for Capital Projects

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

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

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

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

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

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

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

- e. USCS

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

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

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

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

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

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

f. SPCS

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

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

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

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

22. Cost of Goods Sold

This account consists of:

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

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

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

23. Selling and Administrative Expenses

This account consists of:

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

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

24. Personnel Expenses

This account consists of:

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

The above amounts are distributed as follows:

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

25. Depreciation and Amortization

This account consists of:

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

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

This account consists of:

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

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

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

27. Income Taxes

Deferred tax assets and liabilities are from the following:

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

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

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

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

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

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

The components of income tax expense are shown below:

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

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

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

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

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

OSD

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

28. Related Party Disclosures

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

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

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

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

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

29. Operating Lease Commitments

Group as Lessee

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

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

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

Group as Lessor

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

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

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

30. Retirement Plan

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

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

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

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Net Defined Benefit Retirement Asset (Liability)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Balance at beginning of year	(P5,872)	(P5,344)	(P5,603)	P883	P1,952	P12	(P4,989)	(P3,392)	(P5,591)
Recognized in Profit or Loss									
Current service cost	(337)	(313)	(285)	-	-	-	(337)	(313)	(285)
Past service cost - plan amendment	-	-	(2)	-	-	-	-	-	(2)
Interest expense	(333)	(289)	(278)	-	-	-	(333)	(289)	(278)
Interest income	-	-	-	147	94	(14)	147	94	(14)
	(670)	(602)	(565)	147	94	(14)	(523)	(508)	(579)
Recognized in Other Comprehensive Income									
Remeasurements:									
Actuarial gains (losses) arising from:									
Experience adjustments	(592)	(555)	(398)	-	-	-	(592)	(555)	(398)
Changes in financial assumptions	584	105	173	-	-	-	584	105	173
Changes in demographic assumptions	17	43	302	-	-	-	17	43	302
Return on plan asset excluding interest	-	-	-	(1,142)	(735)	2,570	(1,142)	(735)	2,570
	9	(407)	77	(1,142)	(735)	2,570	(1,133)	(1,142)	2,647
Others									
Benefits paid	777	571	753	(677)	(528)	(651)	100	43	102
Contributions	-	-	-	4,068	100	35	4,068	100	35
Transfer to other accounts payable	-	(4)	-	-	-	-	-	(4)	-
Transfers from other plans/subsidiaries	-	-	(16)	-	-	-	-	-	(16)
Transfers to other plans/subsidiaries	-	-	16	-	-	-	-	-	16
Translation adjustment	(23)	(86)	(6)	-	-	-	(23)	(86)	(6)
	754	481	747	3,391	(428)	(616)	4,145	53	131
Balance at end of year	(P5,779)	(P5,872)	(P5,344)	P3,279	P883	P1,952	(P2,500)	(P4,989)	(P3,392)

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

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

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

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

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

Plan assets consist of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31. Significant Agreements

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

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

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

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

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

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

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

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

32. Basic and Diluted Earnings Per Share

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

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

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

33. Supplemental Cash Flow Information

a. Changes in operating assets and liabilities:

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

b. Changes in liabilities arising from financing activities:

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

34. Financial Risk Management Objectives and Policies

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

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

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

Risk Management Structure

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

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

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

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

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

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

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

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

Foreign Currency Risk

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

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

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

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

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

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

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

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

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

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

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

	PhP to US\$
December 31, 2018	52.580
December 31, 2017	49.930
December 31, 2016	49.720

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

Cash and Cash Equivalents, Derivative Assets and Noncurrent Deposits

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

Investments in Debt Instruments and Proprietary Membership Shares

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

Trade and Other Receivables and Long-Term Receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity Risk

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

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

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

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

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

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

**excluding cash bonds, cylinder deposits and derivative liabilities

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

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

**excluding cash bonds and cylinder deposits

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For consumer (buy) hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost. While for producer (sell) hedges, if prices go down, hedge positions may show marked-to-market gains; however, any gain in the marked-to-market position is offset by the resulting lower selling price.

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

Other Market Price Risk

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

Capital Management

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

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

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

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

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

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

35. Financial Assets and Financial Liabilities

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

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

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

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

**excluding cash bonds, cylinder deposits and derivative liabilities

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

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

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

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

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

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

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

Derivative Financial Instruments

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

Derivative Instruments Accounted for as Cash Flow Hedges

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

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

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

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

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

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

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

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

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

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

** Included under "Derivative liabilities" and "Other noncurrent liabilities" accounts amounting to P144 and P188, respectively.

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

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

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

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

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

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

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

Total outstanding equivalent notional quantity covered by the commodity swaps were 17.0 million barrels and 42.6 million barrels for 2018 and 2017, respectively. The estimated net receipts (payouts) for these transactions amounted to P546 and (P1,181) as of December 31, 2018 and 2017, respectively.

Commodity Options. As of December 31, 2018, the Group has outstanding 3-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 150 thousand barrels.

The call and put options can be exercised at various calculation dates in 2019 with specified quantities on each calculation date. The estimated net receipt for these call and put options as of December 31, 2018 amounted to P137.

The Group has no outstanding 3-way options as of December 31, 2017.

Embedded Derivatives

Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of the Parent Company. Under the sales and purchase contracts, the peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of December 31, 2018 and 2017, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2018 and 2017, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2018, 2017 and 2016, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P4,326, (P1,692) and P824, respectively (Note 26).

Fair Value Changes on Derivatives not Designated as Cash Flow Hedge

The net movements in the fair value of derivative transactions in 2018 and 2017 are as follows:

	Note	2018	2017
Fair value at beginning of year		(P1,626)	(P714)
Net changes in fair value during the year	26	4,326	(1,692)
Fair value of settled instruments		(2,313)	780
Fair value at end of year		P387	(P1,626)

Fair Value Hierarchy

Financial assets and liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2018 and 2017. The different levels have been defined as follows:

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

	2018		2017	
	Level 2	Level 1	Level 2	Total
Financial Assets:				
FVPL	P254	P -	P171	P171
Derivative assets	1,079	-	165	165
Investments in debt instruments	152	201	330	531
Financial Liabilities:				
Derivative liabilities	(802)	-	(1,791)	(1,791)

The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2018 and Level 3 as of December 31, 2017. During the year, there were no transfers between and into and out of Level 1 and Level 2 fair value measurements.

36. Registration with the Board of Investments (BOI)

RMP-2 Project

On June 3, 2011, the BOI approved the Parent Company's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016 and the Parent Company availed of the ITH in 2016, 2017 and 2018.

On August 11, 2017, the BOI approved the Parent Company's application for the ITH incentive. The approval also covers the claim for income tax exemption in the Parent Company's 2016 Income Tax Return. On June 20, 2018, the BOI approved the Parent Company's application for the ITH incentive. The approval also covers the claim for income tax exemption in the Parent Company's 2017 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Yearly certificates of entitlement have been timely obtained by the Parent Company to support its ITH credits in 2018, 2017 and 2016.

37. Segment Information

Management identifies segments based on business and geographic locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The CEO (the chief operating decision maker) reviews management reports on a regular basis.

The Group's major sources of revenues are as follows:

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.

-
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.
 - c. Lease of acquired real estate properties and equipment for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
 - d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.
 - e. Export sales of various petroleum and non-fuel products to other countries such as China, Taiwan, Cambodia, Malaysia, South Korea, Singapore, USA, Vietnam, Thailand, Indonesia, Bangladesh and UAE.
 - f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.
 - g. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

Revenues are mainly derived from the sale of petroleum products to retail and commercial customers in various geographical locations.

The Group has no significant remaining performance obligations as it mainly recognized revenues in amounts that correspond directly to the value of completed performance obligations.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Group.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the years ended December 31, 2018, 2017 and 2016.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
2018						
Revenue:						
External sales	P554,958	P -	P1,117	P923	P388	P557,386
Inter-segment sales	284,132	116	686	-	(284,934)	-
Operating income	18,117	90	313	89	312	18,921
Net income	11,854	150	97	94	(5,126)	7,069
Assets and liabilities:						
Segment assets*	398,305	1,418	6,730	622	(49,178)	357,897
Segment liabilities*	276,810	231	2,378	115	(16,016)	263,518
Other segment information:						
Property, plant and equipment	163,418	-	-	132	434	163,984
Depreciation and amortization	11,515	-	9	19	-	11,543
Interest expense	9,689	-	154	-	(154)	9,689
Interest income	814	31	5	10	(154)	706
Income tax expense	3,306	22	24	12	22	3,386

*excluding deferred tax assets and liabilities

**revenues from the use of loaned equipment and provisions of technical support are presented as part of leasing and others, respectively.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2017						
Revenue:						
External sales	P433,879	P -	P -	P745	P -	P434,624
Inter-segment sales	199,117	83	584	-	(199,784)	-
Operating income	26,895	59	295	16	373	27,638
Net income	16,263	118	141	44	(2,479)	14,087
Assets and liabilities:						
Segment assets*	382,313	1,319	5,871	636	(52,316)	337,823
Segment liabilities*	248,118	291	4,439	108	(21,942)	231,014
Other segment information:						
Property, plant and equipment	172,212	-	-	134	5,344	177,690
Depreciation and amortization	10,952	-	9	18	-	10,979
Interest expense	8,487	-	164	-	(164)	8,487
Interest income	666	26	2	5	(164)	535
Income tax expense	4,648	16	27	3	61	4,755

*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2016						
Revenue:						
External sales	P341,979	P -	P76	P1,823	(P38)	P343,840
Inter-segment sales	161,982	132	517	32	(162,663)	-
Operating income	23,208	104	271	48	166	23,797
Net income	10,495	125	96	63	43	10,822
Assets and liabilities:						
Segment assets*	363,812	1,106	5,604	720	(52,543)	318,699
Segment liabilities*	242,140	192	4,325	147	(22,457)	224,347
Other segment information:						
Property, plant and equipment	171,330	-	-	151	5,123	176,604
Depreciation and amortization	9,289	-	2	41	173	9,505
Interest expense	7,557	-	173	-	(173)	7,557
Interest income	651	22	2	5	(173)	507
Income tax expense	1,832	15	23	11	1,675	3,556

*excluding deferred tax assets and liabilities

Inter-segment sales transactions amounted to P284,934, P199,784 and P162,663 for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2018, 2017 and 2016:

	Retail	Lube	Gasul	Industrial	Others	Total
2018						
Revenue	P269,255	P4,883	P27,810	P132,397	P120,613	P554,958
Property, plant and equipment	12,192	70	499	90	150,567	163,418
Capital expenditures	3,326	6	14	9	8,989	12,344
2017						
Revenue	212,840	5,307	22,850	101,333	91,549	433,879
Property, plant and equipment	20,648	86	435	153	150,890	172,212
Capital expenditures	2,473	1	100	49	4,821	7,444
2016						
Revenue	161,415	4,445	17,922	83,650	74,547	341,979
Property, plant and equipment	18,557	110	384	210	152,069	171,330
Capital expenditures	3,214	1	89	110	21,920	25,334

Geographical Segments

The following table presents segment assets of the Group as of December 31, 2018 and 2017.

	2018	2017
Local	P284,469	P271,883
International	73,428	65,940
	P357,897	P337,823

Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the years ended December 31, 2018, 2017 and 2016.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
2018						
Local	P311,951	P44	P1,803	P923	(P979)	P313,742
Export/international	527,139	72	-	-	(283,567)	243,644
2017						
Local	271,117	29	584	745	(1,156)	271,319
Export/international	361,879	54	-	-	(198,628)	163,305
2016						
Local	204,585	64	593	1,855	(1,686)	205,411
Export/international	299,375	68	-	-	(161,014)	138,429

**revenues from the use of loaned equipment and provisions of technical support are presented as part of leasing and others, respectively.

38. Events After the Reporting Date

- a. On January 18, 2019, the Parent Company paid distributions amounting to US\$11.500 million (P859) to the holders of the US\$500 million SPCS.
- b. On March 12, 2019, the BOD of the Parent Company approved the following matters:
 - i. Public offer and issuance of up to P20,000 of preferred shares with features to be determined by the Executive Committee;
 - ii. Redemption of the 7,122,320 Series 2A Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 10, 2019 and redemption pay-out date of November 4, 2019 (with November 3, 2019 falling on a Sunday); and
 - iii. Declaration of cash dividends for common and Series 2 preferred shareholders with the following details:

Type	Per Share	Record Date	Payment Date
Common	P0.10000	March 27, 2019	April 11, 2019
Series 2A	15.75000	April 4, 2019	May 3, 2019
Series 2B	17.14575	April 4, 2019	May 3, 2019
Series 2A	15.75000	July 12, 2019	August 5, 2019
Series 2B	17.14575	July 12, 2019	August 5, 2019

39. Other Matters

- a. Lease Agreements with PNOC

On October 20, 2017, the Parent Company filed with the Regional Trial Court (RTC) of Mandaluyong City a complaint against the PNOC for Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour Temporary Restraining Order and Verified Applications for 20-day Temporary Restraining Order and Writ of Preliminary Injunction. In its complaint, the Parent Company seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Parent Company. These landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by the Parent Company of the conveyed lots for its business operation. Thus, PNOC and the Parent Company executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, the Parent Company, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint stemmed from PNOC's refusal to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

The Parent Company alleged that by unilaterally setting aside the renewal clauses of the lease agreements and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with the Parent Company.

On December 11, 2017, the trial court granted the Parent Company's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting the Parent Company from possession of the subject properties until the case is decided.

The court-mandated mediation conference held at the Philippine Mediation Center in Mandaluyong City on February 5, 2018 was terminated without any agreement between the parties. As of December 31, 2018, the case was under judicial dispute resolution proceedings before the court.

b. Tax Credit Certificates Related Cases

In 1998, the BIR issued a deficiency excise tax assessment against the Parent Company relating to its use of P659 worth of Tax Credit Certificate (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Parent Company by suppliers as payment for fuel purchases. The Parent Company contested the BIR's assessment before the Court of Tax Appeals (CTA). In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, the Parent Company was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals (CA) promulgated a decision in favor of the Parent Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to the Parent Company. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court (SC) through a petition for review on *certiorari* dated December 5, 2012. On July 9, 2018, the SC rendered a decision in favor of the Parent Company denying the petition for review filed by the BIR and affirming the decision of the CA. No motion for reconsideration for such decision relating to the Parent Company was filed by the BIR.

c. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent Company not criminally liable, but the SBMI found the Parent Company to have overloaded the vessel. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of December 31, 2018.

d. Other Proceedings

The Group is also a party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these other proceedings will not have a material adverse effect on the Group's business financial condition or results of operations.

- e. The Group has unused letters of credit totaling approximately P33,193 and P19,515 as of December 31, 2018 and 2017, respectively.

Terminals and Airport Installations

LUZON

BATANGAS

Bo. Mainaga, Mabini, Batangas

LIMAY

Limay, Bataan

NAVOTAS

PFDA CMPD., Navotas, Metro Manila

PALAWAN

Parola, Brgy. Maunlad, Puerto Princesa City

PORO

Poros Pt., San Fernando, La Union

ROSARIO

General Trias, Rosario, Cavite

VISAYAS

BACOLOD

Bo. San Patricio, Bacolod City

ILOILO

Lapuz, Iloilo City

ISABEL

LIDE, Isabel, Leyte

MACTAN

MEPZ, Lapu-Lapu City

MANDAUE

Looc, Mandaue City

ORMOC

Bo. Linao, Ormoc City

ROXAS

Arnaldo Blvd., Culasi

TACLOBAN

Anibong, Tacloban City

MINDANAO

DAVAO

Km. 9, Bo. Pampanga, Davao City

BAWING

Purok Cabu, Bawing, General Santos City

ILIGAN

Bo. Tuminobo, Iligan City

JIMENEZ

Jimenez, Misamis Occidental

NASIPIT

Talisay, Nasipit, Agusan del Norte

TAGOLOAN

Tagoloan, Misamis Oriental

ZAMBOANGA

Brgy. Campo Islam, Lower Calarian, Zamboanga City

AIRPORT INSTALLATIONS

DAVAO

Davao Airport

LAGUINDINGAN

Laguindingan Airport, Misamis Oriental

LAOAG

Laoag Airport

NAIA JOCASP

Compound, NAIA, Pasay City

LPG OPERATIONS

PASIG

Bo. Ugong, Pasig, Metro Manila

LEGASPI

Lakandula Drive, Brgy. Bonot, Legaspi City

SAN FERNANDO

San Fernando, Pampanga

Products List

FUELS

Automotive Fuels

Petron Blaze 100 Euro 6
Petron XCS
Petron Xtra Advance
Petron Turbo Diesel
Petron Diesel Max

Industrial Fuels

Petron Fuel Oil

Aviation Fuels

Aviation Gasoline
Jet A-1

Household Fuels

Gasul
Gaas

AUTOMOTIVE LUBRICATING OILS

Diesel Engine Oils

Rev-X Turbo HTP
Rev-X Fully Synthetic
Rev-X Synthetic Blend
Rev-X Premium Multi-grade
Rev-X Multi-grade
Rev-X Pantra
Rev-X HD4X
Rev-X HD
Rev-X Hauler
Petron XD3
Petron Railroad Extra

Gasoline Engine Oils

Blaze Racing HTP
Blaze Racing Fully Synthetic
Blaze Racing Synthetic Blend
Blaze Racing Premium Multi-grade
Ultron Race / Fully Synthetic
Ultron Rallye / Synthetic Blend
Ultron Touring / Premium Multi-grade
Ultron Extra / Multi-grade
Petron MO

Motorcycle Oils

Petron Sprint 4T Fully Synthetic
Petron Sprint 4T Premium Multi-grade
Petron Sprint 4T Multi-grade
Petron Sprint 4T Monograde
Petron Sprint 4T Scooter Oil Fully Synthetic
Petron Sprint 4T Scooter Oil Synthetic Blend
Petron Sprint 4T Scooter Oil Premium Multi-grade
Petron Sprint 4T Scooter Oil Monograde
2T Powerburn
2T Premium
2T Autolube

Automotive Gear Oils

Petron GHTP Gear Oil
Petron GX
Petron GEP
Petron GST

Automotive Transmission Fluids

Petron ATF Premium HTP
Petron ATF Premium
Petron TF 38
Petron TDH 50

Other Automotive Oils

STM

INDUSTRIAL LUBRICATING OILS

Turbine, Hydraulic and Circulating Oils

Turbine, Hydraulic and Circulating Oils
Hydrotur AW 22 / 32 / 46 / 68 / 100

Hydrotur AWX 32 / 68 / 100
Hydrotur AW GT 32
Hydrotur EP 46
Hydrotur N 100
Hydrotur R 32 / 46 / 68 / 100 / 150 / 185 / 220 / 320
Hydrotur SX 68
Hydrotur T 32 / 46 / 68
Hydrotur TEP 68 / 77

Industrial Gear Oils

Hydrotur SX 220
Hypex EP 68 / 100 / 150 / 220 / 320 / 460 / 570 / 680 1000 / 4000 (Oil-Based)
Hypex EP 2K / 4K / 25K (Asphalt-Based)
Milrol 5K
Gearfluid 2K / 5K / 8K
Gearkote 3K / 22K / 68K
Petrocyl S 390 / 700
Petrocyl 680

Cutting Oils

Turnol 40
Petrokut 10 / 27

Refrigeration Oils

Zerflo 68
Zerflo P68
Suniso 4GS

Transformer Oil

Voltran 60

Slideway Oil

Hydrotur SW 68
Hydrotur SW 220

Other Industrial Lubricating Oils

Airlube 100 / 150 / 320
Petrosine 68

MARINE LUBRICATING OILS

Crosshead Engine Cylinder Oils

Petromar DCL 7050
Petromar DCL 4000 Series

Trunk Piston Engine Oils

Petromar HF 1040 / 1540
Petromar HF 2040
Petromar HF 3000 series
Petromar HF 4000 series
Petromar HF 5040 / 5540
Petromar XC 1030 / 1040 / 1050 / 1530 / 1540
Petromar XC 2030 / 2040
Petromar XC 3030 / 3040
Petromar XC 4040 / 4050
Petromar XC 5040 / 5540
Petron MS 9250 / 9370

Crosshead Engine System Oil

Petromar 65

Marine Outboard 2-stroke oil

Petron Regatta

GREASES

Multi-purpose Greases

Petrogrease MP 2 / 3
Molygrease Premium
Petrogrease Premium

Water Resistant Grease

Petrogrease XX

Extreme Pressure Greases

Petrogrease EP 00 / 0 / 1 / 2
Molygrease EP 2
Molygrease EP 2P
Petrogrease EP 375

High Temperature Greases

Petrogrease HT
Petron Grease HTP Li Complex

Complex Greases

Petron Premium Lithium Complex

ASPHALTS

Penetration Asphalt

Petropen

Cutback Asphalt

Petropen CB

Emulsified Asphalt

Petromul SS-1
Petromul CSS -1

Blown Asphalts

Asphaltseal
Asphalt Joint Sealer

Polymer Modified Bitumen

Petron Polymer Modified Bitumen

SPECIAL PRODUCTS

Process Oils

Stemol 68
Petrosine 68

Heat Transfer Oil

Petrotherm 32

Cleaning Agent

Greaseaway
Greasolve

Protective Coatings

Petrokote 392
Marinekote
Autokote

AFTERMARKET SPECIALTIES

PetroMate Specialties

PetroMate Oil Saver
PetroMate Oil Improver
PetroMate Gas Saver
PetroMate Diesel Power Booster
PetroMate Engine Flush
PetroMate Super Coolant
PetroMate Clean N' Shine
PetroMate Penetrating Oil
PetroMate Greaseaway
PetroMate Carbon Buster
PetroMate Brake and Clutch Fluid
Petron Brake Fluid HTP DOT 4

AVIATION LUBRICANTS

Nyco Grease GN 22
Hydraunycoil FH 51
Aviation Oil Elite 20W-50
Turbo Oil 2380
Turbo Oil 274

PERFORMANCE ADDITIVES

pChem 3500
pChem 3500F
pChem 140M
pChem 3500MF

Investor Information

Information Assistance

Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
1550 Mandaluyong City
Telephone No.: (632) 884-9200
Fax No.: (632) 884-0945
Website: www.petron.com
Email Address: contactus@petron.com
www.facebook.com/PetronCorporation
www.twitter.com/Petron_Corp

Shareholder Service and Assistance

For questions and comments regarding dividend payments, change of address, account status, loss or damaged stock certificates, please get in touch with:
SMC Stock Transfer Service Corporation
40 San Miguel Avenue 1550 Mandaluyong City
Trunkline: (632) 632-3450 to 52
Fax No.: (632) 632-3535
Email Address: smc_stsc@sanmiguel.com.ph

Investor Relations

Petron Corporation welcomes inquiries from analysts and institutional investors.
Please write or call:
Investor Relations
40 San Miguel Avenue 1550 Mandaluyong City
Telephone No.: (632) 884-9200
Fax No.: (632) 884-0964
Website: www.petron.com
Email Address: eypelim@petron.com



Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue | 550 Mandaluyong City
Telephone No.: (632) 884-9200
Fax No.: (632) 884-0945
www.petron.com
www.facebook.com/PetronCorporation
www.twitter.com/Petron_Corp