

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND  
THE REVISED CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2019  
Date of Report (Date of earliest event reported)
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. PETRON CORPORATION (“Petron” or the “Company”)  
Exact name of issuer as specified in its charter
5. Philippines Province, country or other jurisdiction of incorporation
6.  (SEC Use Only)  
Industry Classification Code:
7. SMC Head Office Complex, #40 San Miguel Avenue, Mandaluyong City 1550  
Address of principal office Postal Code
8. (0632) 8.886-3888; 8.884-9200  
Issuer’s telephone number, including area code
9. None  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Number of Shares of Stock Outstanding and  
Amount of Debt Outstanding  
(as of December 31, 2019)

Title of Each Class	Number of Shares Outstanding
<b>Common Stock</b>	<b>9,375,104,497 shares</b>
<b>Series 2B Preferred Shares</b>	<b>2,877,680 shares</b>
<b>Series 3A Preferred Shares</b>	<b>13,403,000 shares</b>
<b>Series 3B Preferred Shares</b>	<b>6,597,000 shares</b>
<b>Total Liabilities</b>	<b>₱ 302,405 million</b>
<b>Series A Bonds due 2021</b>	<b>₱ 13.0 billion</b>
<b>Series B Bonds due 2023</b>	<b>₱ 7.0 billion</b>
<b>Series C Bonds due 2024</b>	<b>₱ 13.2 billion</b>
<b>Series D Bonds due 2025</b>	<b>₱ 6.8 billion</b>

11. Are any or all of these securities listed on any Philippine stock exchange?

Yes  No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange	Common Shares Series 2B Preferred Shares Series 3A Preferred Shares Series 3B Preferred Shares
Philippine Dealing & Exchange Corp.	Series A Bonds due 2021 Series B Bonds due 2023 Series C Bonds due 2024 Series D Bonds due 2025

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines (the "Corporation Code") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes  No

The SEC Form 17-Q for the first quarter of 2020 will be filed by the Company by May 28, 2020 as allowed under SEC Memorandum Circular No. 10 (2020) in view of the enhanced community quarantine in effect in Luzon and as reported in the Company's SEC Form LC dated May 7, 2020.

(b) has been subject to such filing requirements for the past 90 days.

Yes  No

13. The aggregate market value of the voting stock held by non-affiliates of the Company (*i.e.*, other than San Miguel Corporation, SEA Refinery Corporation, Petron Corporation Employees' Retirement Plan and the directors and executive officers of Petron Corporation) as of December 31, 2019 totaling 2,514,293,950 common shares was ₱9,705,174,647.00 based on the price of ₱3.86 per share as of December 27, 2019, the last trading day of 2019. The aggregate market value of the voting stock held by non-affiliates of the Company as of March 31, 2020 totaling 2,514,334,220 common shares was ₱6,361,265,576.60 based on the price of ₱2.53 per share as of March 31, 2020, the last trading day of March 2020. Petron had a public ownership of 26.73% as of March 31, 2020. Attached hereto as Annexes A and B are the public ownership reports of the Company as of December 31, 2019 and March 31, 2020, respectively.

#### DOCUMENTS INCORPORATED BY REFERENCE

None

## PART I - BUSINESS AND GENERAL INFORMATION

### (A) Description of Business

#### (1) Business Development

##### (i) The Company

Petron was incorporated in the Philippines on December 22, 1966 as “Esso Philippines Inc.” Petron was renamed “Petrophil Corporation” in 1974 when the Philippine National Oil Company (“PNOC”) acquired it. In 1985, Petrophil and Bataan Refinery Corporation (formerly, the “Standard Vacuum Refining Corporation”) were merged with Petrophil Corporation as the surviving corporation. The Company changed its corporate name to “Petron Corporation” in 1988. On September 13, 2013, the SEC approved the amendment of the Company’s Articles by extending the corporate term of the Company for another 50 years from and after December 22, 2016. However, as a general rule under the Revised Corporation Code of the Philippines (“Revised Corporation Code”), which took effect on February 23, 2019, corporations with certificates of incorporation prior to the effectivity of the Revised Corporation Code, and which continue to exist, shall have perpetual existence. By operation of law, therefore, the Company shall now have perpetual existence.

As of March 31, 2020, the three (3) principal common shareholders of the Company holding at least 5% of its common stock were SEA Refinery Corporation (“SEA Refinery”) (50.10%), PCD Nominee Corporation - Filipino (18.33%) and San Miguel Corporation (“SMC”) (18.16%). SEA Refinery is wholly owned by SMC. SMC thus holds an aggregate 68.26% ownership of the common shares of the Company.

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

##### (ii) Subsidiaries

The direct subsidiaries of the Company as of December 31, 2019 are listed below:

- **New Ventures Realty Corporation** (“NVRC”) is a realty firm established on August 24, 1995. NVRC is authorized to acquire and develop land but it does not engage in the subdivision business. Land suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC, which are then leased to Petron for use in the latter’s operation. NVRC’s wholly owned subsidiary, Las Lucas Development Corporation, which was acquired in 2003, was later renamed “Las Lucas Construction and Development Corporation” upon approval by the SEC in September 2009 (“LLCDC”). In 2012, NVRC acquired 100% of Parkville Estates and Development Corporation and 60% of Mariveles Landco Corporation. In 2013, NVRC further acquired 100% of South Luzon Prime Holdings Incorporated, MRGVeloso Holdings, Inc. (which was merged into LLCDC effective June 1, 2018) and Abreco Realty Corp.
- **Petrogen Insurance Corporation** (“Petrogen”) is a wholly owned subsidiary of Petron incorporated on August 23, 1996. It serves the insurance requirements of Petron and its allied business partners such as contractors, suppliers and dealers.

- **Overseas Ventures Insurance Corporation Ltd.** (“Ovincor”) was incorporated on November 16, 1995 under the laws of Bermuda for the purpose of expediting the reinsurance of Petron’s insurable interests as covered by Petrogen. Reinsurance includes the insurance cover for the refinery of Petron in Bataan (the “Petron Bataan Refinery”), the bulk plants and service station properties, petroleum and cargo insurance and performance bonds for Petron contractors and haulers as well.
- **Petron Freeport Corporation** (“PFC”; formerly, “Petron Treats Subic, Inc.”) was incorporated on November 6, 2003. The company is registered with the Subic Bay Metropolitan Authority (“SBMA”) as a Subic Bay Freeport (“SBF”) enterprise. PFC is engaged in the business of importing, transporting, trading and retailing petroleum products and related products. As a registered SBF enterprise, PFC is entitled to tax-free and duty-free importation of raw materials and capital equipment for use solely within SBF. PFC has two (2) divisions - retail and manufacturing. The retail division handles the service station operations (*i.e.*, forecourt, quick-service restaurant, and locators). The manufacturing division is engaged in refining, distilling and manufacturing any and all kinds of petroleum products, oil, gas and other vehicle substances. Direct operations of the retail facilities and the manufacturing plant of PFC allows Petron to deal in the business of purchasing, marketing, distributing and trading petroleum, oil, gas, and related products.
- **Petron Marketing Corporation** (“PMC”) was incorporated on January 27, 2004 with the same business purpose as PFC but operated outside the SBF. PMC is a wholly-owned subsidiary of Petron. PMC turned over to Petron the operation of service stations that PMC held and the operation of Treats stores, effective August 1, 2016 and November 30, 2016, respectively. PMC also terminated its franchises to the fastfood stores.
- **Petrofuel Logistics, Inc. (formerly, “Limay Energen Corporation”)** (“PLI”) was incorporated on August 23, 2010 and initially had the primary purpose of building, operating, maintaining, selling and leasing power generation plants, facilities, equipment and other related assets and generally engaging in the business of power generation and sale of electricity generated by its facilities. It became wholly owned by Petron in January 2012. In September 2019, the company changed its name to its current name “Petrofuel Logistics, Inc.” and its primary purpose to the business of providing logistic and freight-forwarding services.
- **Petron Singapore Trading Pte. Ltd.** (“PSTPL”) was established in 2010 as Petron’s trading subsidiary in Singapore. The subsidiary aims to optimize crude procurement and participate in Singapore’s Global Trader Program, which allows the Company access to a wider selection of crude alternatives, resulting in further optimization of Petron’s crude selection.
- **Petron Global Limited** (“Petron Global”) is a holding company incorporated under the laws of the British Virgin Islands acquired by the Company on February 24, 2012.
- **Petron Finance (Labuan) Limited** (“Petron Finance”) is a holding company incorporated under the laws of Labuan, Malaysia acquired by the Company on March 2, 2012.
- **Petrochemical Asia (HK) Limited** (“PAHL”) is a holding company incorporated under the laws of Hong Kong over which the Company obtained control in January 2013 and 100% ownership in July 2016.

- **Petron Oil & Gas Mauritius Ltd.** (“POGM”) is a holding company incorporated under the laws of Mauritius acquired by the Company on February 8, 2012.

Petron Oil & Gas International Sdn. Bhd. (“POGI”) is a subsidiary of POGM incorporated under the laws of Malaysia, which, on March 30, 2012, acquired 65% of the issued and outstanding share capital of Esso Malaysia Berhad (“EMB”), a publicly-listed company in Malaysia, and 100% of the issued and outstanding share capital of ExxonMobil Malaysia Sdn. Bhd. and ExxonMobil Borneo Sdn. Bhd. POGI subsequently acquired an additional 8.4% of the voting shares of EMB in May 2012 pursuant to a mandatory takeover offer. On April 23, 2012, the Companies Commission of Malaysia (“CCM”) issued a certificate for the change of name of ExxonMobil Malaysia Sdn. Bhd. to “Petron Fuel International Sdn. Bhd.” (“PFISB”) and of ExxonMobil Borneo Sdn Bhd. to “Petron Oil (M) Sdn. Bhd.” (“POMSB”). Thereafter, on July 10, 2012, the CCM issued a certificate for the change of name of EMB to “Petron Malaysia Refining & Marketing Bhd.” (“PMRMB”).

PMRMB, PFISB and POMSB (collectively, the “Petron Malaysia Companies”) are companies incorporated under the laws of Malaysia and are engaged in the downstream oil business in Malaysia. The Petron Malaysia Companies distribution network (including in the state of Sabah) is comprised of 12 product terminals and facilities. The Petron Malaysia Companies has a network of about 700 retail service stations in the country. PMRMB owns and operates the 88,000 bpd Port Dickson Refinery (“PDR”). The PDR produces a range of products, including LPG, naphtha, gasoline, diesel, jet fuel, and low sulfur waxy residue (“LSWR”).

The Petron Malaysia Companies’ fuels marketing business in Malaysia is divided into retail business and commercial sales. The retail business markets fuels and other retail products through its network of service stations located throughout Peninsular and East Malaysia. In December 2016, the Petron Malaysia Companies launched its downstream business in the state of Sarawak-East Malaysia and, as of December 31, 2019, 11 service stations have been operating. The Petron Malaysia Companies’ commercial sales are divided into four (4) segments: industrial and wholesale, aviation fuels, LPG and lubricants/specialties. The industrial segment sells diesel and gasoline fuels to mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors while the Malaysian wholesale segment consists of sales, primarily of diesel and gasoline, to company-appointed resellers, which sell the Company’s products to industrial customers. The aviation group mainly sells to key airline customers which operate at the Kuala Lumpur International Airport where the product is supplied through the pipeline connected to the Port Dickson Terminal. PMRMB markets LPG in 12-kg and 14-kg cylinders for domestic use and 50-kg and bulk for commercial use. In April 2012, the Petron Malaysia Companies established a lubricants and specialties segment to introduce Petron lubricants and greases into the Malaysian market. Automotive lubricants are sold through the service stations and vehicle workshops by appointed distributors in Malaysia. PMRMB exports LSWR and naphtha from the PDR.

The above-listed subsidiaries of the Company have no plans of engaging in lines of products or services other than those provided in connection with the promotion and enhancement of the business of the Company.

The Company and its subsidiaries are not subject of any bankruptcy, receivership or similar proceedings.

## **Operating Highlights**

### **Sales**

The consolidated sales volume of Petron's Philippine and Malaysian operations totaled 107 million barrels for 2019, slightly higher than the 108.5 million barrels sold in 2018. Total service station count is more than 3,000, with the Philippines accounting for about 2,400 stations.

### **Refining**

The Petron Bataan Refinery Master Plan Phase-2 Upgrade ("RMP-2") upgraded the Petron Bataan Refinery to a full conversion refining complex, where all fuel oil is converted to higher value products - gasoline, diesel, and petrochemicals. This makes the Petron Bataan Refinery comparable to highly complex refineries worldwide. RMP-2 started its full commercial operation in January 2016 after the completion of the test run and stabilization of process units.

### **Product Supply and Distribution**

The Company continues to implement programs to ensure adequate and timely product supply such as storage capacity additions, effective inventory management, keeping a sufficient fleet of tank trucks and marine vessels, and an inter-depot support system during periods of calamities.

### **Human Resources**

Management recognizes that the right mix of characteristics and skills is key to an organization's progress and success. With this in mind, the Company implements various human resource programs responsive to the evolving needs of an expanding organization. The Company implements various training and development programs, continues to strengthen the leadership and management succession program to retain and develop critical talents and ensure operational continuity, develops organizational structures that will adapt to expansion initiatives and maximize workforce productivity and cultivates greater employee commitment through optimal rewards for employees' performance, work-life integration programs, and safe working conditions.

In 2019, Petron dedicated a total of 22,945 training hours for all Petron employees or an average of 10 hours of training per employee. By building a solid, learner-focused strategy based on practical and immediate outcomes, Petron dedicated its resources to strengthening its technical expertise through technical development programs. Development of future leaders was also accelerated through mentoring and coaching programs for 60 mentees/coachees and 37 employees who served as their mentors/coaches, yielding a total of 482 coaching hours and 27 mentoring hours.

### **Health, Safety and Environment ("HSE")**

The Company's HSE programs continue to be an important element in the operations of its facilities. HSE programs of the Company include multifunctional audits and safety inspections of the depots/terminals, service stations and third party LPG filling plants, participation in industry-wide oil spill response exercises, emergency drills and exercises, safety seminars/trainings, and maintenance of management systems and ISO certifications on environment, health and safety.

The Petron Bataan Refinery continued to be certified for the Integrated Management System (IMS) Certification to Quality Management System ("QMS") ISO-9001 Version 2015 and Occupational Health & Safety Assessment Series OHSAS-18001 Version 2007, and also sustained Surveillance Audit to Environmental Management System ("EMS") ISO-14001 Version 2015. All 30 are certified under the new ISO 9001:2015 (QMS) and ISO 14001:2015 (EMS) standards and OHSAS 1800:2007 (Occupational Health

and Safety Management). Terminals are already in transition to ISO 45001:2018 (Occupational Health and Safety (OH&S) Management System). The terminals in Rosario, JOCASP and Navotas have been ISO 45001:2018-certified.

Furthermore, all 15 Petron pier facilities are compliant with the International Ship and Port Facility Security Code (“ISPS Code”) and certified by the Office of the Transport Security under the Department of Transportation (“DOTr”) (then “Department of Transportation and Communication). The ISPS certification is a requirement by the International Maritime Organization for all international vessels calling on international ports and for all ports accepting international vessels.

Terminal Operations Division of the Company implemented the Loss Prevention System (“LPS”). LPS is a system to prevent or reduce losses using behavior-based tools and proven management techniques. With this new system, the Company aims to improve the over-all safety culture of the division to prevent all types of losses, and eventually apply the same system throughout the organization. The LPS Core Team members were able to conduct 23,312 training hours to more than 2,600 personnel in the Terminal Operations Group to disseminate the principles of LPS.

From January to December 2019, a total of 10,924,359 safe man hours were achieved by the Head Office, the Petron Bataan Refinery and the terminals.

### **Corporate Social Responsibility (“CSR”)**

CSR remained among the key thrusts of the Company in its effort to promote, protect and further its corporate reputation while helping attain its business goals. Led by Petron Foundation, Inc. (“PFI”), strategic CSR programs in education, environment, entrepreneurship and livelihood, and community engagement were conducted together with Petron’s various business units to benefit its fence-line communities as well as critical stakeholders nationwide.

Among the CSR and sustainability activities of Petron in 2019 were the following:

- **Tulong Aral ng Petron.** In partnership with the Department of Social Welfare and Development (“DSWD”), the Department of Education (“DepEd”), the Company continued its *Tulong Aral ng Petron* (“Tulong Aral”) program for elementary, high school and college students.
  - By year-end 2019, *Tulong Aral* had a total of 3,194 scholars from elementary to college in elementary to college in partner schools in the National Capitol Region and in provinces where terminals of the Company are located.
  - The program also reached another milestone in 2019 year with the graduation of the second batch of Senior High School and the fifth batch of college scholars.
  - A total of 84 *Tulong Aral* scholars graduated at the end of School Year (“SY”) 2018-2019 (71 high school and 13 college scholars). Of the 71 high school graduates, 44 received academic awards (37 finished with honors and seven with high honors), while from the 13 college graduates, two were graduated *cum laude*.
  - A *Tulong Aral* scholar since Grade 1 was hired by Petron for its Pandacan operations bringing TAP graduates-turned Petron employees to four (4).
- **Best U Can Be (BUCB).** A total of 658 scholars from all year levels of high school underwent and completed their Best U Can Be life skills training in partnership with TOSP Region 3 Alumni and Petron employee volunteers.

- Teacher Training. A total of 54 select teachers in Science, Math and English from *Tulong Aral* partner schools underwent enhanced training on teaching pedagogies and critical contents from Ateneo professors. The training was facilitated by the Ateneo Center for Education and Philippine Business for Social Progress.
- Brigada Eskwela. In 2019, nearly 2,700 employee volunteers and partners nationwide helped refurbish 87 classrooms from public schools equivalent to 295 classrooms in various parts of the country, benefitting nearly 50,000 students.
- Bataan scholarships. A total of 45 scholars of Petron's Bataan College Scholarship Program received their engineering degrees this year, with four of them graduating *cum laude*. Thirty-two of these scholars also passed the board licensure exam. Seventeen are employed at Petron's Bataan Refinery. As of 2019, a total of 123 among 301 total graduates hired by the Refinery continued to be employed in Petron.

### Environment

- Bataan Integrated Coastal Management Program ("BICMP"). Petron continued support the implementation of the Bataan Integrated Coastal Management Program in 2019. It remained a partner of the Provincial Government of Bataan in the hosting of the annual Pawikan Festival with the sponsorship of an Environmental Forum and Night Patrol as pre-Festival events. About 100 public school teachers and DepEd officials from Bataan participated in these activities in November 2019, with talks from environmental advocates and Petron's own marine science scholar serving as resource persons. The participants also had the rare privilege of witnessing the hatching of turtle eggs and the laying of eggs by an adult pawikan during the Night Patrol. These learning experiences are helping raise awareness on the protection of the threatened marine turtle species which nest in the town of Morong and encourage greater care for the environment.
- Participation in the National Greening Program. Petron continues to engage its fence-line communities and stakeholders nationwide in initiatives that support the goals of the National Greening Program. The previously adopted 30 hectares of reforestation sites in Tacloban and Roxas provinces have so far yielded nearly 1,100 tons of carbon sequestered from the mangroves planted in 2016 using carbon capture measurement done quarterly by the DENR. This is a continuing effort done by the residents and local government units in coordination with Petron's Tacloban and Roxas Terminals.
- In 2019, volunteers from various Petron terminals, business partners and residents planted some 79,000 mangroves and trees throughout the country in activities commemorating Earth Month, Environment Month, and International Coastal Cleanup Day.
- Scholarship program for marine environment experts. Petron concluded its sponsorship of the Professional Masters in Tropical Marine Ecosystems Management ("PM-TMEM") program of the U.P. Marine Science Institute. Petron's fifth and last scholar from Bataan Province graduated from the program's third cycle (SY 2018-2019). These PM-TMEM scholars serve as scientific and technical experts in the development and implementation of Petron's environmental programs.



## Health and Human Services

- Petron Clinic. PFI continued to operate the Petron Clinics in Bataan, Manila, and Cavite together with the Petron Refinery, Pandacan and Rosario Terminals, respectively. These health facilities offer locals free specialized medical service (x-ray, ultrasound, ECG and laboratory services) to complement nearby health centers. Collectively, these three facilities benefitted some 6,600 individuals in 2019 who received free medical consultations and services, as well as medicines. The Petron Rosario Clinic also secured its License to Operate from the DOH Region 4-A in 2019 as a Primary Clinical Laboratory.
- Community-Based Programs. Petron's community-based programs benefit residents close to Petron facilities. The community-based programs include livelihood programs such as rag making in Bataan and Rosario by the womenfolk of Limay and mothers of *Tulong Aral* scholars in Rosario, respectively.

The Company commissioned the parents of *Tulong Aral* scholars in Rosario to produce eco-bags made from used Petron tarpaulins. These were used as souvenir items in Petron's 2019 annual stockholders' meeting. Additional eco-bags were sold to Petron employees during the Christmas holidays.

- Responding to Crises. In December 2019, PFI facilitated the provision of relief goods for families severely affected by strong earthquakes in North Cotabato. It also joined the Petron Dealers Association, the nationwide network of Petron dealers, in distributing relief packs to 850 families from two evacuation centers in Brgy. Ilomavis in Kidapawan City.
- Engaging employees and partners. Petron employees continued to take to heart their responsibility to society through active participation in the Volunteers In Action or VIA program. Nearly 450 employees from the Head Office, Refinery, and Operations were joined by approximately 5,000 various stakeholders to volunteer for the Company's various CSR programs. Employees also channeled their generosity by contributing over P200,000 in December to provide additional support to victims of the Mindanao earthquake.
- Team Malasakit. Petron employees also joined their counterparts from the San Miguel Group in volunteering activities under the Team Malasakit program, including Brigada Eskwela in Marikina City and soup kitchen at the Better World Community in Tondo, Manila.

## **Petron Malaysia**

The Petron Malaysia Companies have completed the upgrading of the product terminals to comply with the B10 biodiesel and U97 E4M requirements in line with the Malaysian government's thrust of providing cleaner and more environment-friendly fuels to consumers. As part of the Petron brand enhancement program, three (3) card programs, *Petron Miles* loyalty card, Petron Fleet Card with microchip technology (post-paid and pre-paid), and co-branded Petron Public Bank Visa Card program are in place.

## **(2) Business of Petron**

### **(i) Principal products or services and their markets**

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products. It sells a full range of refined petroleum products including gasoline, naphtha, LPG, diesel, jet fuel, kerosene, and petrochemicals (benzene, toluene, mixed xylene, propylene and polypropylene). When necessary, some refined petroleum products are imported.

The major markets in the petroleum industry are the reseller (service station), industrial, LPG and lube trades. Petron sells its products through a nationwide network of service stations, LPG dealerships and lube outlets and to industrial end-users and bulk off-takers.

The Company also continues to expand its non-fuel businesses with the addition of various food kiosks and restaurants, and other service establishments at some of its stations.

**(ii) Percentage of sales or revenues contributed by foreign sales**

Below is the summary of the percentage of sales or revenues of domestic and foreign sales of the Company and its subsidiaries from 2017 to 2019:

	Domestic	Exports/International	Total
2017, in million pesos	244,784	189,840	434,624
2017, in percentage	56%	44%	100%
2018, in million pesos	313,742	243,644	557,386
2018, in percentage	56%	44%	100%
2019, in million pesos	301,445	212,917	514,362
2019, in percentage	59%	41%	100%

**(iii) Distribution methods of products or services**

From the Petron Bataan Refinery, Petron moves its products, mainly by sea, to depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 12 depots and terminals in Luzon, seven (7) in the Visayas and seven (7) in Mindanao, as well as two (2) airport installations in Luzon, one in Visayas, and two (2) in Mindanao. Through this nationwide network, Petron supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Through its network of about 2,400 retail service stations in the Philippines as of December 31, 2019, Petron sells gasoline, diesel and kerosene to motorists and to the public transport sector. Petron also sells its LPG brands *Gasul* and *Fiesta Gas* to households and other consumers through its extensive dealership network.

Petron also manufactures lubricants and greases through its blending plant in Manila, and these products are sold through its service stations and various lubes outlets.

#### (iv) New products or services

In 2019, Petron was able to secure OEM approval for diesel engine oil that meets the LDF-3 quality of Scania for Rev-X Fully Synthetic SAE 10W-40. This is on top of the renewal of licenses and approvals from industry standards such as API (American Petroleum Institute), ACEA (Association des Constructeurs Européens d'Automobiles/Association European Automobile Manufacturers Association), NMMA (National Marine Manufacturers Association), and OEM approvals from BMW, Mercedes-Benz, Porsche, Cummins, MAN, MTU, Volvo, Mack, and Renault.

#### 1. Product Development and Enhancement

Petron's new and enhanced products for 2019 include the following:

Petron Philippines	Petron Malaysia
Blaze Racing 0W-20, API SN, API SN-RC, ILSAC GF-5	Petron DOT 4
Blaze Racing 0W-20, API SN-Plus	Petron Radiator Coolant
Rev-X Premium Multigrade SAE 15W-40 (API CK-4)	Rev-X Fully Synthetic SAE 5W-40
Petron Gear Oil 80W-90 (Scania STO 1:0) quality	Blaze Racing Fully Synthetic SAE 5W-40
Turnol 40	Rider 4T Synthetic Scooter Blend SAE 10W-40
Hydraulic Oil ISO VG 68	Rider 4T Scooter Premium Multigrade SAE 10-40
Sprint 4T Synthetic Blend SAE 10W-30	Fire-resistant Hydraulic Fluid
Sprint 4T Synthetic Blend SAE 10W-40	Rider 4T Fully Synthetic SAE 10W-50
Sprint 4T Fully Synthetic HTP SAE 10W-40	Rider 4T Premium Multi-grade SAE 10W-50
pCHEM DEF	Rider 4T Monograde SAE 40

#### 2. Product Approvals and Company Certifications

Petron obtained certifications and approvals from globally accepted licensing organizations and OEMS, which are also applicable to the Malaysian, Chinese, Brunei, and Cambodian markets.

- Registration with Association des Constructeurs Européens d'Automobiles/Association European Automobile Manufacturers Association ("ACEA")

In 2019, Petron renewed the registration for its Blaze Racing, Rev-X and Ultron automotive lubricants with ACEA in compliance with the European Engine Lubricant Quality Management System.

- License with American Petroleum Institute ("API")

Petron obtained the API CI-4 approval of Rev-X Premium Multi-grade 15W-40 (Trekker) using Group II Base Oils.

It also renewed its license to use the API service certification mark for the following Petron automotive engine oils:

Product	API Quality Level
Ultron Race 5W-40	API SN
Ultron Fully Synthetic 5W-40	API SN
Ultron Fully Synthetic 20W-50	API SL
Ultron Premium Multi-grade	API SL
Blaze Racing Fully Synthetic 5W-40	API SN
Blaze Racing Fully Synthetic 0W-40	API SN
Blaze Racing Fully Synthetic 5W-30	API SN
Petron Blaze Racing HTP 0W-40	API SN
Rev-X All Terrain 5W-40	API CJ-4 / SM
Rev-X Premium Multi-grade 15W-40	API CI-4 / SL
Rev-X Fully Synthetic 5W-40	API CJ-4 / SM
Rev-X Fully Synthetic 5W-40	API CJ-4 / SM
Rev-X Turbo HTP	API CJ-4 / SN
Blaze Racing Fully Synthetic 0W-20	API SN Resource Conserving, ILSAG GF-5
Blaze Racing Fully Synthetic 5W-30	API SN Resource Conserving, ILSAG GF-5
Blaze Racing Synthetic Blend 5W-30	API SN Resource Conserving, ILSAG GF-5

- OEM Approval and Renewals

Rev-X Fully Synthetic SAE 10W-40 API CF-4 was confirmed to have viscosity class corresponding to Scania LDF-3 specification by Scania HQ in Sweden with validity until August 14, 2021.

In addition, the following OEM approvals were renewed in 2019:

- NMMA TCW3- Petron Regatta 2T
- Volvo VDS-3 Approval - Rev-X Premium Multi-Grade SAE 15W-40
- Mack EO-N - Rev-X Premium Multi-Grade SAE 15W-40
- Renault VI RLD-4 Approval - Rev-X Premium Multi-Grade SAE 15W-40

**(v) Competition**

Petron operates in a deregulated oil industry along with more than 100 other industry players. With several players sharing in the market, competition is intense. Retail and depot network expansion, pricing, and various marketing programs are being employed to gain a bigger share of the domestic market. However, Petron's wider retail and depot network allows it to expand its reach in the domestic market more effectively. Moreover, with its upgraded refinery, Petron now produces more fuels, namely, gasoline, diesel and jet fuel.

**(vi) Sources and availability of raw materials and the names of principal suppliers**

In 2019, Petron purchased all its term and spot crude requirements through its wholly-owned subsidiary, PSTPL. Majority of the crude purchases were sourced under term contract with two (2) suppliers and various spot suppliers for the balance of the crude slate. For its 2020 crude requirements, Petron, through PSTPL, renewed its crude oil supply agreements with these suppliers for the period January to December 2020.

Petron purchased its finished product import requirements in 2019 also through PSTPL. For 2020, aviation gas, asphalt, LPG, and base oil contracts were renewed for the period January to December 2020 through PSTPL.

For its requirements for ethanol, Petron continued to support the directive of the Department of Energy (“DOE”) on prioritization of locally produced ethanol, complying with the required monthly allocation. About 71% of the total ethanol requirement of the Company in 2019 was sourced from various local ethanol producers.

**(vii) Dependence on one or a few major customers and identity of any such major customers**

Petron and its subsidiaries do not have a single external customer from which sales revenue generated amounted to 20% or more of the total revenue.

**(viii) Transactions with and/or dependence on related parties**

Petron, and certain of its subsidiaries and its associates and joint venture, as well as SMC and its subsidiaries, purchase products and services from one another in the normal course of business.

On August 6, 2019, the Board of Directors of the Company approved the Policy on Related Party Transactions of the Company that requires that all related party transactions of the Company be conducted on an arm’s length basis and under fair terms in order that no shareholder or stakeholder will be unduly disadvantaged and there will be no prejudice to the interest of the stakeholders of the Company. Under the terms of this policy, board approval is required for related party transactions with the same related party, either individually or in aggregate over a 12-month period from the first transaction, amounting to at least 10% of the Company’s total consolidated assets based on its latest audited financial statements.

On November 5, 2019, upon the recommendation of the Related Party Transaction Committee of the Board of Directors and pursuant to the Policy on Related Party Transactions of the Company, the Board of Directors approved the relevant qualified transactions between the Company and its subsidiary PSTPL in 2019 and the proposed transactions between them for 2020.

Described below are transactions of Petron with related parties:

1. Petron has existing supply agreements with various SMC subsidiaries. Under these agreements, Petron supplies the fuel and lube requirements of selected SMC plants and subsidiaries.
2. Petron purchases goods and services, such as those related to construction, information technology, shipping and terminaling, from various SMC subsidiaries.
3. Petron entered into a lease agreement with San Miguel Properties, Inc. for office space covering 6,852 square meters. The lease, which commenced on June 1, 2014, is for a period of one year and may be renewed in accordance with the written agreement of the parties.
4. Petron also pays SMC for its share in common expenses such as utilities and management fees in relation to the leased office premises.
5. Petron has long-term lease agreements with NVRC covering certain parcels of lands where the Petron Bataan Refinery and some of its depots, terminals and service stations are located.
6. Petron partly retails its fuel products through its subsidiaries, PFC, and PSTPL, as well as lubes through PFISB.

7. Petron obtains insurance coverage from Petrogen which, in turn, obtains reinsurance coverage from Ovincor and other local reinsurers.
8. Petron made certain advances to the Petron Corporation Employees' Retirement Plan for investment opportunities.
9. Petron has an existing trading agreement with PSTPL for the procurement of crude oil, and trading of finished petroleum products and other materials such as ethanol, coal, catalysts, and additives.
10. Petron engaged PSTPL to perform the chartering function such as the renewal and negotiation of contract of affreightments and commodity risk management via hedging transactions.
11. Petron provides general management services to PFISB.
12. NVRC and SMC subsidiaries entered into various lease agreements for portion of lands located at Limay, Bataan.
13. Petron has an existing logistics and freight forwarding agreement with PLI.

**(ix) Patents, trademarks, licenses, franchises, concessions, royalty agreements**

The Company's intellectual property registrations and applications as of December 31, 2019 are described below.

**Trademark.** Petron has trademark registrations for a term of 20 years for its Petron Old Logo (Tradename), Petromar HD, Spinol, Airlube, Hydrotur, Petromix, Voltran, Stemol, Petrocyl 680, Grease Away, Petrokut, Petron Railroad Extra, Rubbex, Dust Stop Oil, Oil Saver, DCL 100, Milrol, Petropen, Petron GST, Petron with XCS, With XCS, Super DC, LPG Gasul Cylinder 2.7 kg. Petromul CSS-1, New Petron Logo, Power Booster, Zerflo, TDH 50, Automatic Transmission Fluid, Petrotherm 32, Petrosine, Petron HDX, Petron TF, Petron, Ropgriz, Ultron and Device, 2T Motorcycle Oil, Lubritop, Antimist, Molygrease and Petron GX.

Extra with a car device against a red background, Petron Old Logo, Hypex, 2T, Turnol, Petrogrease, Gearfluid, Gasulette, Gasulite, Gasulgrille, Gasul, Marinekote, LPG Gasul Cylinder 50 kg., Gasul and Device, LPG Gasul Cylinder 11 kg., Petron STM, Petron Autokote, GEP, Cablekote, Grease Solve, Petrokote, Petron 2040, Petron XD3, Extra, Petron Gasul 11-kg POL-VALVED Cylinder, Ultron Rallye, Rev-X Trekker, Rev-X Hauler, Rev-X HD, Ultron Extra, Sprint 4T, Xpert Diesel Oils, Penetrating Oil, Solvent 3040, Ultron Race, Ultron Touring, Lakbay Alalay, Blaze, Clean 'n Shine, Fuel Hope, Fuel Success, Pchem, Petron Freeport Corporation, Petron Marketing Corporation, PetronConnects, Treats (for bottled water), Tulong Aral ng Petron & Device, Ultimate Release from Engine Stress, Xpert sa Makina X-tra ang Kita, "Your friend on the Road", Fuel Trust, Fuel Experience, Fuel Drive, Fuel Excellence, Fuel Efficiency, Xtend, Car Care & Logo, Go for the Xtra Miles, e-fuel, Rider, Enduro, Extra, Fiesta Gas with device, Xtra, Fiesta Gas 2.7kg cylinder, Fiesta Gas 5kg cylinder, Fiesta Gas 5kg POL-VALVED. Fiesta Gas 11kg cylinder, Fiesta Gas 11kg POL-VALVED. Fiesta Gas 22kg POL-VALVED, Fiesta Gas 50kg POL-VALVED, Bulilit Station, Bulilit Station (Gasoline Station), How far can you go on one full tank these days?, Fuel Journeys, Petron Lakbay Pinoy, Petron Pinoy Fuels & Device, Petron Pinoy Diesel & Device, Petron Pinoy Regular & Device, Econo, Elite, Pantra, Limay Energen Corporation, Racer Maximum Performance, Petrolene, Petron Value Card and Device, Pshop, Go Petron! Get Rewards & Benefits, TSI and Device, Footprints Inside a Sphere & Device, Lakbay Alalay Para sa Kalikasan, Everyone's Vision & device, Petron Super Xtra Gasoline, Petron Ronnie Mascot in Seatbelt & device, Petron Super Driver, Maxi Gas, Xtra Exceed, Xtra Ultra, Xtra Prime, Xtra Miles, Pinoy HP Gasoline, Xtra Excel, UnliPower Saver Gasoline, Ultramax Gasoline, Ecomax Gasoline, PMax Gasoline, Triangle Device, Boomerang Device, Ronnie Mascot, and Seat Belt Save Lives, Privilege Miles

Card & device, Petron Fleet Card & device, Blaze 100 Octane Euro 4 & device, Pay with Points Save your Cash, Road Safety & device, Miles, Petron Chinese Name (flag type), Petron Chinese Name (long type), Super Tsuper, Gift and App Device, Xtra Advance (inside a rectangle device), Petron Blaze 100, Petron XCS3, Champion Gasoline, Gasulito, REV-X, Petron Blaze Spikers, Thermal Stress Stabilizing System, Dynamic Cleaning Technology, Miles Better, Your Feet Your Rules, Xtra Advance Euro 4 & Device, Petron Super Xtra Gasoline Euro 4 & Device, Diesel Max Euro 4 & Device, Turbo Diesel Euro 4 & device, XCS Euro 4 & device and Fast Gas Fast Prize, Carbon Buster, Petron Canopy Fascia, Diesel Max, Petron PMB, Blu & Device, Blu with Gasul Tank, Puno ng Buhay, Tri-Action, Blaze Racing, Tri Plus, Gas Padala, Lakbay Ligtas, Petromate, Sagip Alalay, Petron XCS3 Triple Action Premium Unleaded, Accident Insurance & device, Thermal Control System, Tri-Activ Advantage, I Fuel Hope, I Fuel Communities, Rider 4T, Captain Booster, Performance Run, Petron Best Day, Fe Dela Fiesta, Rev-X Turbo, Super Saya, Resibo Blowout and Petron Motorsports are registered for a term of 10 years.

**Pending Trademark Applications.** Petron has pending applications for registration of the following trademarks: PCHEM DEF (Diesel Exhaust Fluid), Blaze 100 Octane Euro 6, Petron Laser Wash, Petron Car Wash, Fuel Wise, Fuel Wisely, Choose Quality Fuel Wisely, Fuel Wise (long form), Fuel Wise (flag type), Fuel Wise (long form in black), Fuel Wise (flag type in black), I Fuel (logo), I Fuel (mark), HTP, Petrofuel Logistics, Gasul (stylized), Gasul (word), Petron Canopy Fascia (b/w), "P" logo (b/w), Miles Better (word mark), Kalakbay (word mark), Kasabay sa Lakbay (wordmark), Kasabay sa Paglakbay (wordmark), Kasabay sa Paglalakbay (wordmark), Fuel Wisely with Petron (wordmark), Be Sure to Fuel Wisely (wordmark), Petron Canopy Fascia (color) "P" logo (color), Lakbay Alalay (wordmark) and Lakbay Alalay (logo).

Petron also has registered and pending trademarks in Malaysia, Indonesia, Cambodia, Thailand, Myanmar, Australia, China, United Kingdom, India, Japan, Republic of Korea, Singapore, Hong Kong, China and Saudi Arabia. The Company has filed 179 trademark applications in Malaysia relating to its Malaysian operations. It has obtained copyright protection for the stylized letter "P" and has registered trademarks in Malaysia, including the "Petron (Class 9)", "Petron Logo", "Gas Miles", "Gasul", "Fiesta Gas", "Energen", "Petron Plus (Class 9)", "Perks", "Miles", "Propel", "XCS", "Petromate", "Hydrotur", "Miles with P-Logo", "MILES with P Logo and 'Privilege Miles Card' words", "Petroil", "Fuel Journeys", "Better by Miles", "Petron Cares", "DCL 100", "Petromar", "Energy", "Treats with Crocodile Logo", and "Petron Greenfuel", "Kedai Mart with P logo", "Rider", "Rider 4T", "Petrolaysia", "Prime", "Petron with Canopy Fascia logo", "Petron Racing", "Sprint 4T", "Rev-X Diesel Engine Oils", "Prestige", "Xtra Mile", "Xtra Unleaded", "Treats & Device", "Petron Value Card Rewards & Benefits", "Turbo Diesel", "Diesel Maz", "Blaze Gasoline", "Petron XCS3", "Powerburn 2T & Device", "Racing", "Powerburn", "Petrogrease", "Greaseway", "GEP", "Gearfluid", "Clean 'n Shine", "ATF", "Treats & Device", "Powered by Petron", "Miles with P Logo & Petrol Word", "Petromar HD", "Petrogrease EP", "Blaze with P Logo and Petrol", "Fuel Trust", "Fuel Success", "Fuel Hope", "Blaze Racing", "Fuel Care", "Treats", "Petron Motorsports", "Fuel Life", "Fueled by Petron", "Miles Better", "Your Fleet Your Rules", "5<sup>th</sup> year Anniversary Fuel Happy" and "Petron Car Care Center".

**Copyright.** Petron has copyrights for its seven (7)-kg LPG container, Gasulito with stylized letter "P" and two (2) flames, Powerburn 2T, Petron New Logo (22 styles), Philippine Card Designs and Malaysian Card Designs, and Petron font. Copyrights are protected during the lifetime of the creator and for 50 years after his death.

**Pending Industrial Design Applications.** Petron has pending applications for registration of the following industrial designs: Petron Specialty Lubricant Bottle (1Liter container), Petron Engine Oil Bottles (1L and 800ML Jerry can bottle container) and Petron Engine Oil Bottles (4L and 6L container).

**(x) Government Approval of Principal Products or Services**

Government approval of Petron products and services is not generally required. Petroleum products, both locally refined and imported, however, must conform to specifications under the Philippine National Standards. Importations of petroleum products and additives are reported to the DOE, in accordance with the Downstream Oil Industry Deregulation Act of 1998 and its implementing rules and regulations. Clearances are secured from concerned government authorities for importations of restricted goods. The supply of products or services to government and government agencies undergo a bidding process in accordance with law.

**(xi) Effect of existing or probable government regulations on the business**

- Tax Reform for Acceleration and Inclusion (the “TRAIN Law”). Republic Act No. 10963 or the TRAIN Law, which took effect on January 1, 2018, imposed a phased increase in excise taxes on petroleum products from 2018 to 2020. The schedule of increase for this three-year period was P2.65-P2-P1 per liter (“/li”) per year for gasoline, P2.50-P2-P1.50/li for diesel and fuel oil, P1-P1-P1/kg for LPG, and P0.33-P0-P0/li for jet fuel. The incremental excise tax is further subject to 12% VAT. Higher excise taxes can potentially constrain demand growth, especially for LPG given there are substitutes such as charcoal, kerosene and electric, and gasoline with public transportation as alternative.

The TRAIN law also mandates the implementation of a fuel marking program for diesel, gasoline and kerosene to help curb illicit trading of fuel products. While the cost for the fuel marker would be shouldered by the government in the initial year of implementation, this cost would eventually be passed on to oil companies which could result in higher fuel prices.

- Biofuels Act of 2006 (the “Biofuels Act”). The Biofuels Act and its implementing circulars mandate that gasoline and diesel volumes contain 10% bioethanol and 2% biodiesel/cocomethyl ester (“CME”) components, respectively. To produce compliant fuels, the Company invested in CME injection systems at the Petron Bataan Refinery and the depots. On the bioethanol component, the DOE issued in June 2015 its Circular No. 2015-06-0005 entitled “Amending Department Circular No. 2011-02-0001 entitled Mandatory Use of Biofuel Blend” which currently exempts premium plus gasoline from the 10% blending requirement.
- Renewable Energy Act of 2008 (the “Renewable Energy Act”). The Renewable Energy Act aims to promote development and commercialization of renewable and environment-friendly energy resources (e.g., biomass, solar, wind, hydro, geothermal) through various tax incentives such as seven (7)-year income tax holiday and duty-free importation of renewable energy equipment and machinery. The sale of power generated from these sources is also exempt from value-added tax under the TRAIN Law. The growth in renewable energy may displace or reduce use of oil-based power plants affecting the Company’s sales to the power sector.
- Clean Air Act of 1999 (the “Clean Air Act”). The Clean Air Act established air quality guidelines and emission standards for stationary and mobile equipment. It also included the required specifications for gasoline, diesel and IFO to allow attainment of emission standards. Petron invested in a gasoil hydrotreater plant and an isomerization plant to enable it to produce diesel and gasoline compliant with the standards set by law.



- Laws on Controlled Chemicals (Presidential Decree No. 1866 as amended by Republic Act No. 9516). The implementing rules and regulations for this amended law were approved on June 9, 2016 and listed the chemicals under the control of the Philippine National Police. These rules reduced the controlled list from 101 to 32 chemicals and further classified 15 chemicals as high-risk and 17 as low-risk substances. The rules also outline the procedures for regulating, storing, handling and transporting chemicals.
- Compliance with Euro 4 standards. In September 2010, the DENR issued Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. In June 2015, the DOE issued Circular 2015 - 06-0004 entitled “Implementing the Corresponding Philippine National Standard Specifications (“PNS”) for the Euro 4/IV PH Fuels Complying with the Euro 4/IV Emissions” directing all oil companies to adopt Euro4-compliant fuels. With its RMP-2, Petron is now producing Euro 4-compliant fuels ahead of the 2016 mandate.
- Department Circular 2014-01-0001. The DOE issued Department Circular 2014-01-0001 directed at ensuring safe and lawful practices by all LPG industry participants as evidenced by standards compliance certificates. The circular also mandates that all persons engaged or intending to engage as a refiller of LPG shall likewise strictly comply with the minimum standards requirements set by the DTI and the DOE. The circular imposes penalties for, among others, underfilling, illegal refilling and adulteration.
- Laws on Oil Pollution. To address issues on marine pollution and oil spillage, the Maritime Industry Authority (“MARINA”) mandated the use of double-hull vessels for transporting black products beginning end-2008 and white products by 2011. Petron has been using double-hull vessels in transporting all its products.
- Oil Marine Pollution Circulars. The Philippine Coast Guard has memorandum circulars prescribing the rules and regulations on the prevention, containment, abatement and control of oil marine pollution by all marine vessels, coastal and offshore facilities and other facilities utilizing or storing petroleum products. The circulars identify the prohibited acts and provide the penalties.
- Anti-Competition Law (the “Philippine Competition Act”). The Philippine Competition Act, approved in July 2015, prohibits anti-competitive agreements, abuses of dominant positions, and mergers and acquisitions that limit, prevent, and restrict competition. To implement the national competition policy and attain the objectives and purposes of the law, the Philippine Competition Commission (“PCC”) was created. Among the powers of the PCC is the review of mergers and acquisitions based on factors it may deem relevant. The PCC, after due notice and hearing, may impose administrative fines on any entity found to have violated the provisions of the law on prohibited arrangements or to have failed to provide prior notification to the PCC of certain mergers and acquisitions. The PCC is empowered to impose criminal penalties on an entity that enters into any anti-competitive agreement and, when the entities involved are juridical persons, on its officers, directors, or employees holding managerial positions who are knowingly and willfully responsible for such violation. Currently pending with the House of Representatives are two bills to amend the Philippine Competition Act to, among others, legislate competition policy, amend requirements for PCC notification, and strengthen the powers of the PCC.
- Amended Price Freeze Act of 2013. This law mandates the implementation of a 15-day price freeze of basic necessities, including LPG and kerosene, for areas declared under a state of emergency or calamity.

- Executive Order 890: Removing Import Duties on All Crude and Refined Petroleum Products. After the ASEAN Trade in Goods Agreement was implemented in 2010, the tariff rate structure in the oil industry was distorted with crude and product imports from ASEAN countries enjoying zero tariff while crude and product imports from outside the ASEAN were levied 3% tariff. To level the playing field, Petron filed a petition with the Tariff Commission to apply the same tariff duty on crude and petroleum product imports, regardless of source. In June 2010, the government approved Petron's petition and issued Executive Order 890 which eliminated import duties on all crude and petroleum products regardless of source. The reduction of duties took effect on July 4, 2010.
- LPG Bill. The LPG Bill, currently pending in the Philippine Congress, will mandate stricter standards on industry practices.

**(xii) Estimate of the amount spent during each of the last three fiscal years on research and development activities**

The Company's Research and Development ("R&D") is responsible for all product development that complies with government laws and regulations such as the Clean Air Act and the Biofuels Act. Other drivers of product innovations are the requirements of original engine manufacturers and the latest technological trends in the industry.

Petron R&D spent a total of ₱76 million in 2019, ₱86 million in 2018 and ₱65 million on a consolidated basis.

**(xiii) Costs and effects of compliance with environmental laws**

Compliance with the various environmental laws like the Renewable Energy Act, the Biofuels Act, the Clean Air Act, and the Clean Water Act entails costs and additional investments on the part of the Company, resulting in higher production costs and operating expenses. In 2019, the Company spent a total of ₱117.22 million for treatment of wastes, monitoring and compliance, permits, and personnel training at the Petron Bataan Refinery while in 2018, it spent a total of ₱188.48 million.

**(xiv) Total number of employees**

As of December 31, 2019, the Company and its subsidiaries had 2,902 employees, with 2,247 employees in the Company (comprising one president, one general manager, 27 vice presidents and assistant vice presidents, 1,541 managerial, professional and technical employees, and 677 rank-and-file employees); 625 employees of the Company's Malaysian operations; 17 in PSTPL; and 13 in PFC.

Petron has CBAs with its three (3) unions, namely: (i) Bataan Refiners Union of the Philippines ("BRUP"), which is affiliated with the Philippine Transport and General Workers Organization; (ii) Petron Employees Labor Union ("PELU"), affiliated with the Philippine Transport and General Workers Organization and (iii) Petron Employees Association ("PEA"), which is affiliated with the National Association of Trade Unions. BRUP's CBA covers the period January 1, 2019 to December 31, 2021. PELU's CBA is in effect from January 1, 2019 to December 31, 2021. PEA's CBA covers the period from January 1, 2015 to December 31, 2019. The CBA with PEA is currently under negotiations.

In addition to the statutory benefits, the Company provides medical and life insurance, vacation, sick and emergency leaves, and computer and emergency loans to employees. It has a savings plan pursuant to which an eligible employee may contribute 5-15% of his monthly basic salary. The Company, in turn, contributes a corresponding maximum of 10% to the member-employee's account in the savings plan.

## **(xv) Major Risks Involved**

### **(i) Risk Management Framework and Process**

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

The Company's risk management process is a bottom-up approach, with each division mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks.

As Petron's operation is an integrated value chain, risks emanate from every process and some can cut across divisions. The results of these activities flow up to the Management Committee and eventually the Board through the Company's annual Business Planning process.

Oversight and technical assistance is likewise provided by corporate units with special duties. The Risk and Insurance Management Group is mandated with the overall coordination and development of the enterprise-wide risk management process. The International Trade Finance Section of the Treasurers Department is in charge of foreign exchange hedging transactions. The Transaction Management Unit of the Controller's Department provides backroom support for all financial transactions. The Corporate Technical Services Group oversees compliance with the domestic and international standards set for health, safety and environment. The Internal Audit Department is tasked with the implementation of a risk-based auditing. Commodity price risk is a major area being managed by the Commodity Risk Management Department ("CRMD") of the Supply Division, under the guidance of the Commodity Risk Management Committee ("CRMC") composed of cross-functional senior and middle management. The CRMC oversees the long-term and short-term commodity hedging program which includes risk assessment, authorized hedging instruments and hedging tenor. Hedging strategies are developed by the CRMD which also monitors commodity risks, sets controls, and ensures that risk management activities stay within the board-approved limits and parameters approved by CRMC. PSTPL executes the hedging strategies involving crude and product imports and exports on behalf of the Company.

### **(ii) Major Risks**

The Company classifies a risk as a major risk if it assesses the risk event to both have a relatively high probability of occurring and a substantial adverse impact on the Company if the risk would occur. The major risks that the Company managed in 2019 were substantially the same as those in the previous year since there were no fundamental changes in the nature of the Company's operations. These risks were the following:

- Foreign exchange risk arises from the difference in the denomination of majority of revenues in Philippine Pesos against that for the bulk of costs in US Dollars. In addition, the Group's exposure to foreign exchange risks also arises from US dollar-denominated sales and purchases, principally of crude oil and petroleum products. Further, for the Petron Malaysia Companies, whose transactions are in Malaysian ringgit which is subsequently converted into US dollar before ultimately being translated to equivalent Philippine peso amount using applicable rates for the purpose of consolidation, changes in the foreign exchange rates of the Malaysian Ringgit and the US Dollar would result in the revaluation of key assets and liabilities, and could subsequently lead to financial losses for the Company.
- The risk of substantial disruptions in the Company's operations caused by accidents, process or machinery failure, human error or adverse events outside of human control. This risk could also include delays in the implementation of capital expansion activities. These disruptions may result in injury or loss of life, as well as financial losses should these disruptions lead to product run-outs,

facility shutdown, equipment repair or replacement, insurance cost escalation and/or unplanned inventory build-up.

- Profit margin and cash flow risk arising from fluctuations in the relative prices of input crude oil and output oil and petrochemical products. Changes in output and input prices, particularly when mismatched, may produce significant cash flow variability and may cause disruptions in the Company's supply chain, as well as higher financing expenses.
- Regulatory risk, arising from changes in national and local government policies and regulations that may result in substantial financial and other costs for the Company, either directly or indirectly.

Except as covered by the above-mentioned specific risks, the Company has determined that none of the risk factors faced by any of its subsidiaries would be a major risk. These risk factors either have a low probability of occurring or have an insignificant potential impact. Thus, while subsidiary-specific risks were considered in the risk management process, these are considered relatively minor.

### (iii) Management of Major Risks

#### (a) Foreign exchange risk

- The Company hedges its dollar-denominated liabilities using forwards, other derivative instruments and the generation of dollar-denominated sales. It avoids the creation of risk from derivative speculation by limiting the use of derivative instruments up to 100% of the value of the underlying dollar-denominated liabilities net of dollar-denominated assets.
- Dollar-denominated assets and liabilities and the resulting potential foreign exchange losses are recorded on a daily basis through an enterprise resource planning software that monitors financial transactions. This allows real-time awareness and response to contain losses posed by foreign exchange exposure. Such software is also capable of tracking risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices.

#### (b) Risk of operational disruptions

- The risk of operational disruptions is most relevant to the refining unit since disruptions in these units can have severe and rippling effects.
- The Company maintains insurance whose coverage includes property, marine cargo and third party liability, as well as personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption. One of the main insurance policies of the Company, the Industrial All Risk policy, covers the Petron Bataan Refinery for material damages, including machinery breakdown and business interruption cover.
- The Refinery Division and the Petron Malaysia Companies have been implementing programs designed to directly promote the avoidance of operational disruptions through effective maintenance practices and the inculcation of a culture of safety and continuous process improvement.
- The Company has a corporate-wide health, safety and environment program that likewise addresses the risk of operational disruptions.
- The Petron Bataan Refinery continued to be certified for the Integrated Management System (IMS) Certification to Quality Management System ("QMS") ISO-9001 Version 2015 and Occupational Health & Safety Assessment Series OHSAS-18001 Version 2007, and also sustained

Surveillance Audit to Environmental Management System (“EMS”) ISO-14001 Version 2015. All 30 are certified under the new ISO 9001:2015 (QMS) and ISO 14001:2015 (EMS) standards and OHSAS 1800:2007 (Occupational Health and Safety Management). Terminals are already in transition to ISO 45001:2018 (Occupational Health and Safety (OH&S) Management System). The terminals in Rosario, JOCASP and Navotas have been ISO 45001:2018-certified.

- Furthermore, all 15 Petron pier facilities are compliant with the International Ship and Port Facility Security (“ISPS”) code certified by the Office of the Transportation Security under the Department of Transportation. The ISPS certification is a requirement by the International Maritime Organization of the United Nations for all international vessels calling on international ports and for all ports accepting international vessels.
- The Company’s Terminal Operations Department implemented the Loss Prevention System (“LPS”). LPS is a system to prevent or reduce losses using behavior-based tools and proven management techniques. With this new system, the Company aims to improve the over-all safety culture of the department, and eventually apply the same system throughout the organization. The LPS core team members were able to conduct 23,312 training hours to more than 2,600 personnel in the Terminal Operations Group to disseminate the principles of LPS.

(c) Profit margin and cash flow risk

- Margin hedging strategies are used in order to eliminate the risk of profit margin compression due to changes in crude and product prices. A margin hedge simultaneously fixes the future dollar prices of Dubai crude oil and that of a selected product manufactured from the crude. This partially locks in the refining margin of the Company.
- Price exposures are managed through commodity hedging to counter abrupt and significant drops in prices resulting in inventory losses on both crude and petroleum products. Considering that the Company keeps crude and product inventories, any drop in price affects profit margin.
- The Company endeavors to arrange long-term contracts for some of its fuel and petrochemical products whenever these are financially attractive. Long-term sales contracts provide a partial hedge on future cash flow uncertainty.
- The Company uses cash flow projection software that enables it to proactively respond to potential future cash flow imbalances. It likewise maintains access to credit lines in excess of typical requirements so that funds can be readily tapped in case of a cash flow squeeze.

(d) Regulatory risk

- The Company maintains strong lines of communication with its various counterparties in government and in the public arena, in both local and national levels. The Company uses these lines of communication to identify potential risk factors and respond to these in a proactive manner.
- The Company remains compliant with the various environmental standards set by the government.

## **(B) Description of Property**

Petron operates an extensive network of terminals, depots, and LPG and aviation plants which are located in Luzon, Visayas and Mindanao. As of December 31, 2019, its bulk fuel terminals are in Limay, Bataan; Mabini, Batangas; and Mandaue City, Cebu; Poro Point, San Fernando, La Union; Navotas, Metro Manila; Rosario, Cavite; Puerto Princesa, Palawan; Culasi, Roxas City; Lapuz, Iloilo City; Bacolod City, Negros Occidental; Ormoc City, Leyte; Anibong, Tacloban City; Isabel, Leyte; Tagoloan, Misamis Oriental; Sasa, Davao City; Iligan City, Lanao del Norte; Jimenez, Misamis Occidental; Bawing, General Santos City; Nasipit, Agusan del Norte; and Zamboanga City. Its sales offices are located in Harbor Center, Tondo, Manila; Limay, Bataan; Subic, Zambales; Calapan, Oriental Mindoro; San Jose and Mamburao in Occidental Mindoro; Odiongan, Romblon; Pasacao, Camarines Sur; Mobo, Masbate; Amlan, Negros Oriental; Tagbilaran City, Bohol; and PHIVIDEDEC, Tagoloan, Misamis Oriental. Petron has LPG bulk refilling plants in Ugong, Pasig City; San Fernando, Pampanga; San Pablo City, Laguna; and Legazpi City, Albay. Among its other installations are the aviation depots at JOCASP-NAIA, Pasay City and Mactan, Cebu; airport installations at Laoag City, Davao City, and Laguindingan, Misamis Oriental; an additive plant in Subic, Zambales and a lube oil blending plant in Harbor Center, Tondo, Manila.

Petron owns the largest petroleum refinery complex in the Philippines located in Limay, Bataan, with a crude distillation capacity of 180,000 barrels per day. In addition to major process units, the refinery also has several crude and product storage tanks, and its own piers and other berthing facilities, one of which can accommodate very large crude carriers.

The Company entered into commercial leases with the PNOC for parcels of land occupied by the Petron Bataan Refinery, depots, terminals and some of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, the Company renewed its lease with PNOC (through NVRC) for the continued use of the Petron Bataan Refinery for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). In 2015, the Company also entered into another 25-year lease agreement with PNOC effective August 1, 2014 for additional lots near the Petron Bataan Refinery for its expansion projects. Expenses relating to the PNOC leases amounted to ₱264.4 million in 2019.

On October 20, 2017, the Company filed an action against the PNOC in respect of the leased properties to preserve its rights under the relevant agreements. On December 11, 2017, the trial court granted the 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 was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. The Company also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13, 2019, the trial court granted the Parent Company's motion for summary judgment and ordered (i) the rescission of the Deeds of Conveyance dated 1995 relating to the Company's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to the Company of all such properties, and (iii) the payment by the Company to PNOC of the amount of P142 million, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. The Company also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to the Company all lease payments the latter had paid to PNOC since 1995. On March 4, 2020, the Company received the resolution of the trial court dated February 24, 2020 denying the motions for reconsideration filed by the Company and PNOC. PNOC filed its notice of appeal on March 9, 2020. The Company originally had a deadline of March 19, 2020 to file a notice of

appeal, which has been extended pursuant to Administrative Circular No. 34-2020 of the Supreme Court to 30 days from the lifting of the enhanced community quarantine imposed in Luzon.

Petron anticipates that it may lease desirable lots as service stations in the next 12 months.

## **(C) Contingent Liabilities**

Petron is involved in certain cases, the material of which are discussed below:

### **1. Guimaras Oil Spill**

#### **a. In the Matter of the Sinking of the MT Solar I**

**SBMI No. 936-06**

Special Board of Marine Inquiry

Background: Petron hired on a “single voyage basis” the vessel MT Solar I owned by Sunshine Maritime Development Corporation (“SMDC”) for the transport of industrial fuel oil from the Petron Bataan Refinery to Zamboanga. Petron, as a shipper of the cargo, conducted inspection of the vessel MT Solar I and likewise, relied on the documents presented by SMDC as carrier. Petron also relied on the implied warranties of SMDC as a carrier with respect to the seaworthiness of the vessel MT Solar I and other statutory/trading certificates issued by MARINA and other pertinent government agencies.

SMDC, taking into consideration the vessel’s trim, stability and draft, declared to Petron that the vessel MT Solar I can safely load approximately 13,500 barrels of cargo as stated in the Fixture Note, Notice of Readiness and Seaworthiness Certificate. On this basis and relying on the declaration of SMDC, Petron loaded the quantity as specified by SMDC. Unfortunately, the vessel MT Solar I sank off Guimaras when it encountered bad weather on or about August 11, 2006.

In September 2006, the Special Board of Marine Inquiry (“SBMI”) was created by the Philippine Coast Guard for the purpose of determining the administrative liability of the crew, owner of the vessel and other involved parties. The SBMI in its initial findings found Petron liable for allegedly overloading the vessel.

On November 21, 2006, Petron filed a memorandum of appeal with the Department of Transportation (“DOTr”) (then “Department Transportation and Communication (“DOTC”), elevating the disputed ruling of the SBMI for review. The appeal to the DOTr of the finding of the SBMI that Petron was negligent and responsible for overloading the MT Solar I remained pending as of December 31, 2019.

Exposure: Considering the nature of this investigation, no potential liability exists for Petron at this point.

Relief sought: Reversal of the SBMI’s initial finding that Petron was liable for allegedly overloading the vessel.

Status: The matter was still pending with the DOTr as of December 31, 2019.

b. **Rogelio Arsenal, Jr., et al. v. SMDC, Petron, et al.**  
**Civil Case No. 09-0394;**  
RTC Br. 65, Jordan, Guimaras

**Oliver S. Chavez, et al. v. SMDC, Petron, et al.**  
**Civil Case No. 09-0395;**  
RTC Br. 65, Jordan, Guimaras

Background: These are complaints for damages filed on August 6, 2009 by a total of 1,063 plaintiffs who allegedly did not receive any payment from the defendants of their claims for damages arising from the oil spill due to the sinking of MT Solar 1 on August 11, 2006. Total claims for both cases amount to ₱291.9 million (₱286.4 million and ₱5.5 m). The reception of plaintiffs' evidence is on-going.

In the Arsenal case, respondents filed a motion to hear affirmative defenses based on lack of jurisdiction for non-payment of docket fees, prescription and lack of cause of action but it was denied. The respondents went to the CA on a petition for *certiorari*. The respondents filed with the CA a compliance with the resolution requiring submission of pleadings and orders. The complainants filed their comment on the petition and the respondents filed their reply to the said comment. On May 29, 2014, the CA rendered a decision directing the plaintiffs to file their respective affidavits substantiating their claims of indigency. The plaintiffs filed a motion for partial reconsideration of the decision which was denied by the CA on January 30, 2015.

In the Chavez case, the respondents likewise filed the same motion based on the same grounds. The lower court also denied the motion so the respondents went to the CA on a petition for *certiorari*. The CA dismissed the petition for failing to attach the necessary pleadings and orders.

Status: Both the Arsenal and Chavez cases have been remanded to and are now pending with the trial courts. In the course of plaintiffs' presentation of evidence, the plaintiffs moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City, which, on January 9, 2020 issued a Resolution ordering the Company to file its comment on plaintiffs' petition within 10 days. The Company filed a motion for reconsideration of the said resolution, which remains pending as of the date of this report. In the meantime, proceedings before the trial court continue as of the date of this report.

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"Part II - Securities of the Registrant" follows on next page]*



## PART II - SECURITIES OF THE REGISTRANT

### (A) Market Price of and Dividends on Registrant’s Common Equity and Related Stockholder Matters

#### (1) Market Information and Voting Rights of Shares

The common and preferred shares of Petron are traded at the PSE.

Each common share is entitled to one vote.

Preferred shareholders have no voting rights except under instances provided under the Corporation Code (and effective February 23, 2019, under the Revised Corporation Code), including, but not limited to, the following cases: (i) amendment of the articles of incorporation or the by-laws of the Company (the “Company’s Articles” and the “Company’s By-laws,” respectively), (ii) the extension or shortening of Petron’s corporate term, (iii) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets of Petron, (iv) increasing or decreasing capital stock, or (v) a merger or consolidation involving Petron.

As of February 29, 2020, the Company had 145,087 common stockholders. As of December 31, 2019, the total number of common stockholders of the Company was 145,194.

#### Common Shares

The price of the common shares of the Company as of February 28, 2020, the last trading day for the shares for the month, was ₱3.36 per share. The price of the common shares of the Company on December 27, 2019, the last trading day of 2019, was ₱3.86 per share. The price of the common shares of the Company on December 28, 2018, the last trading day of 2018, was ₱7.71 per share.

The high and low prices of the common shares for each quarter of the last two (2) fiscal years and for the period ended March 25, 2020 are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2020</b>				
For period ended March 25, 2020	4.27	January 7	2.04	March 23
<b>2019</b>				
1 <sup>st</sup> Quarter	7.89	January 11	6.43	March 27
2nd Quarter	6.54	April 17	5.41	May 20
3rd Quarter	5.95	July 3	4.99	September 25 & 26
4th Quarter	5.10	October 3, 11, 14 & 24	3.85	December 23 & 26

<b>2018</b>				
1 <sup>st</sup> Quarter	9.80	February 2	8.68	March 23
2nd Quarter	9.62	May 15	8.72	June 22
3rd Quarter	9.15	August 8 and 16; September 21	8.60	July 13
4th Quarter	8.69	October 3	7.66	November 19

### Preferred Shares

#### *Series 2 Preferred Shares issued in 2014 (“Series 2 Shares”)*

On November 3, 2014, Petron issued and listed on the PSE 10 million cumulative, non-voting, non-participating, non-convertible peso-denominated perpetual preferred shares at an offer price of ₱1,000.00 per share. The preferred shares issue, which reached a total of ₱10 billion, was composed of Series 2A Preferred Shares amounting to ₱7.12 billion and the Series 2B Preferred Shares amounting to ₱2.88 billion.

The Series 2A Preferred Shares were redeemed by the Company on November 4, 2019.

The Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date.

#### Series 2B Preferred Shares

The price of the Series 2B Preferred Shares as of February 28, 2020, the last trading day for the shares for the month, was ₱1,006.00 per share. The price of the Series 2B Preferred Shares on December 26, 2019, the last day of 2019 the shares were traded, was ₱1,049.00. The price of the Series 2B Preferred Shares on December 28, 2018, the last day of 2018 the shares were traded, was ₱1,490.00.

The high and low prices of the Series 2B preferred shares for each quarter of the last two (2) fiscal years and for the period ended March 25, 2020 are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2020</b>				
For period ended March 25, 2020	1,115.00	January 31	1,000.00	February 19
<b>2019</b>				
1 <sup>st</sup> Quarter	1,050.00	January 31; March 27 & 28	990.00	January 3
2nd Quarter	1,040.00	April 8	911.00	June 7
3rd Quarter	1,030.00	September 24 & 27	993.00	July 1
4th Quarter	1,100.00	October 8	1,001.00	October 9
<b>2018</b>				
1 <sup>st</sup> Quarter	1,175.00	February 12	1,066.00	March 23

2nd Quarter	1,164.00	April 2	1,000.00	June 22
3rd Quarter	1,074.00	July 2 & 3	1,010.00	September 11-26
4th Quarter	1,490.00	December 28	950.00	November 26 & 27

*Series 3 Preferred Shares issued in 2014 (“Series 3 Shares”)*

On June 25, 2019, Petron issued and listed on the PSE 20 million cumulative, non-voting, non-participating, non-convertible peso-denominated perpetual preferred shares at an offer price of ₱1,000.00 per share. The preferred shares issue, which reached a total of ₱20 billion, was composed of Series 3A Preferred Shares amounting to ₱13.403 billion and the Series 3B Preferred Shares amounting to ₱6.597 billion.

The Series 3A Preferred Shares may be redeemed by the Company starting on 5.5th anniversary from the listing date. The Series 3B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date.

Series 3A Preferred Shares

The price of the Series 3A Preferred Shares as of February 28, 2020, the last trading day for the shares for the month, was ₱1,050.00 per share. The price of the Series 3A Preferred Shares on December 27, 2019, the last day of 2019 the shares were traded was ₱1,031.00 per share.

The high and low prices of the Series 3A preferred shares for each quarter since their issuance on June 25, 2019 and for the period ended March 25, 2020 are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2020</b>				
For period ended March 25, 2020	1,070.00	February 20 & 21	1,002.00	March 24 & 25
<b>2019</b>				
2nd Quarter	1,000.00	June 26, 27 & 28	990.00	June 25
3rd Quarter	1,060.00	September 25	1,000.00	July 11
4th Quarter	1,058.00	December 17	1,013.00	October 3 & 4

Series 3B Preferred Shares

The price of the Series 3B Preferred Shares as of February 28, 2020, the last trading day for the shares for the month, was ₱1,060.00 per share. The price of the Series 3B Preferred Shares on December 27, 2019, the last day of 2019 the shares were traded, was ₱1,055.00 per share.

The high and low prices of the Series 3B preferred shares since their issuance on June 25, 2019 and for the period ended March 25, 2020 are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2020</b>				
For period ended March 25, 2020	1,085	February 21	1,003.00	March 19
<b>2019</b>				
2nd Quarter	1,010.00	June 25	1,005.00	June 26
3rd Quarter	1,082.00	September 26	1,002.00	July 1
4th Quarter	1,081.00	October 1 & November 4	1,050.00	December 4

## (2) Holders

The lists of the top 20 stockholders of the common shares and preferred shares of the Company as of December 31, 2019 are set out below.

### Common Shares

RANK	STOCKHOLDER NAME	Common	TOTAL SHARE:	
1	SEA REFINERY CORPORATION	4,696,885,564	4,696,885,564	
2	SAN MIGUEL CORPORATION	1,702,870,560	1,702,870,560	18.163750 %
3	PCD NOMINEE CORP. (FILIPINO)	1,688,462,291	1,688,462,291	18.010064 %
4	PETRON CORPORATION EMPLOYEES RETIREMENT PLAN	459,156,097	459,156,097	4.897610 %
5	PCD NOMINEE CORP. (NON-FILIPINO)	378,626,729	378,626,729	4.038640 %
6	F. YAP SECURITIES INC.	12,704,918	12,704,918	0.135518 %
7	ERNESTO CHUA CHIACO &/OR MARGARET SY CHUA CHIACO	6,000,000	6,000,000	0.063999 %
8	SYSMART CORP.	4,000,000	4,000,000	0.042666 %
9	MARGARET S. CHUACHIACO	3,900,000	3,900,000	0.041600 %
10	RAUL TOMAS CONCEPCION	3,504,000	3,504,000	0.037376 %
11	GENEVIEVE S. CHUACHIACO	2,735,000	2,735,000	0.029173 %
12	ERNESTON S. CHUACHIACO	2,732,000	2,732,000	0.029141 %
13	Q - TECH ALLIANCE HOLDINGS, INC.	2,648,500	2,648,500	0.028250 %
14	GENEVIEVE S. CHUA CHIACO	2,490,000	2,490,000	0.026560 %
15	BENEDICT CHUA CHIACO	2,365,000	2,365,000	0.025226 %
16	ANTHONY CHUA CHIACO	2,008,000	2,008,000	0.021418 %
17	SHAHRAH RAHMANIFARD	2,000,000	2,000,000	0.021333 %
18	MANUEL AWITEN DY	2,000,000	2,000,000	0.021333 %
19	KRISTINE CHUA CHIACO	1,956,000	1,956,000	0.020864 %
20	CHING HAI GO &/OR MARTINA GO	1,500,000	1,500,000	0.016000 %
		8,978,544,659	8,978,544,659	95.770076 %
TOTAL NO. OF SHARES :		9,375,104,497		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		145,087		
TOTAL NO. OF ACCOUNTS :		145,087		

## Preferred 2B Shares

RANK	STOCKHOLDER NAME	Preferred 2-B	TOTAL	O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	2,359,810	2,359,810	82.003906
2	SOCIAL SECURITY SYSTEM	395,770	395,770	13.753093
3	KNIGHTS OF COLUMBUS FRATERNAL ASSOCIATION OF THE PHILS., INC.	45,440	45,440	1.579050
4	PCD NOMINEE CORPORATION (NON-FILIPINO)	22,745	22,745	0.790394
5	MARCELINO R. TEODORO	12,500	12,500	0.434378
6	FIRST LIFE FINANCIAL CO., INC.	7,000	7,000	0.243252
7	BEN TIUK SY OR JUDY Y. SY	6,400	6,400	0.222401
8	REYNALDO GARCIA ALEJANDRO &/OR SYLVIA L. ALEJANDRO	5,000	5,000	0.173751
9	ALEXANDER T. SOLIS &/OR GINA T. SINFUEGO	5,000	5,000	0.173751
10	FRANCISCO S. ALEJO &/OR CYNTHIA ALEJO &/OR ANNA MELISSA A. ACOP	3,000	3,000	0.104251
11	ANTONIO T. CHUA	2,500	2,500	0.086876
12	ENRIQUE DELA LLANA YUSINGCO	2,000	2,000	0.069500
13	JUSTINIANO B. PANAMBO, JR.	1,920	1,920	0.066720
14	FELIX B. CHAVEZ &/OR AIDA T. CHAVEZ OR IRENE T. CHAVEZ	1,500	1,500	0.052125
15	DEWEY T. TAN	1,000	1,000	0.034750
16	ROMEO V. JACINTO	1,000	1,000	0.034750
17	ZENAIDA M. POSTRADO OR RENATO POSTRADO	1,000	1,000	0.034750
18	EVELYN A GESMUNDO OR DOMINADOR A. GESMUNDO JR.	720	720	0.025020
19	RONNE T. SY SU OR CHADWICK C. SY SU	700	700	0.024325
20	ROBERTO D. DE LEON	650	650	0.022588
		2,875,655	2,875,655	99.929631
TOTAL NO. OF SHARES :		2,877,680		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		30		
TOTAL NO. OF ACCOUNTS :		30		

## Series 3A Shares

RANK	STOCKHOLDER NAME	Preferred 3-A	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	13,325,780	13,325,780	99.423860
2	PCD NOMINEE CORPORATION (NON-FILIPINO)	71,870	71,870	0.536223
3	MILA LEONINA DIAZ JUSTINIANO	2,000	2,000	0.014922
4	LUZ DELA CRUZ CANLAPAN	1,500	1,500	0.011192
5	CAROLINA N. DIONISIO	1,000	1,000	0.007461
6	ANA UY GAN OR ALBERT DAVID UY GAN, EDWIN FERDINAND UY GAN OR PHILIP BENJAMIN UY GAN	500	500	0.003731
7	ALMA FLORENCE A. LOGRONIO	300	300	0.002238
8	ENRICO DELA LLANA YUSINGCO	50	50	0.000373
		13,403,000	13,403,000	100.000000
TOTAL NO. OF SHARES :		13,403,000		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		8		
TOTAL NO. OF ACCOUNTS :		8		

## Series 3B Shares

RANK	STOCKHOLDER NAME	Preferred 3-B	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	6,522,630	6,522,630	98.872669 %
2	PCD NOMINEE CORPORATION (NON-FILIPINO)	46,970	46,970	0.711990 %
3	SMHC MULTI-EMPLOYER RETIREMENT PLAN	5,000	5,000	0.075792 %
4	DISTILERIA BAGO INCORPORATED RETIREMENT PLAN	5,000	5,000	0.075792 %
5	CAN ASIA INC RETIREMENT PLAN	5,000	5,000	0.075792 %
6	JOIE TINSAY &/OR IRENE TINSAY	4,500	4,500	0.068213 %
7	G. D. TAN & CO. INC.	2,000	2,000	0.030317 %
8	ROMUALDO ESTACIO FRANCO OR VIRGINIA M. FRANCO	1,000	1,000	0.015158 %
9	AGNES LOGRONIO BANIQUED	1,000	1,000	0.015158 %
10	MA. TERESA L YUSINGCO	500	500	0.007579 %
11	ANTONIO M. OSTREA	500	500	0.007579 %
12	ENRIQUE LL YUSINGCO	500	500	0.007579 %
13	CONCHITA PEREZ JAMORA	500	500	0.007579 %
14	ENRIQUE NOEL L YUSINGCO	500	500	0.007579 %
15	ENRIQUE MIGUEL L YUSINGCO	500	500	0.007579 %
16	ANGELO DE GUZMAN MACABUHAY OR MARITESS SIGUA MACABUHAY	400	400	0.006063 %
17	HENRY P. YUSINGCO IV	100	100	0.001516 %
18	NEQUIAS O. GERONGCO	100	100	0.001516 %
19	MICHELLE MARIE Y. SAN JUAN	100	100	0.001516 %
20	JOSE MANUEL R. SAN JUAN	100	100	0.001516 %
		6,596,900	6,596,900	99.998484 %
TOTAL NO. OF SHARES :		6,597,000		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		25		
TOTAL NO. OF ACCOUNTS :		25		

### (3) Dividends

It is the policy of the Company under its Corporate Governance Manual (as defined below) 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, (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.

The Company pays out dividends on common shares within 30 days after the declaration, to the extent practicable.

On November 3, 2014, the Company issued 7,122,320 Series 2A Preferred Shares and 2,877,680 Series 2B Preferred Shares. The dividend on the Series 2A Preferred Shares was at the fixed rate of 6.30% per annum and on the Series 2B Preferred Shares at the fixed rate of 6.8583% per annum, each as calculated based on the offer price of ₱1,000 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Cash dividends have been paid out on the Series 2 Shares in February 2015 since their listing in November 2014. The Series 2A Preferred Shares were redeemed on November 4, 2019.

On June 25, 2019, the Company issued 13,403,000 Series 3A Preferred Shares and 6,596,900 Series 3B Preferred Shares. The dividend on the Series 3A Preferred Shares is at the fixed rate of 6.8713% per annum and on the Series 3B Preferred Shares at the fixed rate of 7.1383% per annum, each as calculated based on the offer price of ₱1,000.00 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Cash dividends have been paid out on the Series 3 Shares since their listing in June 2019.

#### Dividend Declarations and Payments

#### **2019**

On March 12, 2019, the Board of Directors approved a cash dividend of ₱0.10 per share to all common shareholders with a record date of March 27, 2019 and a pay-out date of April 11, 2019.

On the same date, the Board of Directors also approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the second and third quarters of 2019 with record dates of April 4, 2019 and July 12, 2019, respectively, and pay-out dates of May 3, 2019 and August 5, 2019 (with August 3 falling on a Saturday), respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the second and third quarters of 2019 record dates of April 4, 2019 and July 12, 2019, respectively, and pay-out dates of May 3, 2019 and August 5, 2019 (with August 3 falling on a Saturday), respectively.

On August 6, 2019, the Board of Directors approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the fourth quarter of 2019 with a record date of October 11, 2019 and a pay-out date of November 4, 2019 (with November 3 falling on a Sunday); (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the fourth quarter of 2019 with a record date of October 11, 2019 and a pay-out date of November 4, 2019 (with November 3 falling on a Sunday); (iii) of ₱17.17825 per share to the shareholders of the Series 3A Preferred Shares for the third quarter of 2019, with a record date of September 2, 2019 and a pay-out date of September 25, 2019; and (iv) of ₱17.84575 per share to the shareholders of the Series 3B Preferred Shares for the third quarter of 2019, with a record date of September 2, 2019 and a pay-out date of September 25, 2019.

On November 5, 2019, the Board of Directors approved cash dividends of (i) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the for the first quarter of 2020 with a record date of January 14, 2020 and a pay-out date of February 3, 2020; (ii) of ₱17.17825 per share to the shareholders of the Series 3A Preferred Shares for the fourth quarter of 2019 and the first quarter of 2020, with record dates of December 2, 2019 and March 2, 2020, respectively, and pay-out dates of December 26, 2019 (December 25 being a holiday) and March 25, 2020, respectively; and (iv) of ₱17.84575 per share to the shareholders of the Series 3B Preferred Shares for the fourth quarter of 2019 and the first quarter of 2020, with record dates of December 2, 2019 and March 2, 2020, respectively, and pay-out dates of December 26, 2019 (December 25 being a holiday) and March 25, 2020, respectively.

## 2018

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

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

On August 7, 2018, the Board of Directors approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the fourth quarter of 2018 and the first quarter of 2019 with record dates of October 10, 2018 and January 11, 2019, respectively, and pay-out dates of November 5, 2018 (with November 3, 2018 being a Saturday) and February 4, 2019 (with February 3, 2018 being a Sunday), respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the fourth quarter of 2018 and the first quarter of 2019 also with record dates of October 10, 2018 and January 11, 2019, respectively, and pay-out dates of November 5, 2018 and February 4, 2019, respectively.

### Distributions

Under the terms and conditions of the undated unsubordinated capital securities issued by the Company on January 19, 2018 (collectively, the “Capital Securities”), more particularly described below in *“Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction”*, the Company cannot declare dividends on any Junior Securities (as defined thereunder), which include the common shares of the Company, or (except on a *pro rata* basis) on any Parity Securities (as defined thereunder), which include the outstanding preferred shares of the Company, in case the payment of all distributions scheduled to be made on the Capital Securities is not made in full by reason of the Company deferring such distributions in accordance with the terms of the Capital Securities.

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

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

The securities discussed below were offered and/or sold for the past three (3) years (from 2016) in the Philippines to institutional lenders not exceeding 19 or to not more than 19 non-qualified buyers and/or to any number of qualified buyers as defined in the Code. Thus, the offer and sale of the subject securities qualified as exempt transactions pursuant to Sections 10.1 (k) and 10.1(l) of the Code. A confirmation of exemption from the SEC that the offer and sale of the securities in the Philippines qualified as an exempt transaction under the Code was not required to be, and had not been, obtained. In compliance with existing rules, no notice of exemption was filed after the issuance below which qualified as an exempt transaction.

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



### US\$500 Million Undated Unsubordinated Capital Securities

- a. On January 19, 2018, the Company issued US\$500 million undated unsubordinated capital securities (the “January 2018 Issuance”).
- b. The joint lead managers were Australia and New Zealand Banking Group Limited, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation, Singapore Branch, Standard Chartered Bank, and UBS AG, Singapore Branch.
- c. The offer price for the January 2018 Issuance was at 100%.
- c. As the capital securities described herein were offered to qualified buyers in the Philippines, the issuance of such securities was considered an exempt transaction and no confirmation or notice of exemption from the registration requirements of the Code was required to be filed with the SEC pursuant to the Code and the 2015 Implementing Rules and Regulations of the Securities Regulation Code (the “2015 SRC Rules”). The capital securities were listed with the Singapore Exchange Securities Trading Limited on January 22, 2018.

### US\$6 Million Redeemable Perpetual Securities

- a. On November 27, 2019, the Company issued US\$6 million redeemable perpetual securities (the “Redeemable Perpetual Securities”) to San Miguel Corporation (“SMC”).
- b. As the Redeemable Perpetual Securities were offered only SMC, the issuance of such securities was considered an exempt transaction and no confirmation or notice of exemption from the registration requirements of the Code was required to be filed with the SEC pursuant to the Code and the 2015 SRC rules.

## **(B) Description of Petron’s Shares**

The Company has an authorized capital stock of P10 billion divided into 9,375,104,497 common shares and 624,895,503 preferred shares, with a par value of P1 each.

As of the date of this Annual Report, the outstanding capital stock of the Company is comprised of 9,375,104,497 common shares, 2,877,680 Series 2B Preferred Shares, 13,403,000 Series 3A Preferred Shares, and 6,597,000 Series 3B Preferred Shares. The Company has 87,122,320 treasury shares.

The Series 2 Preferred Shares, with an aggregate issue value of P10 billion, were offered during the period October 20-24, 2014 pursuant to the order of registration and the permit to sell issued by the SEC on October 17, 2014. The Series 2 Preferred Shares were issued and listed on the PSE on November 3, 2014. The Series 2A Preferred Shares were redeemed by the Company on November 4, 2019.

The Series 3 Preferred Shares, with an aggregate issue value of P20 billion, were offered during the period June 3-18, 2019 pursuant to the order of registration and the permit to sell issued by the SEC on May 31, 2019 and issued out of the treasury shares of the Company. The Series 3 Preferred Shares were issued and listed on the PSE on June 25, 2019.

Each common share is entitled to one vote.

Preferred shareholders have no voting rights except under instances provided under the Corporation Code, including, but not limited to, the following cases: (i) amendment of the Company's Articles or the Company's By-laws, (ii) the extension or shortening of Petron's corporate term, (iii) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets of Petron, (iv) increasing or decreasing capital stock, or (v) a merger or consolidation involving Petron.

### **(C) Stock Ownership Plan**

Petron currently does not have a stock ownership plan or program. In 1994, when Petron's initial public offering was undertaken, a special secondary sale of Petron's shares was offered to its employees. The entitlement of shares at the listing price of ₱9.00 per share was made equivalent to the employee's base pay factored by his/her service years with Petron. Petron's executive officers, except the Chairman, the President and the Vice President for Corporate Planning, were entitled to own Petron shares under this stock ownership plan. Preparatory to the listing of the Company's preferred shares, availment of said shares was offered to employees from February 15 to 19, 2010.

### **(D) Public Ownership**

Based on the report provided by SMC Stock Transfer Services Corporation, the stock transfer agent of the Company, 26.73% of the outstanding common shares of the Company was owned by the public as of December 31, 2019 in compliance with the minimum public ownership set by the PSE and the SEC. Attached as Annex A is the public ownership report of the Company as of December 31, 2019.

*[Rest of page intentionally left blank;  
"Part III - Management's Discussion and Analysis of Financial Position  
and Financial Performance" follows on next page]*

## PART III - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

### Results of Operations

#### 2019 vs. 2018

For 2019, the Company reported a consolidated net income of **₱ 2.30 billion**, 67% lower than previous year's (PY) **₱ 7.07 billion** essentially from the continued weakening of regional refining margins. Its Bataan refinery was forced to an unplanned total plant shutdown for 108 days following the April 22 earthquake that hit Luzon which resulted in losses due to low production and start-up and stabilization activities on the processing units.

**Consolidated Sales volume** slightly declined to **106.96 million barrels (MMB)**, from 108.50 MMB in 2018 primarily due to the 5% drop in Philippine volumes following the low production of the Bataan refinery. Meanwhile, Petron Malaysia's volumes sustained its growth by 3% mostly coming from its domestic sales.

**Net sales** decreased by 8% to **₱ 514.36 billion** mainly due to lower average selling price, further reduced by the decline in volume and impact of the **₱ 0.88** average appreciation of the Philippine peso against the US dollar. These were partly offset by the increase in excise tax per liter.

**Cost of Goods Sold (CGS)** at **₱ 483.86 billion** was also lower by 7% or **₱ 38.97 billion** due to the combined effect of lower cost per liter and sales volume. During the year, the average price of benchmark Dubai crude fell to **US\$63.53/bbl** from **US\$69.42/bbl** in 2018.

**Gross Margin** contracted by 12% from **₱ 34.56 billion** to **₱ 30.51 billion** due to lower product cracks, higher crude premium and losses incurred as a result of the Bataan refinery total plant shutdown. These were partially mitigated by the net inventory holding gains and improved marketing margins.

**Selling and Administrative Expenses (OPEX) net of Other operating Income** was reduced by 9% or **₱ 1.33 billion** to **₱ 14.31 billion** largely from lower advertising expenses, employee costs, donation and provision for bad debts as well as reduced LPG cylinder purchases, partly offset by higher terminal operation expenses.

**Net Financing Costs and Other Charges** grew by 47% from **₱ 8.47 billion** to **₱ 12.46 billion** brought about by the increase in average borrowing level and interest rates, adoption of PFRS 16, as well as the recognition of unrealized commodity hedging loss versus gain LY. These were partly offset by higher interest income.

**Income tax expense** was cut by more than half from **₱ 3.39 billion** to **₱ 1.43 billion** on account of lower pre-tax income.

## 2018 vs. 2017

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

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

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

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

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

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

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

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

## 2017 vs. 2016

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

**Consolidated Sales volume** grew by 2% to **107.76 million barrels (MMB)** from 105.70 MMB in 2016 mainly driven by its PM operations. The Company's operations both in the Philippines and Malaysia continued to grow as its network of service stations increased during the year, further strengthening its presence in the Retail segment. Meanwhile, greater participation in the aviation sector was offset by

reduced involvement in the less profitable market segments. On a per product basis, with the exception of Diesel and LPG, sales volume of all products went up led by gasoline and kero/jet.

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

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

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

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

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

## Financial Position

### 2019 vs 2018

By the end of 2019, the **consolidated assets** of Petron and its Subsidiaries stood at **₱ 394.84 billion**, higher by 10% from end-2018 balance of **₱ 358.15 billion** largely due to the recognition of relevant assets with the adoption of PFRS 16 (Leases), higher cash and cash equivalents and inventories, partly offset by the decline in other assets (current and non-current).

**Cash and cash equivalents** almost doubled from **₱ 17.41 billion** to **₱ 34.22 billion** mostly from funds generated from operations and the issuance of preferred shares.

**Financial assets at fair value** declined from **₱ 1.13 billion** to **₱ 864 million** due to lower unrealized gain on outstanding commodity hedges.

**Investments in debt instruments** (current and non-current) went up by 11% to **₱ 420 million** from end 2018 level of **₱ 378 million** traced to additional investment in government securities acquired by the Insurance subsidiary.

**Trade and other receivables - net** increased by **₱ 2.16 billion** to **₱ 44.66 billion** owing to higher price and excise tax of fuel products partly offset by the collection of receivables from the Malaysian government.

**Inventories** rose to **₱ 72.21 billion** from **₱ 63.87 billion** due to higher volume of finished product and price of crude and the incremental excise tax imposed beginning 2019.

**Other current assets** dropped by 26% to **₱ 27.43 billion** mainly due to Petron Malaysia's collection of its Goods and Service Tax refunds from the government and the Parent's utilization of tax credit certificates, partly negated by the increase in prepaid and creditable withholding taxes.

The adoption of PFRS 16 resulted in the recognition of **right-of-use assets** of **₱ 5.51 billion**, 81% increase in **investment property** to **₱ 29.94 billion** and a reduction in the prepaid rent which largely accounted for the 53% drop in **other noncurrent assets - net** to **₱ 3.07 billion**. Corresponding **lease liabilities - current and noncurrent** were also booked totaling **₱ 15.75 billion**.

**Short-term loans** decreased to **₱ 71.09 billion** from **₱ 83.0 billion** mainly due to Parent Company's net payments during the year.

**Liabilities for crude oil and petroleum products** grew by more than half to **₱ 39.36 billion** on account of higher volume and price of outstanding finished products importations as of end-2019 versus prior year.

**Derivative liabilities** increased by 20% from **₱ 614 million** to **₱ 738 million** arising from higher expected payout on outstanding commodity and currency hedges.

**Income tax payable** climbed to **₱ 267 million** from **₱ 146 million** largely from higher tax liabilities of Petron Malaysia.

**Long-term debt** (current and non-current portion) grew by 13% to **₱ 133.08 billion** as the Parent Company availed of US\$800 million loan partly offset by the payment of matured peso and dollar loans.

**Retirement benefits liability** rose by 47% to **₱ 3.56 billion** on account of the re-measurement losses on plan assets partly offset by the contributions made to the fund during the year.

**Deferred tax liability - net** dropped by 25% from **₱ 8.45 billion** to **₱ 6.35 billion** brought about by the recognition of NOLCO and MCIT by the Parent Company.

**Asset retirement obligation** declined by more than half to **₱ 1.72 billion** with the reassessment of future liability.

**Other noncurrent liabilities** rose by 37% to **₱ 1.75 billion** vis-a-vis 2018 year-end level traced to higher cash bond, and the derivative liability from additional hedging instrument.

The issuance of **₱ 20 billion** series 3 preferred shares in June 2019 and the redemption of series 2A preferred shares in November 2019 resulted in the increase in **additional paid-in capital** from **₱ 19.65 billion** to **₱ 37.50 billion** and brought the **negative balance of treasury stock** to **₱ 15.12 billion**.

**Retained earnings** at **₱ 45.51 billion** ended lower by 8% or **₱ 3.98 billion** as the net income attributable to equity holders of the Parent Company in 2019 of **₱ 1.70 billion** was negated by the **₱ 4.21 billion** cash dividends and distributions paid during the year and the **₱ 1.46 billion** impact of PFRS 16 adoption.

With the peso appreciation against the US dollar, the Company incurred currency translation loss on its investments in foreign subsidiaries and increased the **negative balance of Equity reserves** from **₱ 14.03 billion** to **₱ 16.90 billion**.

## 2018 vs 2017

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **2017 vs 2016**

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Cash Flows

### 2019 vs 2018

By the end of 2019, cash and cash equivalents amounted to ₱ 34.22 billion. Cash provided by operating activities of ₱ 38.62 billion was used to pay off interest and taxes of ₱ 13.67 billion. The remaining operating inflows and proceeds from financing activities of ₱ 13.12 billion, net of dividends and distributions payments totaling ₱ 4.10 billion, were used to finance various capital investments at the refinery, terminals and service stations totaling ₱ 20.47 billion.

In Million Pesos	December 31, 2019	December 31, 2018	Change
Operating inflows	25,362	5,047	20,315
Investing outflows	(20,467)	(11,141)	(9,326)
Financing inflows	13,116	5,949	7,167

### 2018 vs 2017

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

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

### 2017 vs 2016

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

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

<b>Ratio</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Current Ratio	1.1	1.0	1.2
Debt to Equity Ratio	3.3	3.2	2.4
Return on Equity (%)	2.6	7.6	15.0
Interest Rate Coverage Ratio	1.3	2.1	3.2
Assets to Equity Ratio	4.3	4.2	3.4

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

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

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

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

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

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

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

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

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

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

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## **Philippine Economy**

Gross domestic product expanded year-on-year by 5.9% in 2019, lower than government target of 6.0-6.5% and 2018 growth of 6.2%. The slowdown was mainly attributed to the delay in the 2019 budget approval, which stalled infrastructure projects and dampened government expenditure. Easing global growth due to the US-China trade tension, African swine fever and mild El Niño also weighed on economic activity.

The peso strengthened by 1.8% to average Php51.8/\$ in 2019, from Php52.7/\$ in 2018. Easing inflation and improving trade balance have allowed the peso to recover.

Inflation averaged 2.5% in 2019, much lower than the 5.2% in 2018. The lifting of quantitative restrictions on rice imports and improvement in supply of other agricultural commodities, softening of fuel prices, and strengthening of peso have helped modulate inflation.

## **Oil Market**

Based on data from the Department of Energy, oil demand, excluding direct imports by end-users, grew by 5.1% to 80,681 MB in the first half of 2019 from 76,745 MB in the first half of 2018. The growth was driven mainly by transport fuels gasoline and diesel, which grew by 9.5% and 4.6%, respectively. Demand was supported by a recovery in vehicle sales which posted a 3% growth for the nine months in 2019 versus a 15% decline in 2018. Robust private construction also boosted diesel demand. Jet fuel likewise contributed to growth with the expansion of routes and additional aircraft of local carriers.

Crude price benchmark, Dubai, averaged \$63.53 per barrel, lower than the 2018 average of \$69.42 per barrel due to weaker global demand growth of less than 1 million barrels a day. Meanwhile, the agreed cuts in crude production by the Organization of the Petroleum Exporting Countries (“OPEC”) plus were merely offset by non-OPEC growth, mainly US shale.

**Any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.**

## **Guimaras Oil Spill Incident**

On August 11, 2006, MT Solar I, a third party vessel contracted by the 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 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 Company not criminally liable, but the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the DOTr (then DOTC) and is awaiting its resolution. The Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the 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 for both cases amount to P292 million. The cases were still pending as of December 31, 2019.

**Any significant elements of income or loss (from continuing operations)**

There were no significant elements of income or loss from continuing operations.

## Seasonal aspects that has material effect on the financial statement

There were no seasonal items that have material effect on the financial statement.

**All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.**

There were no off-balance sheet transactions, arrangements and obligations with unconsolidated entities or persons during the reporting period.

## Financial Statements

The 2019 audited financial statements of Petron and its subsidiaries and the Statement of Management Responsibility are attached hereto as Annex C.

## Audit and Audit-Related Fees

The Company paid its external auditor KPMG the fees set out below for 2018 and 2019:

	2018 (in Pesos)	2019 (in Pesos)
Audit fees for professional services - Annual Financial Statement <sup>1</sup>	7,000,000	7,000,000
Professional fees for due diligence and study on various internal projects	4,500,00	3,000,000
Professional fees for tax consulting services	-	-

<sup>1</sup> Audit fees are tax-exempt and exclusive of out-of-pocket expenses

In 2010, after the three (3)-year contract with its previous external auditor, the Company appointed KPMG, the external auditor of SMC. With a common external auditor, the consolidation of results of operations and account balances among the subsidiaries of SMC using a uniform audit approach was facilitated.

From 2010 to 2019, KPMG was found to have satisfactorily performed its duties as external auditor of the Company and was endorsed by the Audit Committee for the approval by the Board of Directors. The Board of Directors, finding the recommendation to be in order, endorsed the appointment of KPMG as external auditor for the approval of the stockholders during the annual stockholders' meeting for years 2011 to 2019. KPMG was appointed as external auditor by the stockholders at each such annual stockholders' meeting.

Mr. Darwin P. Virocel was first assigned by KPMG to lead the audit of the Company for its 2015 financial statements.

The Audit Committee endorsed the re-appointment of KPMG as external auditor for 2020. The Audit Committee also earlier endorsed the approval of the fees proposed by KPMG for the review of the financial statements of the Company and its subsidiaries for 2019. At its meetings held on March 10, 2020 and August 6, 2019, the Board of Directors, finding the recommendations to be in order, endorsed the re-appointment of KPMG as external auditor of the Company for 2019 and the approval of its fees for the 2018 audited financial statements, respectively, for the approval and ratification of the stockholders at the Annual Stockholders' Meeting.

With the engagement partner of KPMG assigned to the Company only beginning 2015, the Company is not yet subject to the rule on rotation for the signing partner every five (5) years under the 2015 SRC Rules in respect of its engagement of KPMG.

Set out in the next page is the report of the Audit Committee for the year 2019.

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2019 Audit Committee Report follows on next page]*

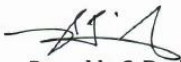
The Board of Directors  
Petron Corporation

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 2019:

- 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 2019;
- 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.

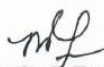
The Board Audit Committee is satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2019.

  
Reynaldo G. David  
Chairperson  
Independent Director

  
Estelito P. Mendoza  
Director

  
Artemio V. Panganiban  
Independent Director

  
Aurora T. Calderon  
Director

  
Margarito B. Teves  
Independent Director

### **Commitments for Capital Expenditure**

During the year 2019, the Company spent P11.8 billion in capital investments, majority of which were spent for Petron Bataan Refinery-related projects amounting to P8.2 billion. Expenditures incurred for projects in depots, including the construction of new lube oil blending processing plant amounted to P2.1 billion. In addition, service-station related expenditures totaled P1.3 billion and P0.3 billion for other commercial, maintenance and miscellaneous projects.

In 2018, Petron spent ₱7.6 billion in capital projects, ₱2.8 billion of which were spent for Petron Bataan Refinery-related projects, ₱2.2 billion for the construction of new lube oil blending processing plant and other depot projects, ₱2.0 billion for service station-related expenditures, and ₱0.6 billion for other commercial, maintenance and miscellaneous projects.

### **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There were no changes in and disagreements with accountants on accounting and financial disclosures.

*[Rest of page intentionally left blank;  
"Part IV - Management and Certain Security Holders" follows on next page]*



## PART IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS

### (A) Directors, Executive Officers and Board Committees of the Registrant

#### (i) Director and Executive Officers

Listed below are the current directors and executive officers of the Company with their respective ages, citizenships, and current and past positions held and business experience for at least the past five (5) years until the date of this Annual Report.

Name	Age	Position	Year Appointed as Director
Eduardo M. Cojuangco, Jr.	84	Chairman	2009
Ramon S. Ang	66	President and Chief Executive Officer	2009
Lubin B. Nepomuceno	69	Director and General Manager	2013
Ron W. Haddock	79	Director	2008
Estelito P. Mendoza*	90	Director	2009
Aurora T. Calderon	65	Director	2010
Mirzan Mahathir	61	Director	2010
Virgilio S. Jacinto	63	Director	2010
Nelly F. Villafuerte	83	Director	2011
Jose P. de Jesus	85	Director	2014
Horacio C. Ramos	75	Director	2018
Reynaldo G. David	77	Lead Independent Director	2009
Artemio V. Panganiban	83	Independent Director	2010
Margarito B. Teves	76	Independent Director	2014
Carlos Jericho L. Petilla	57	Independent Director	2018

\*Previously served as a Director of the Company from 1974 to 1986.

Set out below are the profiles of the Directors of the Company.

**Eduardo M. Cojuangco, Jr.**, Filipino, born 1935, has served as the Chairman of the Company since February 10, 2015 and a Director since January 8, 2009. He is also the Chairman of the Executive Committee of the Company. 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**, Filipino, born 1954, has served as the Chief Executive Officer and an Executive Director of the Company since January 8, 2009 and the President of the Company since February 10, 2015. He is also a member of the Company’s Executive Committee. In relation to the oil and gas industry, Mr. Ang holds the following positions, among others: Chairman and President of Mariveles Landco Corporation, Petrochemical Asia (HK) Ltd. (“PAHL”), and Robinson International Holdings Ltd. (Cayman Islands); Chairman of SEA Refinery Corporation (“SRC”), 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); 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, Chief Executive Officer, and President and Chief Operating Officer of SMC Global Power Holdings Corp.; Chairman and President of 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.; President and Chief Executive Officer of Top Frontier Investment Holdings, Inc., San Miguel Food and Beverage, Inc. and 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 and the Chairman of Privado Holdings, Corp. Mr. Ang formerly held the following positions, among others: Chairman of Liberty Telecoms Holdings, Inc. and Cyber Bay Corporation; President and Chief Operating Officer of PAL Holdings, Inc., and Philippine Airlines, Inc.; Director of Air Philippines Corporation; Vice Chairman of 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 (5) years. He has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

Mr. Ang also holds the following positions in other Philippine 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”); President, Chief Executive Officer and Vice Chairman of San Miguel Food and Beverage, Inc.; and President of Ginebra San Miguel, Inc.; and Chairman of Eagle Cement. He also holds the following positions: Chairman of Petron Malaysia Refining & Marketing Berhad (“PMRMB”) (a company publicly listed in Malaysia) and San Miguel Brewery Hong Kong Limited (a company publicly listed in Hong Kong).

**Lubin B. Nepomuceno**, Filipino, born 1951, has served as a Director of the Company since February 19, 2013 and the General Manager of the Company since February 10, 2015. He is also a member of the Company’s Executive Committee. He holds the following positions, among others: President and Chief Executive Officer of PMC; Director and Chief Executive Officer of PMRMB; Director of POGI, PFISB, POMSB, LLCDC, NVRC, PFC, Petrofuel Logistics, Inc. (“PLI”), 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 r. 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 PSE.

**Ron W. Haddock**, American, born 1940, has served as a Director of the Company since December 2, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of AEI Services, L.L.C.; and member of the board of Delek Logistic Partners LP. 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.

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

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

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

Of the companies in which Ms. Calderon currently holds directorships, SMC and Petron-affiliates Top Frontier, San Miguel Food and Beverage, Inc., and Ginebra San Miguel, Inc. are also listed with the PSE.

**Mirzan Mahathir**, Malaysian, born 1958, has served as a Director of the Company since August 13, 2010. He is the Chairman and Chief Executive Officer of Crescent Capital Sdn. Bhd. He holds directorships in several public and private companies, including SBI Offshore Ltd., which listed on the Singapore Stock Exchange. He was formerly the Executive Chairman and President of Konsortium Logistik Berhad (1992 - 2007). 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.

**Virgilio S. Jacinto**, Filipino, born 1956, has served as a Director of the Company since August 13, 2010. He is a member of the Corporate Governance Committee of the Company. He is also an alternate member of the Executive Committee. He holds the following positions, among others: Corporate Secretary, Compliance Officer, Senior Vice President and General Counsel of SMC; Corporate Secretary and Compliance Officer of Top Frontier; Corporate Secretary of GSMI and the other subsidiaries and affiliates of SMC; and Director of various other local and offshore subsidiaries of SMC. Mr. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank, a Director of San Miguel Brewery Inc., 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.

**Nelly F. Villafuerte**, Filipino, born 1937, has served as a Director of the Company since December 1, 2011. She is also a columnist for the Manila Bulletin and was a former Member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2005 until July 2011. She is the President and General Manager of LRV Agri-Science Farm, Inc. (a family-owned corporation). She is an author of business handbooks on microfinance, credit card transactions, exporting and cyberspace and a four (4)-volume series on the laws on banking and financial intermediaries (Philippines). Atty. Villafuerte has served as Governor of the Board of Investments (1998 - 2005), Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the Department of Trade and Industry (“DTI”) (July 1998 - May 2000), Undersecretary for the Regional Operations Group of the DTI (May 2000 - 2005), and 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.

**Jose P. de Jesus**, Filipino, born 1934, has served as a Director of the Company since May 20, 2014. He is also the Chairman of Clark Development Corporation. Positions he previously held include the following: the Secretary of the Department of Transportation and Communications (July 2010 - June 2011), the President and Chief Operating Officer of MERALCO (February 2009 - June 2010), the President and Chief Executive Officer of Manila North Tollways Corporation (January 2000 - December 2008), Executive Vice President of the Philippine Long Distance Telephone Company (1993 - December 1999), Chairman of the Manila Waterworks & Sewerage System (1992 - 1993) and the Secretary of the Department of Public Works and Highways (January 1990 - February 1993). He was awarded the Philippine Legion of Honor, Rank of Commander in June 1992 by then President Corazon C. Aquino. He was Lux in Domino Awardee (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also a director of Citra Metro Manila Tollways Corporation, Private Infra Development Corporation and South Luzon Tollway Corporation. He is a Trustee of 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.

**Horacio C. Ramos**, Filipino, born 1945, 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.

**Reynaldo G. David**, Filipino, born 1942, has served as an Independent Director of the Company since May 12, 2009. He is the Chairman of the Audit Committee and likewise a member of the Risk Oversight Committee, Corporate Governance Committee and the Related Party Transaction Committee. He is also an Independent Director and a member of the Audit Committee, Nomination and Compensation Committee of SMC. He has previously held, among others, the following positions: Philippine Special Trade Representative with the rank of Special Envoy, President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; 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 other company listed with the PSE.

**Artemio V. Panganiban**, Filipino, born 1936, has served as an Independent Director of the Company since October 21, 2010. He is the Chairman of the Risk Oversight Committee and a member of the Audit and Corporate Governance Committees. He is a columnist for the Philippine Daily Inquirer and officer, adviser or consultant to several business, civic, educational and religious organizations. He is an adviser of Metropolitan Bank and Trust Company, Bank of the Philippine Islands, and DoubleDragon Properties Corp. He is a retired 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 a dozen books and has received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21<sup>st</sup> Century" conferred by the Supreme Court in 2006 and the "Outstanding Manilan" for 1991 by the City of Manila. Chief Justice Panganiban earned his Bachelor of

Laws degree (cum laude) from the Far Eastern University in 1960, placed sixth in the bar exam that same year, and holds honorary doctoral degrees in law from several universities.

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

**Margarito B. Teves**, Filipino, born 1943, has served as an Independent Director of the Company since May 20, 2014. He is the Chairman of the Corporate Governance and the Related Party Transaction Committees and a member of the Audit Committee of the Company. He is also an Independent Director of SMC and Atok, as well as Alphaland Corporation, Alphaland Balesin Island Club, Inc., AB Capital Investment Corp. and Atlantic Atrium Investments Philippines Corporation. He is also the Managing Director of The Wallace Business Forum. Other positions he previously held include the following: Secretary of the Department of Finance of the Philippine government (2005 - 2010, and the President and Chief Executive Officer of the Land Bank of the Philippines (2000 - 2005). 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.

**Carlos Jericho L. Petilla**, Filipino, born 1963, has served as Independent Director of the Company since May 15, 2018. He is the founder in 2001, and President and Chief Executive Officer of International Data Conversion Solutions, Inc. (2015 - present; 2001 - 2004); 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 other company listed with the PSE.

#### Board Attendance and Trainings/Corporate Governance Seminars in 2019

The schedule of the meetings for any given year is presented to the directors the year before.

The Board of Directors was therefore advised of the schedule of the board meetings for 2020 at the board meeting held on November 5, 2019. Similarly for 2019, the schedules of the meetings for this year was approved by the Board of Directors on November 6, 2018. Should any matter requiring immediate approval by the Board of Directors arise in between meetings, 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 (including all its executive officers, the Assistant Corporate Secretary and the Internal Auditor) attended a corporate governance seminar in 2018 conducted by providers duly accredited by the SEC and conducted in accordance with SEC Memorandum Circular No. 20, Series of 2013.

The list of the directors of the Company and the directors' attendance at meetings held in 2019 are set out below.

Director's Name	February 12 Special Board Meeting	March 12 Regular Board Meeting	May 7 Regular Board Meeting	May 21 Annual Stockholders' Meeting	May 21 Organizational Board Meeting	August 6 Regular Board Meeting	November 5 Regular Board Meeting	Attendance at Corporate Governance Seminar in 2019
1. Eduardo M. Cojuangco, Jr.	✓	✓	✓	✓	✓	✓	✓	✓
2. Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	✓
3. Lubin B. Nepomuceno	✓	✓	✓	✓	✓	✓	✓	✓
4. Estelito P. Mendoza	✓	✓	✓	✓	✓	✓	✓	✓
5. Jose P. De Jesus	✓	✓	✓	✓	✓	✓	✓	✓
6. Ron W. Haddock	✓	✓	✓	✓	✓	✓	✓	✓
7. Mirzan Mahathir	✓	✓	✓	✓	✓	✓	✓	✓
8. Aurora T. Calderon	✓	✓	✓	✓	✓	✓	✓	✓
9. Virgilio S. Jacinto	✓	✓	✓	✓	✓	✓	✓	✓
10. Nelly Favis-Villafuerte	✓	✓	✓	✓	✓	✓	✓	✓
11. Horacio C. Ramos	✓	✓	✓	✓	✓	✓	✓	✓
12. Reynaldo G. David	✓	✓	✓	✓	✓	✓	✓	✓
13. Artemio V. Panganiban	✓	✓	✓	✓	✓	✓	✓	✓
14. Margarito B. Teves	✓	✓	✓	✓	✓	✓	✓	✓
15. Carlos Jericho L. Petilla	✓	✓	✓	✓	✓	✓	✓	✓

Legend: ✓ - Present    ✗ - Absent

### Executive Officers

The following are the current key executive officers of the Company:

Name	Age	Position	Year Appointed as Officer
Ramon S. Ang	66	President and Chief Executive Officer	as President: 2015; as Chief Executive Officer: 2009
Lubin B. Nepomuceno	68	General Manager	2015
Emmanuel E. Eraña	59	Senior Vice President and Chief Finance Officer	2009
Susan Y. Yu	44	Vice President - Procurement	2009
Albertito S. Sarte	53	Vice President and Treasurer	2009
Maria Rowena Cortez	55	Vice President - Supply	2009
Archie B. Gupalor	52	Vice President - Retail Sales	2018
Joel Angelo C. Cruz	59	Vice President - General Counsel & Corporate Secretary and Compliance Officer	as General Counsel, Corporate Secretary and Compliance Officer: 2010; as Vice President: 2013
Jaime O. Lu	56	Vice President and Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects	2018
Rolando B. Salonga	59	Vice President - Operations and Technical Services Group	2017
Fernando S. Magnayon	61	Vice President - Commercial Sales	2018
Maria Rosario D. Vergel de Dios	56	Vice President - Human Resources	2018

Myrna C. Geronimo	53	Vice President and Controller	as Controller: 2019; as Vice President: 2020
Allister J. Go	54	Vice President, Refinery	2020
Magnolia Cecilia D. Uy	53	Vice President, Management Services	2020

Set out below are the profiles of the executive officers of the Company who are not nominees for directors.

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

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

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

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



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

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

**Jaime O. Lu**, Filipino, born 1963, has served as the Company's Vice President and Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects since November 2018. He is also a director of PLI, PFISB and POMSB. Mr. Lu was formerly the Company's Vice President - Operations Manager for Petron Malaysia (April 2012 - October 2018), the Operations Manager of PMRMB (April 2012 - October 2018) and the General Manager of PPI (January 2011 - February 2012). He holds a Bachelor of Science Degree in Chemical Engineering from the Pamantasan ng Lungsod ng Maynila and a master's degree in Business Administration from the Ateneo de Manila University.

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

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

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

**Myrna C. Geronimo**, Filipino, born 1966, has served as Vice President for Controllers and Controller the Company since February 13, 2020. She holds the following positions, among others: Controller of Petrogen, LLCDC, NVRC, PMC, PFC, MLC and PPI; and director, Controllers and Treasurer of PEDC and SLHPI and Corporate Secretary of Petron Global Limited. She is also the Controller of PFI. Ms. Geronimo was formerly the Assistant Vice President for Controllers and Controller of the Company and the Chief Finance Officer of PMRMB, PFISB and POMSB. Ms. Geronimo holds a Bachelor of Arts degree in Accountancy from the Polytechnic University of the Philippines.

**Allister J. Go**, Filipino, born 1965, has served as Vice President for Refinery of the Company since February 13, 2020. Other positions he has held include Vice President for Refinery Technical Services (November 2018 - February 2020), Officer-in-Charge Refinery Production B (April 2017 - December 2017) and Manager, Refinery Technical Services (Production B) (July 2014 - March 2017). He has a Bachelor of Science degree in Chemical Engineering from the Adamson University.

**Magnolia Cecilia D. Uy**, Filipino, born 1966, has served as Vice President for Management Services of the Company since February 13, 2020. Other positions she has held include Assistant Vice President for Management Services (June 2018 - February 2020), Assistant Vice President for Market Planning, Research and Sales Information and concurrent Head of the Management Information Systems (February 2018 - May 2018) and Assistant Vice President for Market Planning, Research and Sales Information (February 2013 - January 2018). She has a Bachelor of Science degree in Computer Science from the University of the Philippines.

#### Officer Trainings in 2018

All the executive officers of the Company, including the Assistant Corporate Secretary and the Assistant Vice President for Internal Audit, completed a corporate governance seminar for year 2019 conducted in accordance with SEC Memorandum Circular No. 20, Series of 2013.

#### (ii) Board Committees; Board and Committee Charters

Pursuant to the new Corporate Governance Manual of the Company approved by the Board on May 8, 2017 (the "Corporate Governance Manual"), the Company has Executive, Audit, Corporate Governance, Risk Oversight, and Related Party Transaction Committees constituted in accordance with Corporate Governance Manual and the Company's By-Laws.

Their respective members were appointed at the organizational meeting held on May 21, 2019.

The Board charter and the charter of each of the board committees were adopted on May 16, 2017.

- Executive Committee.** The Executive Committee is composed of not less than three (3) members, which shall include the Chairman of the Board of Directors and the President, with two (2) alternate members. The Executive Committee, when the Board of Directors of Directors is not in session, may exercise the powers of the latter 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 of 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.

As of the date of this Annual Report, the Executive Committee is chaired by Mr. Eduardo M. Cojuangco, Jr. with Mr. Ramon S. Ang and Mr. Lubin B. Nepomuceno as members. Atty. Virgilio S. Jacinto and Ms. Aurora T. Calderon are the two (2) alternate members of the Executive Committee.

The Executive Committee held eight (8) meetings in 2019, 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 28	March 26	April 25	May 30	July 8	September 12	October 3	November 25
Eduardo M. Cojuangco, Jr. (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓
Ramon S. Ang	✓	✓		✓	✓	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	✓		✓	✓	✓
Aurora T. Calderon (Alternate Member)	n/a	n/a	✓	n/a	✓	n/a	n/a	n/a
Virgilio S. Jacinto (Alternate Member)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Legend: ✓ - Present    – - Absent

- Corporate Governance Committee.** The Corporate Governance Committee, created on May 8, 2017, is composed of at least three (3) 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.

As of the date of this Annual Report, 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 2019, the Corporate Governance Committee held one meeting on March 12, with the following members in attendance:

Members	March 12
Margarito B. Teves (Chairperson)	✓
Reynaldo G. David	✓
Artemio V. Panganiban	✓
Estelito P. Mendoza	✓
Virgilio S. Jacinto	✓

Legend: ✓ - Present      - - Absent

- **Audit Committee.** The Audit Committee is composed of at least three (3) 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. Caderon. Mr. Ferdinand K. Constantino acts as advisor to the committee.

In 2019, the Audit Committee held four (4) meetings on March 12, May 7, August 6 and November 5, with attendance as indicated below.

Members	March 12	May 7	August 6	November 5
Reynaldo G. David (Chairperson)	✓	✓	-	✓
Artemio V. Panganiban	✓	✓	✓	✓
Margarito B. Teves	✓	✓	✓	✓
Estelito P. Mendoza	✓	✓	✓	✓
Aurora T. Calderon	✓	✓	✓	✓

Legend: ✓ - Present      - - Absent

- **Risk Oversight Committee.** The Risk Oversight Committee, created on May 8, 2017, is composed of at least three (3) 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.

As of the date of this Annual Report, 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, created on May 8, 2017, is composed of least three (3) non-executive directors, two (2) 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.

As of the date of this Annual Report, 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.

In 2019, the Related Party Transactions Committee held two (2) meetings on August 6 and November 5, with the following members in attendance:

<b>Members</b>	<b>August 6</b>	<b>November 5</b>
Carlos Jericho L. Petilla (Chairperson)	–	✓
Reynaldo G. David	✓	✓
Aurora T. Calderon	✓	✓

Legend: ✓ - Present                      – - Absent

### (3) Significant Employees

There was no significant employee or personnel who was not an executive officer but was expected to make a significant contribution to the business.

### (4) Family Relationships

The Company has no director or executive officer related to any other director or executive officer up to the fourth degree of consanguinity.

## (5) Involvement in Certain Legal Proceedings

The Company is not aware that any one of the incumbent directors and executive officers and persons nominated to become a director and executive officer has been the subject of a bankruptcy petition or a conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, or has been by final judgment or decree found to have violated securities or commodities law and enjoined from engaging in any business, securities, commodities or banking activities for the past five (5) years until the date of this Annual Report.

## (B) Executive Compensation

**Standard Arrangements.** Petron's executive officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of 12 months base pay. They also receive whatever gratuity pay the Board of Directors extends to the managerial, supervisory and technical employees of the Company.

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

**Other Arrangements.** There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

**Warrants or Options.** There are no warrants or options held by directors or officers.

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

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

(a) Name & Principal Position		(b) Year	(c) Salary	(d) Bonus	(e) Other Annual Compensation
Ramon S. Ang	President and Chief Executive Officer	2020 (est)	114.72	28.68	2.93
Lubin B. Nepomuceno	General Manager				
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer				
Archie B. Gupalor	Vice President - Retail Sales				
Susan Y. Yu	Vice President - Procurement				
Ramon S. Ang	President and Chief Executive Officer	2019	111.96	18.66	3.03
Lubin B. Nepomuceno	General Manager				
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer				
Freddie P. Yumang	Senior Vice President - Refinery				
Archie B. Gupalor	Vice President - Retail Sales				
Ramon S. Ang	President and Chief Executive Officer	2018	105.42	66.04	-
Lubin B. Nepomuceno	General Manager				
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer				
Freddie P. Yumang	Senior Vice President - Refinery				
Archie B. Gupalor	Vice President - Retail Sales				
All other officers and directors as a group unnamed		2020 (est)	100.06	21.22	3.71
		2019	98.05	13.34	6.38
		2018	86.59	46.75	-

**(C) Security Ownership of Certain Beneficial Owners and Management  
as of December 31, 2019**

The security ownership of certain record and beneficial owners of more than 5% of the common shares of the Company as of December 31, 2019 is as follows:

- SEA Refinery Corporation - 50.10%
- San Miguel Corporation - 18.16%
- PCD Nominee Corporation (Filipino) - 18.01%

SEA Refinery Corporation is wholly-owned by SMC. SMC thus holds an aggregate 68.26% ownership of the common shares of the Company.

The Company had no beneficial owner under the PCD Nominee Corporation that held no more than 5% of the common shares of the Company.

The security ownership of directors and executive officers as of February 20, 2020 is as follows:

Directors

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Directors</b>					
Common	Eduardo M. Cojuangco, Jr.	Filipino	1,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Ramon S. Ang	Filipino	1,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Estelito P. Mendoza	Filipino	1,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.

Common	Lubin B. Nepomuceno	Filipino	5,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Jose P. De Jesus	Filipino	500/225,000	D / I	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Mirzan Mahathir	Malaysian	1,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Ron W. Haddock	American	1	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Horacio C. Ramos	Filipino	500	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Aurora T. Calderon	Filipino	1,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Virgilio S. Jacinto	Filipino	1,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.



Common	Nelly Favis-Villafuerte	Filipino	1,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Reynaldo G. David	Filipino	1,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Artemio V. Panganiban	Filipino	1,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Margarito B. Teves	Filipino	500	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Carlos Jericho L. Petilla	Filipino	500	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.

#### Executive Officers

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Executive Officers</b>					
Common	Emmanuel E. Eraña	Filipino	-	-	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Susan Y. Yu	Filipino	791,600	I	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			12,000	I	N.A.

Common	Albertito S. Sarte	Filipino	765,500	I	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			5,000	I	N.A.
Common	Rowena O. Cortez	Filipino	8,580	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			500	I	N.A.
Series 3B Preferred			-	-	N.A.
Common	Archie B. Gupalor	Filipino	3,000	D	0.00%
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Joel Angelo C. Cruz	Filipino	-	-	N.A.
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			2,500	I	N.A.
Series 3B Preferred			-	-	N.A.
Common	Jaime O. Lu	Filipino	14,200	I	N.A.
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Rolando B. Salonga	Filipino	845	D	N.A.
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Fernando S. Magnayon	Filipino	-	-	N.A.
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			5,000	I	N.A.
Series 3B Preferred			-	-	N.A.
Common	Maria Rosario D. Vergel de Dios	Filipino	-	-	N.A.
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.

Common	Maria Cecilia D. Uy	Filipino	-	-	N.A.
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			-	-	N.A.
Common	Myrna C. Geronimo	Filipino	-	-	N.A.
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			3,000	I	N.A.
Common	Allister J. Go	Filipino	11,030	D	N.A.
Series 2B Preferred			-	-	N.A.
Series 3A Preferred			-	-	N.A.
Series 3B Preferred			300	I	N.A.
<b>Directors and Executive Officers as a Group</b>		Common	<b>1,835,756</b>		<b>0.00%</b>
		Series 2B Preferred	-		<b>0.00%</b>
		Series 3A Preferred	<b>8,000</b>		<b>0.00%</b>
		Series 3B Preferred	<b>20,300</b>		<b>0.00%</b>

As of February 29, 2019, the directors and executive officers of the Company owned 1,835,756 common shares, 8,000 Series 3A Preferred Shares and 20,300 Series 3B Preferred Shares for a total of 1,864,056 or 0.02% of the Company's total outstanding capital stock. No one of the directors and executive officers of the Company directly owns 5% or more of the outstanding capital stock of the Company.

## **(2) Voting Trust Holders of 5% or more**

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

## **(3) Changes in Control**

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

## **(D) Certain Relationships and Related Transactions**

The major related stockholders of the Company as of December 31, 2019 holding at least 5% of the common stock were as follows:

- |                            |   |        |
|----------------------------|---|--------|
| • SEA Refinery Corporation | - | 50.10% |
| • San Miguel Corporation   | - | 18.16% |

The basis of control is the number of the percentage of voting shares held by each.

The Company had no transactions or proposed transactions with any of its directors or officers.

Related party transactions are discussed under Part I(A)(2)(viii) (*Transactions with and/or dependence on related parties*).

*[Rest of page intentionally left blank;  
"Part IV - Corporate Governance" follows on next page]*

## PART IV - CORPORATE GOVERNANCE AND SUSTAINABILITY

### (A) Corporate Governance

#### Corporate Governance Manual

On May 8, 2017, the Board of Directors approved the new Corporate Governance Manual of the Company primarily based on the Code of Corporate Governance for Publicly-Listed Companies approved by the SEC pursuant to its Memorandum Circular No. 19 (2016). A copy of the Corporate Governance Manual was submitted to the SEC on May 29, 2017.

The Company first adopted its Corporate Governance Manual on July 1, 2002. In compliance with SEC Memorandum Circular No. 6, Series of 2009, amending SEC Memorandum Circular No. 2, Series of 2002, the Company further adopted revisions to the Corporate Governance Manual which were approved by the Board of Directors on October 21, 2010. The latest revisions to the old Corporate Governance Manual were also undertaken and approved by the Board of Directors on March 2, 2011.

#### Various Corporate Policies

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 “Petron Group”). 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.

For the past years, the Company also observed the *San Miguel Corporation Policy on Dealings in Securities* for itself and its subsidiaries. On May 6, 2013, the Company likewise adopted the *Petron Corporation Policy on Dealings in Securities*. Under this policy, the directors, officers and employees of the Company are obliged 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. The policy sets out the conditions and rules under which the directors, officers and employees of the Company should deal in securities of the Company.

#### Board Assessment and Summary of 2019 Assessment

The directors accomplished the annual self-assessment for 2019.

In August 2013, the Board of Directors adopted a new format for the annual self-assessment by each director of his/her performance and that of the Board of Directors and the board committees.

The self-assessment forms covers the evaluation of the (i) 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; (ii) 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 an understanding of the businesses better, and the consideration of the correlation between executive pay and Company performance; (iii) effectiveness of board process 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 (iv) 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, the Company's 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.

All the 15 directors accomplished the annual self-assessment for 2019. The average self-rating by the Directors covering all four (4) topics discussed above was 4.89 out of a possible 5.0, broken down as follows: (1) Fulfilment of Board Key Responsibilities - The ratings averaged 4.89 based on a series of nine (9) questions; (2) Board-Management Relationship - The ratings averaged 4.82 based on a series of four (4) questions; (3) Effectiveness of Board Processes and Meetings - The ratings averaged 4.90 based on a series of nine (9) questions; and (4) Individual Performance of Directors - The ratings averaged 4.91 based on a series of 10 questions.

#### Compliance with the Corporate Governance Manual

The Company is in compliance with the provisions of the Corporate Governance Manual.

- Its directors possess all the qualifications and none of the disqualifications of a director under the Corporate Governance Manual, the Company's by-laws and applicable laws and regulations.
- The Company has four (4) independent directors (Mr. Reynaldo G. David, Retired Supreme Court Chief Justice Artemio V. Panganiban, Mr. Margarito B. Teves, and Mr. Carlos Jericho L. Petilla) and a Compliance Officer (Atty. Joel Angelo C. Cruz).
- The Company has a Lead Independent Director (Mr. Reynaldo G. David).
- The Chairmen and the members of the Executive, Audit, Corporate Governance, Risk Oversight and Related Party Transaction Committees were elected pursuant to the requirements of the Corporate Governance Manual and the Company's by-laws.
- The Company regularly held board meetings and board committee meetings, at which a quorum was always present.
- The directors properly discharge their duties and responsibilities as directors and attended a corporate governance seminar.
- Each director accomplished a self-assessment form for 2019.
- The Company has an external auditor.
- The Company has an Internal Audit Department.
- The Company respects and observes the rights of its stockholders under applicable law.
- The Company is in material compliance with laws and regulations applicable to its business operations, including applicable accounting standards and disclosure requirements,

### Pursuit of Corporate Governance

As above-discussed, the Company adopted on May 8, 2017 its new Corporate Governance Manual to align with the Code of Corporate Governance for Publicly Listed Company approved by the SEC and which took effect on January 1, 2017.

The Company is committed in pursuing good corporate governance by keeping abreast of new developments in and leading principles and practices on good corporate governance. The Company also 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.

To further instill good governance in the Company, the Company will continue to coordinate with accredited providers for the attendance of the directors and officers in more extensive corporate governance programs to keep them updated with the latest developments in and best practices on good corporate governance. The Office of the General Counsel and Corporate Secretary will also continue to periodically release internal memoranda to explain and/or reiterate the Company's corporate governance practices and the latest good corporate governance practices in general.

### Integrated Annual Corporate Governance Report ("i-ACGR")

Other matters relating to the governance of the Company are discussed in the i-ACGR of the Company filed with the SEC and posted on the company website.

## **(B) Sustainability Report**

By June 2, 2020, the Sustainability Report of the Company for 2019 will be posted in the company website and will be reported through relevant disclosures.

*[Rest of page intentionally left blank;  
"Part V - Exhibits and Schedules" follows on next page]*

## PART V - EXHIBITS AND SCHEDULES

### Exhibits and Reports on SEC Form 17-C

Below is a list of the annexes to this SEC Form 17-A and the reports on SEC Form 17-C and the press releases submitted to the SEC in 2019 until the date of this report.

#### Annexes

1. Annex A - Public Ownership Report as of December 31, 2019
2. Annex B - Public Ownership Report as of March 31, 2020
3. Annex C - 2019 Audited Financial Statements, with the Index to Financial Statements and the Supplementary Schedules (Petron and Subsidiaries)

#### Reports on SEC Form 17-C

The following reports on SEC Form 17-C were filed for year 2019 until the date of this Annual Report:

Date of Report	Item Description
March 12, 2019	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. 2018 Financial Statements</li> <li>2. Cash dividend for common shareholders</li> <li>3. Cash dividends for Series 2 preferred shareholders</li> <li>4. Public offer and issuance of additional preferred shares, including the conduct of a solicitation for stockholders' written assent therefor</li> <li>5. Redemption of Series 2A preferred shares</li> <li>6. Endorsement of the re-appointment of R.G. Manabat &amp; Co. as external auditor of the Company for year 2019</li> <li>7. Annual Stockholders' Meeting</li> </ol> <p style="margin-left: 40px;">Date : May 21, 2019, Tuesday  Time : 2:00 pm  Venue : Valle Verde Country Club, Pasig City  Record date : March 26, 2019  Closing of books: March 26 - April 2, 2019</p> <p>Media release on performance also submitted.</p>
April 24, 2019	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled "Petron shuts down refinery in Limay"
May 2, 2019	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled "Petron readies P20-B preferred share offer"



May 7, 2019	<p>Matters approved at the Board meeting held:</p> <ol style="list-style-type: none"> <li>1. Year-to-date March 2019 Financial Performance</li> <li>2. Appointment of Mr. Ferdinando H. Enriquez as Assistant Vice President for Petron Bataan Refinery Production A effective June 1, 2019</li> </ol> <p>Media release on performance also submitted.</p>										
May 21, 2019	<p>Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “SEC okays Petron’s P20-B preferred shares offering”</p>										
May 21, 2019	<p>Matters approved at the annual stockholders’ and organizational meetings held:</p> <p>A. Annual Stockholders’ Meeting</p> <ol style="list-style-type: none"> <li>1. Appointment of R.G. Manabat &amp; Co. as independent external auditor of the Company for year 2019 and ratification of external auditor fees</li> <li>2. Election of the following as directors of the Company for 2019-2020: <ol style="list-style-type: none"> <li>1. Eduardo M. Cojuangco, Jr.</li> <li>2. Ramon S. Ang</li> <li>3. Lubin B. Nepomuceno</li> <li>4. Estelito P. Mendoza</li> <li>5. Jose P. De Jesus</li> <li>6. Ron W. Haddock</li> <li>7. Mirzan Mahathir</li> <li>8. Aurora T. Calderon</li> <li>9. Virgilio S. Jacinto</li> <li>10. Nelly Favis-Villafuerte</li> <li>11. Horacio C. Ramos</li> </ol> <p style="text-align: center;">Independent Directors</p> <ol style="list-style-type: none"> <li>1. Reynaldo G. David</li> <li>2. Artemio V. Panganiban</li> <li>3. Margarito B. Teves</li> <li>4. Carlos Jericho L. Petilla</li> </ol> </li> </ol> <p>B. Organizational Meeting</p> <ol style="list-style-type: none"> <li>1. Appointment of the following as members of the board committees and lead independent director: <p style="text-align: center;"><u>Executive Committee</u></p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td>Eduardo M. Cojuangco, Jr.</td> <td>- Chairman</td> </tr> <tr> <td>Ramon S. Ang</td> <td>- Member</td> </tr> <tr> <td>Lubin B. Nepomuceno</td> <td>- Member</td> </tr> <tr> <td>Aurora T. Calderon</td> <td>- Alternate Member</td> </tr> <tr> <td>Virgilio S. Jacinto</td> <td>- Alternate Member</td> </tr> </table> </li> </ol>	Eduardo M. Cojuangco, Jr.	- Chairman	Ramon S. Ang	- Member	Lubin B. Nepomuceno	- Member	Aurora T. Calderon	- Alternate Member	Virgilio S. Jacinto	- Alternate Member
Eduardo M. Cojuangco, Jr.	- Chairman										
Ramon S. Ang	- Member										
Lubin B. Nepomuceno	- Member										
Aurora T. Calderon	- Alternate Member										
Virgilio S. Jacinto	- Alternate Member										

Audit Committee

Reynaldo G. David	- Chairman (Independent Director)
Margarito B. Teves	- Member (Independent Director)
Artemio V. Panganiban	- Member (Independent Director)
Estelito P. Mendoza	- Member
Aurora T. Calderon	- Member
Ferdinand K. Constantino	- Advisor

Risk Oversight Committee

Artemio V. Panganiban	- Chairman (Independent Director)
Reynaldo G. David	- Member (Independent Director)
Aurora T. Calderon	- Member

Corporate Governance Committee

Margarito B. Teves	- Chairman (Independent Director)
Reynaldo G. David	- Member (Independent Director)
Artemio V. Panganiban	- Member (Independent Director)
Estelito P. Mendoza	- Member
Virgilio S. Jacinto	- Member

Related Party Transaction Committee

Carlos Jericho L. Petilla	- Chairman (Independent Director)
Reynaldo G. David	- Member (Independent Director)
Aurora T. Calderon	- Member

Lead Independent Director

Reynaldo G. David	- Lead Independent Director
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2. Election of the following as officers of the Company for 2019-2020:

Eduardo M. Cojuangco, Jr.	- Chairman
Ramon S. Ang	- President & Chief Executive Officer
Lubin B. Nepomuceno	- General Manager
Emmanuel E. Eraña	- Senior Vice President & Chief Finance Officer

Freddie P. Yumang	- Senior Vice President, Operations for Refinery Division
Susan Y. Yu	- VP, Procurement
Maria Rowena O. Cortez	- VP, Supply
Archie B. Gupalor	- VP, Retail Sales
Albertito S. Sarte	- VP & Treasurer
Joel Angelo C. Cruz	- VP - General Counsel & Corporate Secretary/Compliance Officer
Jaime O. Lu	- VP & Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects
Julieta L. Ventigan	- VP, Business Planning & Development
Rolando B. Salonga	- VP, Operations & Corporate Technical Services Group
Fernando S. Magnayon	- VP, Commercial Sales
Ma. Rosario D. Vergel de Dios	- VP, Human Resources Management
Dennis S. Janson	- AVP & Controller
Nathaniel R. Orillos	- AVP, Special Assignment Polypropylene Plant, Support Services and Refinery Planning & Statistics
Mary Ann M. Neri	- AVP, Marketing
Magnolia Cecilia D. Uy	- AVP, Management Information Systems
Charmaine V. Canillas	- AVP, Corporate Affairs
Myrna C. Geronimo	- AVP & Chief Finance Officer, Petron Malaysia
Virgilio V. Centeno	- AVP, LPG, Lubes & Greases
Noel S. Ventigan	- AVP, Metro Manila Operations & Manufacturing
Terelu O. Carrillo	- AVP, Petron Singapore
Ronaldo T. Ferrer	- AVP, Internal Audit
Fe Irma A. Ramirez	- AVP, Supply
Allister J. Go	- AVP, Petron Bataan Refinery Operations Head
Reynaldo V. Velasco	- AVP, Petron Bataan Refinery Production B
Raymond C. Osmond	- AVP, Refinery Solid Fuel-Fired Boiler/Thermal Power Plant
Jacqueline A. Chai	- AVP, Procurement
Agnes Grace P. Perez	- AVP, Mergers & Acquisitions
Leon G. Pausing II	- AVP, Industrial Trade
Ferdinando H. Enriquez (effective June 1, 2019)	- AVP, Petron Bataan Refinery Production A
Jhoanna Jasmine M. Javier-Elacio	- Assistant Corporate Secretary

May 22, 2019	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “Petron allots \$1B for expansion”
May 30, 2019	Response to the communication of the Philippine Stock Exchange dated May 29, 2019 on the foreign ownership limit of the Company
May 31, 2019	<p>Advice further to the disclosures of the Company dated March 12, 2019 and May 30, 2019 in relation to the offer of 15,000,000 Series 3 Perpetual Preferred Shares with an oversubscription option of up to 5,000,000 Series 3 Perpetual Preferred Shares, that:</p> <ol style="list-style-type: none"> <li>1. The 15,000,000 Series 3 Perpetual Preferred Shares were broken down into the following subseries:  Series 3A: 10,000,000 Perpetual Preferred Shares Series 3B: 5,000,000 Perpetual Preferred Shares</li> <li>2. In the event the oversubscription option of 5,000,000 Series 3 Perpetual Preferred Shares was exercised, the determination of the breakdown between Series 3A and Series 3B would be made at the end of the Offer Period by the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners, in consultation with the Company.</li> <li>3. The Company planned to make available 20% or 3,000,000 Series 3 Preferred Shares for distribution to the respective clients of the 129 Trading Participants of the Philippine Stock Exchange, acting as Selling Agents.  Based on 129 Trading Participant, each would receive an allocation of 23,250 Series 3 Preferred Shares. The balance of 750 Series 3 Preferred Shares would be allocated by the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners to the Participating TPs with unserved demand after the allocation process via balloting.</li> </ol>
June 4, 2019	Amended PSE Disclosure Form 4-15 (Creation and Issuance of New Equity Security) submitted to the Philippine Stock Exchange on the details of the Series 3 Preferred Shares of the Company
June 24, 2019	Further amended PSE Disclosure Form 4-15 (Creation and Issuance of New Equity Security) submitted to the Philippine Stock Exchange on the details of the Series 3 Preferred Shares of the Company
June 27, 2019	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “Petron, Shell file TRO petitions versus fuel cost unbundling policy”
July 10, 2019	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “Petron defers expansion of Bataan refinery”
July 15, 2019	Quarterly Progress Report on the application of the proceeds from the offer and issuance of the Series 3A and 3B Preferred Shares of the Company for the quarter ended June 30, 2019

August 6, 2019	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. First Semester 2019 Financial Statements</li> <li>2. Cash dividends for preferred shareholders</li> <li>3. Approval of external auditor’s fees totaling P7,000,000 for the review of the 2019 Financial Statements of the Company and its subsidiaries</li> <li>4. Compliance with SEC Rule on Material Related Party Transactions <ol style="list-style-type: none"> <li>a. Approval of the Related Party Transaction Policy</li> <li>b. Delegation to Management of the Appointment of an External Party for Material Related Party Transactions</li> </ol> </li> </ol> <p>Media release on performance also submitted.</p>
September 11, 2019	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “Petron to sell back Limay power plant to San Miguel”
October 2, 2019	<p>Advice pursuant to the March 12, 2019 approval by the Board of Directors of the Company to redeem 7,122,320 Series 2A Preferred Shares on November 4, 2019 at a redemption price of Php1,000.00 per share, the Company reminded all stockholders of the Series 2A Preferred Shares that the record date for the redemption has been set on October 10, 2019.</p> <p>A notice of redemption of the Series 2A Preferred Shares would be sent to all stockholders of record as of October 10, 2019. For further details and inquiries, stockholders of the Series 2A Preferred Shares may also get in touch with the Company’s stock transfer agent through the following details:</p> <p style="text-align: center;">SMC Stock Transfer Service Corporation (“SMC STSC”)  Tel. No.: (632) 632-3450 to 52  Fax No.: (632) 632-3535  E-mail : smc_stsc@ sanmiguel.com.ph  Contact persons: Ms. Clarice Abaño  Ms. Yvette Gomez</p> <p>Advice that, effective October 6, 2019, in compliance with Memorandum Order No.10-10-2017 of the National Telecommunications Commission, the new contact numbers of SMC STSC shall be:</p> <p style="text-align: center;">Tel. Nos.: (632) 8632-3450 to 52  Fax No. : (632) 8632-3535</p>
October 15, 2019	Affidavit of Publication issued by Manila Bulletin confirming the publication on October 7, 2019 of the notice of the redemption of the Series 2A Preferred Shares of the Company on November 4, 2019
October 18, 2019	Filing of Certificate of Attendance of Dir. Artemio V. Panganiban in a corporate governance seminar for 2019

November 4, 2019	Advice on Company's completion redemption of all of the Series 2A preferred shares it issued in 2014																																		
November 5, 2019	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. Year-to-date September 2019 Financial Statements</li> <li>2. Cash dividend for preferred shareholders</li> <li>3. Approval of the 2019 material related party transactions and the 2020 proposed material related party transactions</li> <li>4. Appointment of Ms. Myrna C. Geronimo as Assistant Vice President and Controller of the Company effective November 1, 2019</li> </ol> <p>Media release on performance also submitted.</p>																																		
November 7, 2019	<p>Filing of Certificates of Attendance of the following directors and key officers at the Corporate Governance Seminar held:</p> <p>Date: November 6, 2019</p> <p>Time: 2:00 p.m. to 6:00 p.m.</p> <p>Venue: Petron Board Room Podium B, SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City</p> <p>Provider: SGV &amp; Co.</p> <p>Topics: 1. Refresher on Sustainability 2. Revised Corporation Code 3. Related Party Transaction</p> <table border="0" data-bbox="487 1186 1380 1837"> <thead> <tr> <th style="text-align: left;">Name</th> <th style="text-align: left;">Position</th> </tr> </thead> <tbody> <tr><td>1. Lubin B. Nepomuceno</td><td>Director/General Manager</td></tr> <tr><td>2. Estelito P. Mendoza</td><td>Director</td></tr> <tr><td>3. Jose P. De Jesus</td><td>Director</td></tr> <tr><td>4. Ron W. Haddock</td><td>Director</td></tr> <tr><td>5. Mirzan Mahathir</td><td>Director</td></tr> <tr><td>6. Horacio C. Ramos</td><td>Director</td></tr> <tr><td>7. Reynaldo G. David</td><td>Lead Independent Director</td></tr> <tr><td>8. Margarito B. Teves</td><td>Independent Director</td></tr> <tr><td>9. Carlos Jericho L. Petilla</td><td>Independent Director</td></tr> <tr><td>10. Emmanuel E. Eraña</td><td>SVP &amp; Chief Finance Officer</td></tr> <tr><td>11. Susan Y. Yu</td><td>VP, Procurement</td></tr> <tr><td>12. Maria Rowena O. Cortez</td><td>VP, Supply</td></tr> <tr><td>13. Archie B. Gupalor</td><td>VP, Retail Sales</td></tr> <tr><td>14. Albertito S. Sarte</td><td>VP and Treasurer</td></tr> <tr><td>15. Joel Angelo C. Cruz</td><td>VP - General Counsel &amp; Corporate Secretary/Compliance Officer</td></tr> <tr><td>16. Jaime O. Lu</td><td>VP &amp; Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects</td></tr> </tbody> </table>	Name	Position	1. Lubin B. Nepomuceno	Director/General Manager	2. Estelito P. Mendoza	Director	3. Jose P. De Jesus	Director	4. Ron W. Haddock	Director	5. Mirzan Mahathir	Director	6. Horacio C. Ramos	Director	7. Reynaldo G. David	Lead Independent Director	8. Margarito B. Teves	Independent Director	9. Carlos Jericho L. Petilla	Independent Director	10. Emmanuel E. Eraña	SVP & Chief Finance Officer	11. Susan Y. Yu	VP, Procurement	12. Maria Rowena O. Cortez	VP, Supply	13. Archie B. Gupalor	VP, Retail Sales	14. Albertito S. Sarte	VP and Treasurer	15. Joel Angelo C. Cruz	VP - General Counsel & Corporate Secretary/Compliance Officer	16. Jaime O. Lu	VP & Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects
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16. Jaime O. Lu	VP & Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects																																		

	<p>17. Rolando B. Salonga VP, Operations &amp; Corporate Technical Services Group</p> <p>18. Fernando S. Magnayon VP, Commercial Sales</p> <p>19. Maria Rosario D. Vergel De Dios VP, Human Resources Management</p> <p>20. Ronaldo T. Ferrer AVP, Internal Audit</p> <p>21. Myrna C. Geronimo AVP and Controller</p> <p>22. Jhoanna Jasmine M. Javier-Elacio Assistant Corporate Secretary</p>												
November 19, 2019	<p>Filing of Certificates of Attendance of the following directors and officers at the Corporate Governance Seminar held:</p> <p>Date: November 15, 2019  Time: 2:00 p.m. to 6:00 p.m.  Venue: Executive Dining Room  2<sup>nd</sup> Floor SMC Head Office Complex  40 San Miguel Avenue, Mandaluyong City</p> <p>Provider: Risk, Opportunities, Assessment and Management (ROAM), Inc.</p> <p>Topics: 1. Revised Corporation Code of the Philippines  2. Risk Governance  3. 10 Major Corporate Scandals of 2018  4. 2019 Global and Regional Trends in Corporate Governance  5. Data Privacy Act Compliance</p> <table border="0"> <thead> <tr> <th><u>Name</u></th> <th><u>Position</u></th> </tr> </thead> <tbody> <tr> <td>1. Eduardo M. Cojuangco, Jr.</td> <td>Chairman</td> </tr> <tr> <td>2. Ramon S. Ang</td> <td>President and Chief Executive Officer</td> </tr> <tr> <td>3. Virgilio S. Jacinto</td> <td>Director</td> </tr> <tr> <td>4. Nelly Favis-Villafuerte</td> <td>Director</td> </tr> <tr> <td>5. Freddie P. Yumang</td> <td>Senior Vice President - Operations for Refinery Division</td> </tr> </tbody> </table>	<u>Name</u>	<u>Position</u>	1. Eduardo M. Cojuangco, Jr.	Chairman	2. Ramon S. Ang	President and Chief Executive Officer	3. Virgilio S. Jacinto	Director	4. Nelly Favis-Villafuerte	Director	5. Freddie P. Yumang	Senior Vice President - Operations for Refinery Division
<u>Name</u>	<u>Position</u>												
1. Eduardo M. Cojuangco, Jr.	Chairman												
2. Ramon S. Ang	President and Chief Executive Officer												
3. Virgilio S. Jacinto	Director												
4. Nelly Favis-Villafuerte	Director												
5. Freddie P. Yumang	Senior Vice President - Operations for Refinery Division												
December 6, 2019	<p>Filing of Certificate of Attendance of the Dir. Aurora T. Calderon at the Corporate Governance Seminar held:</p> <p>Date: December 5, 2019  Venue: San Miguel Corporation Head Office Complex  San Miguel Avenue, Mandaluyong City</p> <p>Provider: Center for Global Best Practices</p> <p>Title: Understanding and Analyzing Financial Statements</p>												

February 13, 2020	<p>Matters approved at the board meeting held:</p> <p>Appointment of the following officers:</p> <ol style="list-style-type: none"> <li>1. Magnolia Cecilia D. Uy - Vice President for Management Services</li> <li>2. Myrna C. Geronimo - Vice President for Controllers</li> <li>3. Allister J. Go - Vice President for Refinery</li> <li>4. Reynaldo V. Velasco, Jr. - Vice President for Refinery Plant Operations (Production A and B)</li> <li>5. Mark Tristan D. Caparas - Assistant Vice President and Chief Finance Officer for Petron Malaysia</li> <li>6. John Ronald S. Pineda - Assistant Vice President for Special Projects</li> <li>7. Ma. Aileen M. Cupido - Assistant Vice President for Business Planning and Development</li> <li>8. Francisco Rizal G. Bumagat, Jr. - Assistant Vice President for Petron Bataan Refinery Production B</li> <li>9. Lemuel C. Cuezon - Assistant Vice President for Market Planning, Research and Sales Information</li> </ol>
March 10, 2020	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. 2019 Financial Statements</li> <li>2. Cash dividend for common shareholders</li> <li>3. Cash dividends for Series 2 preferred shareholders</li> <li>4. Endorsement of the re-appointment of R.G. Manabat &amp; Co. as external auditor of the Company for year 2020</li> <li>7. Annual Stockholders' Meeting</li> </ol> <p style="margin-left: 40px;">Date : May 19, 2020, Tuesday  Time : 2:00 pm  Venue : Valle Verde Country Club, Pasig City  Record date : March 24, 2020  Closing of books: March 24-31, 2020</p> <p>The Company may conduct its Annual Stockholders' Meeting and have the voting through remote communication, in accordance with applicable law or regulation, in view of the corona virus 2019 health concerns.</p> <p>Media release on performance also submitted.</p>
March 13, 2020	<p>Filing of current report in compliance with the Notice of the Securities and Exchange Commission dated March 12, 2020 and the correspondence of the Philippine Stock Exchange dated March 13, 2020 requiring all publicly-listed companies to file current report under Section 17 of the Securities Regulation Code amid COVID-19 pandemic</p>



## Press Releases

The following press releases were made for year 2019 until the date of this Annual Report:

March 12, 2019	“Petron net income drops 50% on shrinking crude prices”
May 7, 2019	“Petron Corporation posts P124.6 Billion Consolidated Revenues for Q1 2019”
June 25, 2019	“Petron Lists P20 Billion Preferred Shares at Stock Exchange”
August 6, 2019	“Petron announces resumption of refinery operations in Bataan”
November 5, 2019	“Petron reports P3.6 billion net income in first nine months; continues to push for level playing field in the industry”
March 10, 2020	“PETRON HITS P2.3 BILLION NET INCOME IN FY 2019”

*[signature page follows on next page]*

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and of the Revised Corporation Code<sup>1</sup>, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, on May 15, 2020.




**RAMON S. ANG**  
President and Chief Executive Officer



**LUBIN B. NEFOMUCENO**  
General Manager



**EMMANUEL E. ERANA**  
Senior Vice President and Chief Finance Officer



**MYRNA C. GERONIMO**  
Vice President and Controller



**JOEL ANGELO C. CRUZ**  
Vice President - General Counsel  
& Corporate Secretary

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<sup>1</sup> And likewise pursuant to SEC Memorandum Circular No. 5 (Series of 2020), with subject “Extension of Filing of the 2019 Annual Reports including the Applicable Quarterly Reports for Year 2020 and 2019 Audited Financial Statements (AFS)” and SEC Memorandum Circular No. 10 (Series of 2020), with subject “Guidelines on Submission by Electronic Mail of GIS, AFS, Forms and Documents Required under Existing Laws, Rules and Regulations, and Recognition of Electronic Signature”

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ at Mandaluyong City, affiants exhibiting to me their Competent Evidence of Identity as follows:

Name	Passport Number	Date of Issue (mm-dd-yy)	Place of Issue
Ramon S. Ang	P2247867B	5-22-2019	DFA, Manila
Lubin B. Nepomuceno	EC7321524	4-6-2016	DFA, NCR East
Emmanuel E. Eraña	PO502156B	2-01-2019	DFA NCR East
Joel Angelo C. Cruz	P3018090A	5-13-2017	DFA, NCR East
Myrna C. Geronimo	P4725612A	10/14/2017	PE Kuala Lumpur

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of 2020.

# ANNEX A

## Public Ownership Report as of December 31, 2019



**PCOR**  
**PUBLIC OWNERSHIP REPORT**

**Report Date:** December 31, 2019

**Computation of Public Ownership**

Number of Issued Common Shares	9,375,104,497
Less: Number of Treasury Common Shares, if any	0
Number of Outstanding Common Shares	9,375,104,497

Less:

**A. Directors**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Eduardo M. Cojuangco, Jr.	1,000		1,000	0.0000%
Ramon S. Ang	1,000		1,000	0.0000%
Lubin B. Nepomuceno	5,000		5,000	0.0001%
Estelito P. Mendoza	1,000		1,000	0.0000%
Jose P. de Jesus	500	225,000	225,500	0.0024%
Ron W. Haddock	1		1	0.0000%
Mirzan Mahathir	1,000		1,000	0.0000%
Aurora T. Calderon	1,000		1,000	0.0000%
Virgilio S. Jacinto	1,000		1,000	0.0000%
Nelly Favis-Villafuerte	1,000		1,000	0.0000%
Horacio C. Ramos	500		500	0.0000%
Reynaldo G. David	1,000		1,000	0.0000%
Artemio V. Panganiban	1,000		1,000	0.0000%
Margarito B. Teves	500		500	0.0000%
Carlos Jericho L. Petilla	500		500	0.0000%

**B. Officers**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Emmanuel E. Erana			0	0.0000%
Freddie P. Yumang		73,600	73,600	0.0008%
Susan Y. Yu		791,600	791,600	0.0084%
Rowena O. Cortez	8,580		8,580	0.0001%
Archie B. Gupalor	3,000		3,000	0.0000%

Albertito S. Sarte		765,500	765,500	0.0082%
Joel Angelo C. Cruz			0	0.0000%
Jaime O. Lu		14,200	14,200	0.0002%
Rolando B. Salonga	845		845	0.0000%
Fernando S. Magnayon			0	0.0000%
Ma. Rosario D. Vergel de Dios			0	0.0000%

**C. Principal / Substantial Stockholders**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
SEA Refinery Corporation	4,696,885,564		4,696,885,564	50.10%
San Miguel Corporation	1,702,870,560		1,702,870,560	18.16%

**D. Affiliates**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Petron Corporation Employees' Retirement Fund (PCERP)	459,156,097		459,156,097	4.90%

**E. Government**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**F. Banks**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**G. Employees**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**Lock-Up Shares**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	8,198,397	0	8,198,397	0.0874%

**H.**

**I. Others**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

<b>Number of Listed Common Shares *</b>	9,375,104,497
<b>Total Number of Non-Public Shares</b>	6,869,008,944
<b>Total Number of Shares Owned by the Public</b>	2,506,095,553
<b>Public Ownership Percentage</b>	26.73%

\* As indicated in the PSE website

## **ANNEX B**

# **Public Ownership Report as of March 31, 2020**





**PCOR**  
**PUBLIC OWNERSHIP REPORT**

**Report Date:** March 31, 2020

**Computation of Public Ownership**

Number of Issued Common Shares	9,375,104,497
Less: Number of Treasury Common Shares, if any	0
Number of Outstanding Common Shares	9,375,104,497

**Less:**

**A. Directors**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Eduardo M. Cojuangco, Jr.	1,000		1,000	0.0000%
Ramon S. Ang	1,000		1,000	0.0000%
Lubin B. Nepomuceno	5,000		5,000	0.0001%
Estelito P. Mendoza	1,000		1,000	0.0000%
Jose P. de Jesus	500	225,000	225,500	0.0024%
Ron W. Haddock	1		1	0.0000%
Mirzan Mahathir	1,000		1,000	0.0000%
Aurora T. Calderon	1,000		1,000	0.0000%
Virgilio S. Jacinto	1,000		1,000	0.0000%
Nelly Favis-Villafuerte	1,000		1,000	0.0000%
Horacio C. Ramos	500		500	0.0000%
Reynaldo G. David	1,000		1,000	0.0000%
Artemio V. Panganiban	1,000		1,000	0.0000%
Margarito B. Teves	500		500	0.0000%
Carlos Jericho L. Petilla	500		500	0.0000%

**B. Officers**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Emmanuel E. Erana			0	0.0000%
Susan Y. Yu		791,600	791,600	0.0084%
Rowena O. Cortez	8,580		8,580	0.0001%
Archie B. Gupalor	3,000		3,000	0.0000%
Albertito S. Sarte		765,500	765,500	0.0082%

Joel Angelo C. Cruz			0	0.0000%
Jaime O. Lu		14,200	14,200	0.0002%
Rolando B. Salonga	845		845	0.0000%
Fernando S. Magnayon			0	0.0000%
Ma. Rosario D. Vergel de Dios			0	0.0000%
Magnolia Cecilia D. Uy			0	0.0000%
Myrna C. Geronimo			0	0.0000%
Allister J. Go	11,030	0	11,030	0.0001%
Reynaldo V. Velasco, Jr.	5,200	17,100	22,300	0.0002%

**C. Principal / Substantial Stockholders**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
SEA Refinery Corporation	4,696,885,564		4,696,885,564	50.10%
San Miguel Corporation	1,702,870,560		1,702,870,560	18.16%

**D. Affiliates**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Petron Corporation Employees' Retirement Fund (PCERP)	459,156,097		459,156,097	4.90%

**E. Government**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**F. Banks**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**G. Employees**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**Lock-Up Shares**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	8,311,056	0	8,311,056	0.0887%

H.

**I. Others**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

<b>Number of Listed Common Shares *</b>	9,375,104,497
<b>Total Number of Non-Public Shares</b>	6,869,081,333
<b>Total Number of Shares Owned by the Public</b>	2,506,023,164
<b>Public Ownership Percentage</b>	26.73%

\* As indicated in the PSE website

## **ANNEX C**

# **2019 Audited Financial Statements (Petron & Subsidiaries)**

# PETRON CORPORATION AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019, 2018 and 2017**

With Independent Auditors' Report



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Website home.kpmg/ph  
Email ph-inquiry@kpmg.com

## 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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, 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 (P514,362 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 16, Leases (Right-of-use Assets P5,509 million; Investment Property P7,263 million; Lease liability P15,749 million)*

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions*, Note 11, *Right-of-use Assets*, Note 12, *Investment Property* and Note 29, *Lease Commitments* to the consolidated financial statements.

*The risk*

The core principle of PFRS 16, that superseded PAS 17, is that an entity recognizes a right-of-use asset (ROU) and a lease liability. The volume of the Group's lease arrangements requiring significant data extraction resulting in one-off, complex adjustment could increase risk of audit differences on the affected account balances. There is also judgment involved in the assessment of lease contracts subject to the recognition of ROU and lease liability, specifically the incremental borrowing rate and the lease terms used.

*Our response*

We performed the following audit procedures, among others, on the adoption of PFRS 16:

- We evaluated the appropriateness of the accounting policies based on the requirements of PFRS 16, our business understanding and industry practice.
- We obtained understanding of the transition approach and any practical expedients applied.
- We evaluated the completeness, accuracy and relevance of data used in preparing the transition adjustment.
- We assessed the appropriateness of management's adoption of PFRS 16 by performing independent computation of right-of-use assets and lease liabilities recognized across a sample of contracts.
- We evaluated the reasonableness of management's key judgements and estimates made in preparing the transition adjustments, specifically the incremental borrowing rate by reference to the Group's bank lending rates adjusted with the Group's credit rating, and lease terms considering the economic incentives and renewal options in the lease contracts.
- We assessed the sufficiency and appropriateness of disclosures required by PFRS 16.





#### *Valuation of Inventories (P72,210 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 (P8,319 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 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, 2019, 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, 2019 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.**

A handwritten signature in black ink, appearing to read 'Darwin P. Virocel', with a long horizontal stroke extending to the left.

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. 08-001987-031-2019

Issued August 7, 2019; valid until August 6, 2022

PTR No. MKT 8116787

Issued January 2, 2020 at Makati City

March 10, 2020

Makati City, Metro Manila

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

		December 31	
	Note	2019	2018
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5, 34, 35	<b>P34,218</b>	P17,405
Financial assets at fair value	6, 14, 34, 35	<b>864</b>	1,126
Investments in debt instruments	7, 34, 35	<b>109</b>	40
Trade and other receivables - net	4, 8, 28, 34, 35	<b>44,657</b>	42,497
Inventories - net	4, 9	<b>72,210</b>	63,873
Other current assets	14, 28	<b>27,430</b>	37,081
<b>Total Current Assets</b>		<b>179,488</b>	162,022
<b>Noncurrent Assets</b>			
Investments in debt instruments	7, 34, 35	<b>311</b>	338
Property, plant and equipment - net	4, 10, 12, 37	<b>167,941</b>	163,984
Right-of-use assets - net	4, 11	<b>5,509</b>	-
Investment property - net	4, 10, 12	<b>29,935</b>	16,536
Deferred tax assets - net	4, 27	<b>262</b>	257
Goodwill - net	4, 13	<b>8,319</b>	8,532
Other noncurrent assets - net	4, 6, 14, 34, 35	<b>3,070</b>	6,485
<b>Total Noncurrent Assets</b>		<b>215,347</b>	196,132
		<b>P394,835</b>	P358,154
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	15, 33, 34, 35	<b>P71,090</b>	P82,997
Liabilities for crude oil and petroleum products	16, 28, 31, 34, 35	<b>39,362</b>	25,991
Trade and other payables	17, 28, 30, 33, 34, 35, 39	<b>28,741</b>	28,471
Lease liabilities - current portion	4, 31, 33, 34	<b>1,295</b>	-
Derivative liabilities	34, 35	<b>738</b>	614
Income tax payable		<b>267</b>	146
Current portion of long-term debt - net	18, 33, 34, 35	<b>16,881</b>	17,799
<b>Total Current Liabilities</b>		<b>158,374</b>	156,018
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	18, 33, 34, 35	<b>116,196</b>	100,201
Retirement benefits liability - net	30	<b>3,565</b>	2,433
Deferred tax liabilities - net	27	<b>6,348</b>	8,450
Lease liabilities - net of current portion	4, 31, 33, 34	<b>14,454</b>	-
Asset retirement obligation	4, 19	<b>1,720</b>	3,592
Other noncurrent liabilities	20, 34, 35	<b>1,748</b>	1,274
<b>Total Noncurrent Liabilities</b>		<b>144,031</b>	115,950
<b>Total Liabilities</b>		<b>302,405</b>	271,968

Forward

		<b>December 31</b>	
	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>	<b>21</b>		
Capital stock		<b>P9,485</b>	P9,485
Additional paid-in capital		<b>37,500</b>	19,653
Capital securities		<b>25,183</b>	24,881
Retained earnings		<b>45,510</b>	49,491
Equity reserves		<b>(16,899)</b>	(14,031)
Treasury stock		<b>(15,122)</b>	(10,000)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>85,657</b>	79,479
<b>Non-controlling Interests</b>	<b>13</b>	<b>6,773</b>	6,707
<b>Total Equity</b>		<b>92,430</b>	86,186
		<b>P394,835</b>	P358,154

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
(Amounts in Million Pesos, Except Per Share Data)

	<i>Note</i>	<b>2019</b>	2018	2017
<b>SALES</b>	28, 31, 37	<b>P514,362</b>	P557,386	P434,624
<b>COST OF GOODS SOLD</b>	22	<b>483,855</b>	522,824	391,969
<b>GROSS PROFIT</b>		<b>30,507</b>	34,562	42,655
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>	2, 23	<b>(15,815)</b>	(16,981)	(16,197)
<b>OTHER OPERATING INCOME</b>	2, 4, 29	<b>1,507</b>	1,340	1,180
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	26, 37	<b>(13,490)</b>	(9,689)	(8,487)
<b>INTEREST INCOME</b>	26, 37	<b>1,340</b>	706	535
<b>SHARE IN NET INCOME OF AN ASSOCIATE</b>	3	-	-	63
<b>OTHER INCOME (EXPENSES) - Net</b>	26	<b>(312)</b>	517	(907)
		<b>(26,770)</b>	(24,107)	(23,813)
<b>INCOME BEFORE INCOME TAX</b>		<b>3,737</b>	10,455	18,842
<b>INCOME TAX EXPENSE</b>	27, 36, 37	<b>1,434</b>	3,386	4,755
<b>NET INCOME</b>		<b>P2,303</b>	P7,069	P14,087
<b>Attributable to:</b>				
Equity holders of the Parent Company	32	<b>P1,701</b>	P6,218	P12,739
Non-controlling interests	13	<b>602</b>	851	1,348
		<b>P2,303</b>	P7,069	P14,087
<b>BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	32	<b>(P0.17)</b>	P0.28	P0.86

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
(Amounts in Million Pesos)

	<i>Note</i>	2019	2018	2017
<b>NET INCOME</b>		<b>P2,303</b>	P7,069	P14,087
<b>OTHER COMPREHENSIVE LOSS</b>				
<i>Items that will not be reclassified to profit or loss</i>				
Equity reserve for retirement plan	30	<b>(2,531)</b>	(1,133)	(1,142)
Share in other comprehensive income of an associate	3	-	-	3
Income tax benefit	27	<b>751</b>	339	346
		<b>(1,780)</b>	(794)	(793)
<i>Items that may be reclassified to profit or loss</i>				
Net loss on cash flow hedges	35	<b>(208)</b>	(110)	-
Exchange differences on translation of foreign operations		<b>(1,133)</b>	1,372	3,303
Unrealized fair value gains (losses) on investments in debt instruments at fair value through other comprehensive income	7	<b>15</b>	(10)	(4)
Share in other comprehensive loss of a joint venture		-	-	(1)
Income tax benefit	27	<b>58</b>	36	1
		<b>(1,268)</b>	1,288	3,299
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>		<b>(3,048)</b>	494	2,506
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax</b>		<b>(P745)</b>	P7,563	P16,593
<b>Attributable to:</b>				
Equity holders of the Parent Company		<b>(P1,167)</b>	P6,570	P14,772
Non-controlling interests		<b>422</b>	993	1,821
		<b>(P745)</b>	P7,563	P16,593

See Notes to the Consolidated Financial Statements.



**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
(Amounts in Million Pesos)

	Note	Equity Attributable to Equity Holders of the Parent Company									Non-controlling Interests	Total Equity	
		Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings		Equity Reserves			Treasury Stock			Total
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves					
<b>As of December 31, 2018</b>		<b>P9,485</b>	<b>P19,653</b>	<b>P24,881</b>	<b>P15,160</b>	<b>P34,331</b>	<b>(P2,940)</b>	<b>(P11,091)</b>	<b>(P10,000)</b>	<b>P79,479</b>	<b>P6,707</b>	<b>P86,186</b>	
Adjustment due to adoption of Philippine Financial Reporting Standard (PFRS) 16	3	-	-	-	-	(1,461)	-	-	-	(1,461)	(178)	(1,639)	
As of January 1, 2019, as adjusted		<b>9,485</b>	<b>19,653</b>	<b>24,881</b>	<b>15,160</b>	<b>32,870</b>	<b>(2,940)</b>	<b>(11,091)</b>	<b>(10,000)</b>	<b>78,018</b>	<b>6,529</b>	<b>84,547</b>	
Net loss on cash flow hedges - net of tax	35	-	-	-	-	-	-	(145)	-	(145)	-	(145)	
Unrealized fair value losses on investments in debt instruments		-	-	-	-	-	-	10	-	10	-	10	
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(969)	-	(969)	(164)	(1,133)	
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(1,764)	-	-	(1,764)	(16)	(1,780)	
Other comprehensive loss		-	-	-	-	-	(1,764)	(1,104)	-	(2,868)	(180)	(3,048)	
Net income for the year		-	-	-	-	1,701	-	-	-	1,701	602	2,303	
Total comprehensive income (loss) for the year						1,701	(1,764)	(1,104)	-	(1,167)	422	(745)	
Cash dividends	21	-	-	-	-	(2,515)	-	-	-	(2,515)	(178)	(2,693)	
Distributions paid	21	-	-	-	-	(1,697)	-	-	-	(1,697)	-	(1,697)	
Issuance of preferred shares	21	-	17,847	-	-	-	-	-	2,000	19,847	-	19,847	
Redemption of preferred shares	21	-	-	-	-	-	-	-	(7,122)	(7,122)	-	(7,122)	
Issuance of redeemable perpetual securities	21	-	-	302	-	-	-	-	-	302	-	302	
Reversal of retained earnings appropriation	21	-	-	-	(160)	160	-	-	-	-	-	-	
Share issuance cost	13	-	-	-	-	(9)	-	-	-	(9)	-	(9)	
Transactions with owners		-	17,847	302	(160)	(4,061)	-	-	(5,122)	8,806	(178)	8,628	
<b>As of December 31, 2019</b>		<b>P9,485</b>	<b>P37,500</b>	<b>P25,183</b>	<b>P15,000</b>	<b>P30,510</b>	<b>(P4,704)</b>	<b>(P12,195)</b>	<b>(P15,122)</b>	<b>P85,657</b>	<b>P6,773</b>	<b>P92,430</b>	

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company									Non-controlling Interests	Total Equity
		Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings		Equity Reserves			Total		
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
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
Adjustment due to adoption of PFRS 9		-	-	-	-	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		P9,485	P19,653	P24,881	P15,160	P34,331	(P2,940)	(P11,091)	(P10,000)	P79,479	P6,707	P86,186

Forward

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

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
(Amounts in Million Pesos)

	<i>Note</i>	<b>2019</b>	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>P3,737</b>	P10,455	P18,842
Adjustments for:				
Depreciation and amortization	25	<b>13,245</b>	11,543	10,979
Interest expense and other financing charges	26	<b>13,490</b>	9,689	8,487
Retirement benefits costs	30	<b>70</b>	523	508
Share in net loss of an associate	3	<b>-</b>	-	(63)
Interest income	26	<b>(1,340)</b>	(706)	(535)
Unrealized foreign exchange losses (gains) - net		<b>(2,573)</b>	2,484	(880)
Other losses (gains) - net		<b>139</b>	(1,738)	594
Operating income before working capital changes		<b>26,768</b>	32,250	37,932
Changes in noncash assets, certain current liabilities and others	33	<b>11,847</b>	(15,616)	(13,043)
Cash generated from operations		<b>38,615</b>	16,634	24,889
Contribution to retirement fund	30	<b>(940)</b>	(1,068)	(100)
Interest paid		<b>(12,722)</b>	(9,035)	(7,492)
Income taxes paid		<b>(949)</b>	(1,980)	(1,920)
Interest received		<b>1,358</b>	496	376
Net cash flows provided by operating activities		<b>25,362</b>	5,047	15,753
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	10	<b>(17,547)</b>	(10,416)	(13,142)
Proceeds from sale of property and equipment		<b>43</b>	58	1,195
Acquisition of investment property	12	<b>(2,466)</b>	(852)	-
Proceeds from sale of investment property		<b>116</b>	-	16
Increase in other noncurrent assets		<b>(582)</b>	(79)	(969)
Proceeds from disposal (acquisition) of:				
Investment in shares of stock of an associate		<b>-</b>	-	1,750
Investments in debt instruments		<b>(31)</b>	148	(61)
Net cash flows used in investing activities		<b>(20,467)</b>	(11,141)	(11,211)

*Forward*

	<b>Note</b>	<b>2019</b>	2018	2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from availment of loans	33	<b>P386,875</b>	P339,581	P298,669
Payments of:				
Loans	33	<b>(381,558)</b>	(312,564)	(298,199)
Lease liabilities	29, 33	<b>(1,128)</b>	-	-
Cash dividends and distributions	21, 33	<b>(4,100)</b>	(6,160)	(5,773)
Issuance of preferred shares	21	<b>19,847</b>	-	-
Redemption of preferred shares	21	<b>(7,122)</b>	-	-
Issuance of redeemable and senior perpetual capital securities	21	<b>302</b>	24,881	-
Redemption of undated subordinated capital securities	21	-	(39,769)	-
Acquisition of additional interest in a subsidiary	13	-	(20)	-
Increase in other noncurrent liabilities		-	-	588
Net cash flows provided by (used in) financing activities		<b>13,116</b>	5,949	(4,715)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		<b>(1,198)</b>	536	(145)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		<b>16,813</b>	391	(318)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
		<b>17,405</b>	17,014	17,332
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	5	<b>P34,218</b>	P17,405	P17,014

*See Notes to the Consolidated Financial Statements.*

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**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)

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**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.

On February 20, 2019, the President of the Philippines signed into law the Republic Act No. 11232 or the Revised Corporation Code of the Philippines (Revised Code). The Revised Code expressly repeals Batas Pambansa Blg. 68 or the Corporation Code of the Philippines. Section 11 of the Revised Code states that a corporation shall have perpetual existence unless the articles of incorporation provides otherwise. Corporations with certificates of incorporation issued prior to the effectivity of this Revised Code, and which continue to exist, shall have perpetual existence, unless the corporation, upon vote of its stockholders representing a majority of its outstanding capital stock, notifies the Commission that it elects to retain its specific corporate term pursuant to its articles of incorporation: Provided, that any change in the corporate term under this section is without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of this Revised Code. The Revised Code took effect on February 23, 2019.

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 approximately 699 service stations.

The Parent Company is a public company under Section 17.2 of Securities Regulation Code (SRC) and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). As of December 31, 2019, 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.

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## 2. Basis of Preparation

### Statement of Compliance

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

The consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on March 10, 2020.

### 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
	2019	2018	
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	85.55	Philippines
Petrofuel Logistics Inc. (PLI), formerly 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, 2019 and 2018, NVRC owns 100% of Las Lucas Construction and Development Corporation (LLCDC) which was merged with MRG Veloso Holdings, Inc. (MHI) as approved by the SEC on May 10, 2018 (Note 13), Parkville Estates & Development Corporation (PEDC), South Luzon Prime Holdings, Inc. (SLPHI), Abreco Realty Corporation (ARC) and 60% of Mariveles Landco Corporation (MLC).

On July 8, 2019, the BOD and stockholders of LEC approved the amendment of its Amended Articles of Incorporation (AOI) to reflect the change in Company's name to Petrofuel Logistics, Inc., change in the Company's primary purpose and the increase in capital stock. On September 27, 2019, the application for the amendment in AOI was approved by the SEC. The amended primary purpose of the Company is to engage in the business of providing logistics and freight forwarding services related to transportation, and/or storage of various goods and products and, to own and operate real or personal properties in relation to the business, and to engage in necessary and/or incidental business or activities.



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, 2019 and 2018, 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, 2019 and 2018, 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 consolidated statements of income 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 2019 and 2018.

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 consolidated statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income (OCI) to consolidated statements of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

#### Reclassification

Certain accounts have been reclassified to conform with the current year's presentation.

The effect of the reclassification on the consolidated statements of income for the years ended December 31, 2018 and 2017 are summarized below:

	Note	As Previously Presented	Reclassification	As Reclassified
2018				
Selling and administrative expenses	23	(P15,641)	(P1,340)	(P16,981)
Other operating income	4	-	1,340	1,340
2017				
Selling and administrative expenses	23	(15,017)	(1,180)	(16,197)
Other operating income	4	-	1,180	1,180

The reclassification did not have an effect on the consolidated statements of financial position as at December 31, 2018 and 2017, and on the consolidated income, consolidated total comprehensive income and cash flows for the years then ended.

### **3. Significant Accounting Policies**

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

#### Adoption of New and Amended Standards and Interpretation

The Group has adopted the following new standards, amendments to standards and interpretations starting January 1, 2019 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 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.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as of January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 8.043% as of January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Right-of-use assets and lease liabilities are presented separately in the consolidated statements of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property.

The impact of the adoption of PFRS 16 as of January 1, 2019 is as follows:

<b>ASSETS</b>	
Other current assets	(P973)
Property, plant and equipment - net	(2,465)
Investment property - net	10,667
Right-of-use assets - net	7,485
Other noncurrent assets - net	(2,549)
	<b>P12,165</b>
<b>LIABILITIES AND EQUITY</b>	
Trade and other payables	(P824)
Lease liabilities	15,399
Deferred tax liabilities - net	(771)
<b>Total Liabilities</b>	<b>13,804</b>
Retained earnings	(1,461)
Non-controlling interests	(178)
<b>Total Equity</b>	<b>(1,639)</b>
	<b>P12,165</b>

The operating lease commitments as of December 31, 2018 are reconciled as follows to the recognized lease liabilities as of January 1, 2019:

Operating lease commitments as of December 31, 2018	<b>P36,253</b>
Recognition exemption for short-term leases	(131)
Recognition exemption for low value assets	(32)
Extension and termination options reasonably certain to be exercised	225
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(20,916)
Lease liabilities recognized as at January 1, 2019	<b>P15,399</b>

- 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 chosen tax treatment. If it is not probable that the tax authority will accept the 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.

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9 Financial Instruments)*. The amendment covers 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.
  - (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 the consolidated statements of income.
- *Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28 Investments in Associates and Joint Ventures)*. The amendments require the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests (LTIs) that, in substance, form part of the entity's net investment in an associate or joint venture.

The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted 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.

- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. 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.
- *Annual Improvements to PFRSs 2015 - 2017 Cycle*. This cycle contains amendments to four 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.

- *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 consolidated statements of income, OCI or equity.
- *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 nonqualifying assets, are included in that general pool.

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

A number of new standards and amendments to standards and framework are effective for annual periods beginning after January 1, 2019 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 and framework on the respective effective dates:

#### *Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS, 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 new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - 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's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (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 Combination)*. The amendments narrowed and clarified the definition of a business. The amendments 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 permitted.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)*. The amendments 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 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 permitted.

- *Interest Rate Benchmark Reform (Amendments to PFRS 9 Financial Instruments, PAS 39 Financial Instruments: Recognition and Measurement and PFRS 7, Financial Instruments: Disclosures)*. The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:
  - *The Highly Probable Requirement*. When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
  - *Prospective Assessments*. When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.
  - *PAS 39 Retrospective Assessment*. An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.
  - *Separately Identifiable Risk Components*. For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows or the hedging relationship is discontinued. End of application does not apply to the test for separately identifiable risk components.

Specific disclosure requirements apply to hedging relationships affected by the amendments including information about the significant interest rate benchmarks, extent of risk exposure directly affected by the reform, how the entity manages the process to transition to alternative benchmark rates, significant assumptions and judgements made in applying the exceptions, and the nominal amount of the hedging instruments in those hedging relationships.

The amendments apply for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. This amendment is yet to be approved for local adoption by the FRSC.



*Effective January 1, 2023*

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, *Insurance Contracts*, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract, and considers 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 consolidated statements of income 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, 2023. 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 and PAS 28).* The amendments address an inconsistency in 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 Classifications

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 12 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 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 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 Instruments

*Recognition and Initial Measurement.* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

### Financial Assets

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

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- 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 employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For 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, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- 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.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

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 with the objective of holding 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.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the consolidated statements of income when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, noncurrent receivables and deposits, and restricted cash are included under this category.

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.

*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 other comprehensive income. This election is made on an instrument-by-instrument basis.

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 the consolidated statements of income. 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 the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the 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 the consolidated statements of income.

The Group's investments in equity and debt instruments at FVOCI 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 financial assets that are 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, the Group may irrevocably designate a financial asset 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 the consolidated statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the consolidated statements of income. 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 designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets that are not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category.

#### Financial Liabilities

The Group determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. 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 the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in OCI and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of “Interest expense and other financing charges” account in the consolidated statements of income.

The Group’s derivative liabilities that are not designated as cash flow hedge are classified under this category.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as 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 effective interest rate amortization is included in “Interest expense and other financing charges” account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

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.

The Group’s liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities 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 consolidated statements of income.

#### Impairment of Financial Assets

The Group recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost and investments in debt instruments at FVOCI.

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 ECLs, 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 ECLs, 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 ECLs 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 investment in debt securities at FVOCI are investments in debt instruments. 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 restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

- (e) the disappearance of an active market for that financial asset because of financial difficulties.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income. The ECLs on investments in debt instruments at FVOCI are recognized as accumulated impairment losses, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income.

#### 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.

#### 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 assets and settle the liabilities simultaneously.



### Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate 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. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the 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 presented in the "Hedging reserve" account in the consolidated statements of changes in equity. 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 recognized 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 consolidated statements of income 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 consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect consolidated statements of income.

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: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. 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.

The Group has outstanding derivatives accounted for as cash flow hedge as at December 31, 2019 and 2018 (Note 35).

*Embedded Derivatives.* The Group assesses 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 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.

However, an embedded derivative is not separated if the host contract is a financial asset.

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.

The Group has embedded derivatives as at December 31, 2019 and 2018 (Note 35).

#### 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. 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 the consolidated statements of income.

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 the consolidated statements of income. 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 the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance 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 the consolidated statements of income.

*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 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, *Operating Segments*.

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 at 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 the consolidated statements of income.

#### 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 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.

The Group recognized share in net income and OCI of an associate amounting to P63 and P3 in 2017, respectively.

### 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, 2019, the Group has capital commitments amounting to P1 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, if any.

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. 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, residual values, and depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such periods 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 when either 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 recognized in the consolidated statements of income in the period of retirement and disposal.

### Leases

#### *Policy Applicable from January 1, 2019*

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use:

- the Group has the right to obtain substantially all the economic benefits from use of the identified asset; and
- the Group has the right to direct the use of the identified asset.

### *Group as a Lessee*

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in the consolidated statements of income if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases (i.e., lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets, including pallets and computer equipment. The Group recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.



At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single component.

*Group as a Lessor*

The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of the assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the recognition exemption, it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies PFRS 15 to allocate the consideration in the contract.

The Group identified the use of loaned equipment related to the sale of goods to be accounted for under PFRS 16. 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 products and shall, at all times, remain the property of Petron. The Group allocates portion of the revenue to the use of loaned equipment and presented as part of "Net sales" in the consolidated statements of income 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.

The Group recognizes lease payments received under operating leases as rent income on a straight-line basis over the lease term.

*Policy Applicable before January 1, 2019*

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.

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

#### *Operating Lease*

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

*Group as a Lessor.* Leases where the Group does not transfer substantially all the risks and rewards 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.

#### Investment Property

Investment property consists of property 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, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. Cost also includes any related asset retirement obligation (ARO), if any. 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.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

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

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

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

Transfers are made to investment property when, and only when, there is an actual 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 an actual 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 or inventories, 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 at the date of acquisition. Subsequently, intangible assets are carried 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 the consolidated statements of income 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 period 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 estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

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

	Number of Years
Software	5 - 7
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 the consolidated statements of income when the asset is derecognized.

As of December 31, 2019 and 2018, 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, right-of-use assets, 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. Goodwill, licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. 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 to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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 the consolidated statements of income 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 the consolidated statements of income. 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. An impairment loss with respect to goodwill is not reversed.

#### Cylinder Deposits

The Group purchases LPG cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 80% to 85% of the acquisition cost of the cylinders.

The Group 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 the consolidated statements of income.

### Fair Value Measurements

The Group measures financial and non-financial assets and liabilities at fair value at each reporting date

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: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, 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 disclosures, 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.

### 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. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. 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.

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.

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.

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

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 the consolidated statements of income 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) and Redeemable Perpetual Securities (RPS)* are classified as equity instruments in the consolidated financial statements since these securities 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

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 transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

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 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:

- *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 over time 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.* The Group has Consumer Loyalty Programs which allows customers to accumulate points when they purchase products at participating service stations. These points can be redeemed for Group's products, rewards, discounts and other privileges from partner merchants. Revenue is allocated between the goods sold and the points issued that are expected to be redeemed. This allocation is based on the relative stand-alone selling price of the points. 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. The deferred liability is based on the best estimate of future redemption profile. All the estimates are reviewed on an annual basis or more frequently, where there is indication of a material change.

*Service Income.* Revenue is recognized over time 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.

Other sources of revenue are as follows:

*Interest Income.* Interest income is recognized using the effective interest method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset.

*Dividend Income.* Dividend income is recognized when the Group's right to receive the payment is established.

*Rent Income.* Rent income 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 terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

*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 decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

### 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.

Investment income earned on the temporary investment of specific borrowings pending expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

### Research and Development Costs

Research costs are expensed as incurred. 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 net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs;
- Net interest on the defined benefit retirement liability or asset;
- Remeasurements of defined benefit retirement liability or asset; and
- Settlement gain or loss, if any.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

Settlement gain or loss pertains to the difference between the present value of the defined benefit obligation being settled, as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement. Any gain or loss on settlement is recognized as income or expense in the consolidated statements of income.

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 initially recorded in the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and monetary liabilities denominated in foreign currencies are translated to the functional currency at exchange rate at the reporting date.

Non-monetary assets and non-monetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, 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, 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 the consolidated statements of income 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 share of stock of 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 the profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur 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.

Current tax relating to items recognized directly in equity is recognized in equity and not in consolidated statements of income. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

*Deferred Tax.* Deferred tax is recognized using the liability method 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 taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in shares of stock of 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 shares of stock of 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.

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

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.

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. Transactions between related parties are on an arm’s length basis in a manner similar to transactions with non-related parties.

#### 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.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

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 financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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## **4. Use of 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.

*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 consumer loyalty program and allocates the transaction price into these several performance obligations.

### *Leases Upon Adoption of PFRS 16*

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, *Determining whether an Arrangement contains a Lessee*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3.

On transition to PFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and IFRIC 4 were not reassessed for whether there is a lease under PFRS 16. Therefore, the definition of a lease under PFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

*Estimating the Incremental Borrowing Rate.* The Group cannot readily determine the interest rate implicit in its leases. Therefore, it uses the relevant incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) and to make adjustments to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific judgement estimates.

*Determining the Lease Term of Contracts with Renewal Options - Group as Lessee (Upon the Adoption of PFRS 16).* The Group determines the lease term as the noncancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.



The Group has several lease contracts that include extension options. At lease commencement date, the Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew the lease by considering all relevant factors that create an economic incentive for it to exercise the renewal option. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or change in circumstances within its control.

#### *Leases Prior to Adoption of PFRS 16*

*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).

*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 as "Other operating income" in the consolidated statements of income amounted to P1,507, P1,340 and P1,180 in 2019, 2018 and 2017, respectively. Rent income recognized as part of "Interest expense and other financing charges, Interest income and other income (expenses)" amounted to P63 in 2019, 2018 and 2017 (Note 26). Revenues from the customers' use of loaned equipment amounted to P1,099 and P1,117 in 2019 and 2018, respectively (Note 37).

Rent expense recognized in the consolidated statements of income amounted to P101, P1,806 and P1,702 in 2019, 2018 and 2017, respectively (Notes 22, 23 and 29).

*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.

*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, even before the Parent Company increased its equity interest in NVRC to 85.55% in 2018 (Note 13), management has determined that the Parent Company controls NVRC by virtue of its exposure and rights to variable returns from its involvement in NVRC and its ability to affect those returns through its power over NVRC.

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.

*Classification of Financial Instruments.* The Group exercises judgment in classifying financial instruments in accordance with PFRS 9. The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, 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 uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. 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, 2019 and 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 rentals 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.

*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 2019, 2018 and 2017, 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 is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits 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 pending claims and lawsuits 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 the 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 the Group's evaluation of relevant facts and circumstances as at 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 P294, P261 and P10 in 2019, 2018 and 2017, respectively (Notes 8, 23 and 26). Receivables written-off amounted to P375 in 2019, P68 in 2018 and P89 in 2017 (Note 8).

The carrying amount of trade and other receivables amounted to P44,657 and P42,497 as of December 31, 2019 and 2018, 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 also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty 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 additional provision for ECL on other financial assets at amortized cost was recognized in 2019 and 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	<b>Note</b>	<b>2019</b>	2018
Cash in banks and cash equivalents	5	<b>P32,049</b>	P14,143
Investments in debt instruments	7	<b>257</b>	226
Long-term receivables - net	14	-	253
Noncurrent deposits	14	<b>104</b>	94
		<b>P32,410</b>	P14,716

*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 P72,210 and P63,873 as of the end of 2019 and 2018, 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 amounting to P564 in 2019 while P742 in 2018 and nil in 2017 (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 2019, 2018 and 2017, the Group provided an additional loss on inventory obsolescence amounting to P31, nil and P81, respectively (Note 9).

*Fair Value Measurements.* A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 35.

*Estimated Useful Lives of Property, Plant and Equipment, Right-of-Use Asset, Investment Property and Intangible Assets with Finite Useful Lives.* The Group estimates the useful lives of property, plant and equipment, right-of-use asset, investment property and intangible assets with finite useful lives based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, right-of-use asset, investment property, intangible assets with finite useful lives 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, right-of-use asset, investment property, intangible assets with finite useful lives 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, right-of-use asset, investment property, intangible assets with finite useful lives 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, right-of-use asset, investment property, intangible assets with finite useful lives based on management's review at the reporting date.

Property, plant and equipment, net of accumulated depreciation, amounted to P167,941 and P163,984 as of December 31, 2019 and 2018, respectively. Accumulated depreciation and amortization of property, plant and equipment, amounted to P93,193 and P84,578 as of December 31, 2019 and 2018, respectively (Note 10).

Right-of-use assets, net of accumulated depreciation, amounted to P5,509 and nil as of December 31, 2019 and 2018, respectively. Accumulated depreciation of right-of-use asset amounted to P1,096 and nil at December 31, 2019 and 2018, respectively (Note 11).

Investment property, net of accumulated depreciation, amounted to P29,935 and P16,536 as of December 31, 2019 and 2018, respectively. Accumulated depreciation of investment property amounted to P14,099 and P9,857 at December 31, 2019 and 2018, respectively (Note 12).

Intangible assets with finite useful lives, net of accumulated amortization, amounted to P127 and P138 as of December 31, 2019 and 2018, respectively (Note 14). Accumulated amortization of Intangible assets with finite useful lives amounted to P651 and P665 at December 31, 2019 and 2018, respectively.

*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 P37,614 and P30,420, respectively as of December 31, 2019 and 2018 (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 2019 and 2018 and discount rates of 6.6% and 7.4% in 2019 and 2018, 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 2019, 2018 and 2017 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, 2019 and 2018.



*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 P262 and P257 as of December 31, 2019 and 2018, 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 the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group 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 the consolidated statements of income amounted to P196, P523 and P508 in 2019, 2018 and 2017, respectively. Remeasurement losses of the net defined retirement obligation recognized in OCI amounted to P2,531, P1,133 and P1,142 in 2019, 2018 and 2017, respectively. The retirement benefits liability amounted to P3,655 and P2,500 as of December 31, 2019 and 2018, 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, installing 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 4.17% to 8.00% depending on the life of the capitalized costs. The Group also conducts periodic review of the estimates of dismantling costs to consider actual expenses incurred during the actual retirement of assets and uses this as input in determining future liability. 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 P1,720 and P3,592 as of December 31, 2019 and 2018, respectively (Note 19).

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## 5. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	<b>2019</b>	2018
Cash on hand		<b>P2,169</b>	P3,262
Cash in banks		<b>5,193</b>	5,026
Short-term placements		<b>26,856</b>	9,117
	<i>34, 35</i>	<b>P34,218</b>	P17,405

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Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn annual interest at the respective short-term placement rates ranging from 0.13% to 6.25% in 2019, 0.20% to 7.00% in 2018 and 0.05% to 4.50% in 2017 (Note 26).

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## 6. Financial Assets at Fair Value

This account consists of:

	<i>Note</i>	<b>2019</b>	2018
Proprietary membership shares		<b>P284</b>	P254
Derivative assets not designated as cash flow hedge		<b>546</b>	857
Derivative assets designated as cash flow hedge		<b>200</b>	222
	<i>34, 35</i>	<b>1,030</b>	1,333
Less noncurrent portion	<i>14</i>	<b>166</b>	207
		<b>P864</b>	P1,126

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

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 the consolidated statements of income in 2019, 2018 and 2017 amounted to P30, P84 and P14, 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>	<b>2019</b>	2018
Government securities		<b>P227</b>	P196
Other debt instruments		<b>193</b>	182
	<i>34, 35</i>	<b>420</b>	378
Less current portion		<b>109</b>	40
		<b>P311</b>	P338

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 4.25% to 7.02% in 2019, 3.88% to 7.02% in 2018 and 2.13% to 5.30% in 2017 (Note 26).

The breakdown of investments in debt instruments by contractual maturity dates as of December 31 follows:

	<i>Note</i>	<b>2019</b>	2018
Due in one year or less		<b>P109</b>	P40
Due after one year through six years		<b>311</b>	338
	<i>34, 35</i>	<b>P420</b>	P378

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

	<i>Note</i>	<b>2019</b>	2018
Financial assets at amortized cost		<b>P257</b>	P226
Financial assets at FVOCI		<b>163</b>	152
	<i>34, 35</i>	<b>P420</b>	P378

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

	<i>Note</i>	<b>2019</b>	2018
<b>Financial Assets at FVOCI</b>			
Balance as of January 1		<b>P152</b>	P531
Reclassification to financial assets at amortized cost		-	(201)
Balance as of January 1, as adjusted		<b>152</b>	330
Disposals		-	(173)
Amortization of premium		<b>(4)</b>	(2)
Unrealized fair value gains (losses) on assets at FVOCI		<b>15</b>	(10)
Currency translation adjustment		-	7
Balance as of December 31		<b>163</b>	152

*Forward*

	<i>Note</i>	2019	2018
<b>Financial Assets at Amortized Cost</b>			
Balance as of January 1		<b>P226</b>	P -
Reclassification from AFS		-	201
Balance as of January 1, as adjusted		<b>226</b>	201
Additions		<b>71</b>	55
Disposal		<b>(40)</b>	(30)
Balance as of December 31		<b>257</b>	226
	34, 35	<b>P420</b>	P378

## 8. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2019	2018
Trade	34	<b>P35,009</b>	P27,136
Related parties - trade	28, 34	<b>1,126</b>	1,970
Allowance for impairment loss on trade receivables		<b>(759)</b>	(1,104)
		<b>35,376</b>	28,002
Government		<b>6,392</b>	10,456
Related parties - non-trade	28	<b>2,011</b>	2,435
Others		<b>1,061</b>	1,837
Allowance for impairment loss on non-trade receivables		<b>(183)</b>	(233)
		<b>9,281</b>	14,495
	34, 35	<b>P44,657</b>	P42,497

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 P1,500 and P4,714 as of December 31, 2019 and 2018, 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 2019 and 2018 is shown below:

	<b>Note</b>	<b>2019</b>	2018
Balance at beginning of year		<b>P1,410</b>	P1,211
Additions	23, 26	<b>294</b>	261
Write off	4	<b>(375)</b>	(68)
Currency translation adjustment		<b>(69)</b>	6
Balance at end of year		<b>1,260</b>	1,410
Less noncurrent portion for long-term receivables	14	<b>318</b>	73
		<b>P942</b>	P1,337

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.

Trade accounts receivable written-off amounting to P375 million and P68 million in 2019 and 2018, respectively, pertained to long outstanding, uncollectible accounts which were previously provided with allowance.

The following table provides information about the exposure to credit risk and ECL of trade and other receivables as of December 31, 2019 and 2018:

	<b>Weighted Average Loss Rate</b>	<b>Gross Carrying Amount</b>	<b>ECL</b>
<b>December 31, 2019</b>			
Retail	<b>1.65%</b>	<b>P5,766</b>	<b>P95</b>
Lubes	<b>0.18%</b>	<b>549</b>	<b>1</b>
Gasul	<b>5.33%</b>	<b>994</b>	<b>53</b>
Industrial	<b>1.56%</b>	<b>17,515</b>	<b>273</b>
Others	<b>2.50%</b>	<b>20,775</b>	<b>520</b>
		<b>P45,599</b>	<b>P942</b>
<b>December 31, 2018</b>			
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

## 9. Inventories

This account consists of:

	2019	2018
Petroleum	<b>P33,173</b>	P27,512
Crude oil and others	<b>29,626</b>	26,765
Materials and supplies	<b>5,688</b>	5,504
Lubes, greases and aftermarket specialties	<b>3,723</b>	4,092
	<b>P72,210</b>	P63,873

The cost of these inventories amounted to P73,314 and P65,124 as of December 31, 2019 and 2018, 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 increased by P1,374 and decreased by P942 as of December 31, 2019 and 2018, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P463,028, P498,117 and P369,695 in 2019, 2018 and 2017, respectively (Note 22).

Research and development costs on these products constituted the expenses incurred for internal projects in 2019, 2018 and 2017 (Note 23).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2019 and 2018 follow:

	Note	2019	2018
Balance at beginning of year		<b>P1,251</b>	P874
Additions:			
Loss on inventory obsolescence	4	<b>31</b>	-
Loss on inventory write-down	4	<b>564</b>	742
Reversals		<b>(742)</b>	(369)
Translation adjustment		-	4
Balance at end of year		<b>P1,104</b>	P1,251

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. Property, Plant and Equipment

The movements and balances of property, plant and equipment as of and for the years ended December 31 follow:

	Note	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
<b>Cost</b>								
January 1, 2018		P32,504	P185,304	P17,436	P4,951	P14,631	P7,429	P262,255
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	12	(15,244)	-	-	-	(10,207)	-	(25,451)
Currency translation adjustment		517	370	247	48	218	39	1,439
January 1, 2019, as previously reported		20,132	188,237	17,808	5,239	4,818	12,328	248,562
Adjustments due to adoption of PFRS 16		(918)	(1,816)	(176)	-	(262)	-	(3,172)
January 1, 2019, as adjusted		19,214	186,421	17,632	5,239	4,556	12,328	245,390
Additions		1,630	6,000	1,769	216	20	10,173	19,808
Disposals/reclassifications		3,099	183	121	243	1,237	(5,471)	(588)
Reclassification to investment property	12	(844)	-	-	-	(1,275)	-	(2,119)
Currency translation adjustment		(382)	(153)	(242)	(46)	(376)	(158)	(1,357)
<b>December 31, 2019</b>		<b>22,717</b>	<b>192,451</b>	<b>19,280</b>	<b>5,652</b>	<b>4,162</b>	<b>16,872</b>	<b>261,134</b>
<b>Accumulated Depreciation and Amortization</b>								
January 1, 2018		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	12	(8,083)	-	-	-	(1,060)	-	(9,143)
Currency translation adjustment		240	258	127	27	12	-	664
January 1, 2019, as previously reported		12,827	54,077	12,379	4,204	1,091	-	84,578
Adjustments due to adoption of PFRS 16		(450)	(193)	(63)	-	-	-	(706)
January 1, 2019, as adjusted		12,377	53,884	12,316	4,204	1,091	-	83,872
Additions		888	7,755	1,081	520	91	-	10,335
Disposals/reclassifications		(61)	(35)	(442)	(17)	(4)	-	(559)
Reclassification to investment property	12	126	-	-	-	(18)	-	108
Currency translation adjustment		(125)	(214)	(123)	(35)	(66)	-	(563)
<b>December 31, 2019</b>		<b>13,205</b>	<b>61,390</b>	<b>12,832</b>	<b>4,672</b>	<b>1,094</b>	<b>-</b>	<b>93,193</b>
<b>Carrying Amount</b>								
December 31, 2018		P7,305	P134,160	P5,429	P1,035	P3,727	P12,328	P163,984
<b>December 31, 2019</b>		<b>P9,512</b>	<b>P131,061</b>	<b>P6,448</b>	<b>P980</b>	<b>P3,068</b>	<b>P16,872</b>	<b>P167,941</b>

Asset retirement obligation reclassified from “Property, plant and equipment” to “Right-of-use assets” under “Investment property” account in the consolidated statements of financial position amounted to P2,466 as a result of the adoption of PFRS 16 on January 1, 2019.

In 2019, certain property, plant and equipment were reclassified to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party (Note 12).

In 2018, certain property, plant and equipment were reclassified to investment property to reflect the usage of the assets (Note 12). The reclassifications 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 impairment loss was required to be recognized in 2019, 2018 and 2017 based on management’s assessment of impairment indicators.

The Group capitalized interest amounting to P114 in 2019 (Notes 15, 18, 26 and 29). The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 3.41% to 8.19% in 2019. There are no unamortized capitalized borrowing costs as of December 31, 2019 and 2018, respectively.

#### Capital Commitments

As of December 31, 2019 and 2018, the Group has outstanding commitments to acquire property, plant and equipment amounting to P20,798 and P17,818, respectively.

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## 11. Right-of-use Assets

The movements in right-of-use assets as of December 31, 2019 are as follows

	Land	Buildings and Improvements and Related Facilities	Service Stations and Other Equipment	Total
<b>Cost</b>				
Adjustment due to adoption of PFRS 16	P7,076	P1,175	P24	P8,275
Additions	41	5	-	46
Disposals	(3)	-	-	(3)
Remeasurements	(1,538)	(123)	-	(1,661)
Currency translation adjustment	(50)	(2)	-	(52)
<b>December 31, 2019</b>	<b>5,526</b>	<b>1,055</b>	<b>24</b>	<b>6,605</b>
<b>Accumulated Depreciation</b>				
Adjustment due to adoption of PFRS 16	790	-	-	790
Disposals	(2)	-	-	(2)
Remeasurements	(433)	-	-	(433)
Additions	478	221	3	702
Currency translation adjustment	39	-	-	39
<b>December 31, 2019</b>	<b>872</b>	<b>221</b>	<b>3</b>	<b>1,096</b>
<b>Carrying Amount</b>				
<b>December 31, 2019</b>	<b>P4,654</b>	<b>P834</b>	<b>P21</b>	<b>P5,509</b>



The Group recognized right-of-use assets for leases of office space, buildings, machinery and equipment, service stations and parcels of land. The leases typically run for a period of 2 to 999 years. Some leases contain an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals. The renewal option provides operational flexibility in managing the leased asset portfolio and aligns the business needs of the Group.

With the adoption of PFRS 16 in 2019, property, plant and equipment pertaining to ARO of the refinery and terminals were reclassified to right-of-use assets (Note 10).

The Group recognized interest expense related to these leases amounting to P1,165 in 2019 (Note 29).

The Group also has certain leases of property and equipment with lease terms of 12 months or less and leases of equipment with low value. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases. The expenses relating to short-term leases, leases of low-value assets and variable lease payments that do not depend on an index or a rate amounted to P62, P32 and P7, respectively, in 2019.

The Group had total cash outflows for leases of P2,293 in 2019 (Note 29).

The remeasurements pertain mainly to the change in the estimated dismantling costs of ARO during the year (Note 4).

## 12. Investment Property

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

	Note	Land	Land and Leasehold Improvements	Buildings and Improvements	Right-of-use	Total
<b>Cost</b>						
January 1, 2018		P65	P -	P25	P -	P90
Additions		852	-	-	-	852
Reclassifications from property, plant and equipment	10	7,505	2,702	15,244	-	25,451
January 1, 2019, as previously reported		8,422	2,702	15,269	-	26,393
Adjustment due to adoption of PFRS 16		-	-	-	10,730	10,730
January 1, 2019, as adjusted		8,422	2,702	15,269	10,730	37,123
Additions		226	513	1,727	809	3,275
Adjustments/disposals		-	2,068	(70)	4	2,002
Reclassifications from property, plant and equipment	10	685	590	844	-	2,119
Currency translation adjustment		(80)	(197)	(208)	-	(485)
<b>December 31, 2019</b>		<b>9,253</b>	<b>5,676</b>	<b>17,562</b>	<b>11,543</b>	<b>44,034</b>
<b>Accumulated Depreciation</b>						
January 1, 2018		-	-	15	-	15
Depreciation		-	58	641	-	699
Reclassifications from property, plant and equipment	10	-	1,060	8,083	-	9,143
January 1, 2019, as previously reported		-	1,118	8,739	-	9,857

Forward

	Note	Land	Land and Leasehold Improvements	Buildings and Improvements	Right-of-use	Total
Adjustment due to adoption of PFRS 16		P -	P -	P -	P63	P63
January 1, 2019, as adjusted		-	1,118	8,739	63	9,920
Adjustments/disposals		-	2,736	(65)	-	2,671
Depreciation		-	320	627	936	1,883
Reclassifications from property, plant and equipment	10	-	18	(126)	-	(108)
Currency translation adjustment		-	(70)	(197)	-	(267)
<b>December 31, 2019</b>		-	<b>4,122</b>	<b>8,978</b>	<b>999</b>	<b>14,099</b>
<b>Carrying Amount</b>						
December 31, 2018		P8,422	P1,584	P6,530	P -	P16,536
<b>December 31, 2019</b>		<b>P9,253</b>	<b>P1,554</b>	<b>P8,584</b>	<b>P10,544</b>	<b>P29,935</b>

With the adoption of PFRS 16 in 2019, property, plant and equipment pertaining to ARO of the service stations were reclassified to right-of-use assets over service stations and other related structures held by the Group for lease (Note 29).

In 2019, property, plant and equipment were reclassified to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party (Note 10).

In 2018, the Group's investment property includes land, leasehold improvements, buildings and related improvements and facilities leased out for its service stations which were reclassified from property, plant and equipment to reflect the usage of the assets (Note 10).

The Group's investment property also includes a property located in Tagaytay with carrying amount of P8 and P10 as of December 31, 2019 and 2018, respectively.

No impairment loss was required to be recognized in 2019, 2018 and 2017 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 2019, 2018 and 2017.

The fair value of investment property amounting to P37,614 and P30,420 as of December 31, 2019 and 2018, respectively has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques.

For properties with available appraisal reports, the fair value of investment property amounting to P21,359 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. The fair value of investment property amounting to P4,944 was determined by using the depreciated replacement cost method. The net present value of lease liability recognized in investment property represents the remaining fair value amounting to P11,311.

### 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.

*Income Approach.* The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the remaining lease payments of the property is determined first, and then proper capitalization rate is applied to arrive at its net present value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment.

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

### Investment in Shares of Stock of Subsidiaries

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

#### *a. 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 .

LLCDC issued 496,538 common shares to NVRC and accordingly, the NVRC's investment in MHI was transferred to LLCDC. LLCDC is 100% owned by NVRC before and after the merger.

b. *NVRC*

On December 17, 2018, SEC approved the increase in authorized capital stock of NVRC. On the same date, 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).

As of December 31, 2019 and 2018, the Parent Company owns 85.55% of NVRC.

c. *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.

On September 10, 2019 and December 16, 2019, the Parent Company subscribed to additional 31,250 and 93,750 common shares, respectively, of Petrogen at P1,000.00 per share for a total consideration of P125, pursuant to the increase in the capital stock of Petrogen which was approved by the SEC on November 4, 2019.

As at December 31, 2019 and 2018, the Parent Company's ownership interest remains at 100% after the above transactions.

d. *PLI (formerly LEC)*

On July 10, 2019 and September 30, 2019, the Parent Company acquired additional 500,000 and 1,500,000 common shares, respectively, of PLI at P100.00 per share for a total consideration of P200.

Goodwill

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

	<b>2019</b>	2018
<b>Cost</b>		
Balance at beginning of year	<b>P8,532</b>	P8,277
Translation adjustments	<b>(213)</b>	255
<b>Net carrying amount at end of year</b>	<b>P8,319</b>	P8,532

### 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, 2019 and 2018, 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 6.6% in 2019 and 7.4% in 2018 was applied based on the weighted average cost of capital using the Capital Asset Pricing Model (CAPM).
- Terminal growth rate of 3.0% in 2019 and 2018 was applied as the POGI 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 2019 and 2018 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 2019, 2018 and 2017 in relation to the goodwill arising from the acquisition of Petron Malaysia.

### 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, 2019		December 31, 2018	
	NVRC	PMRMB	NVRC	PMRMB
<b>Non-controlling Interests Percentage</b>	<b>14.45%</b>	<b>26.60%</b>	14.45%	26.60%
<b>Carrying amount of non-controlling interest</b>	<b>P440</b>	<b>P6,333</b>	P605	P6,102
Current assets	<b>P376</b>	<b>P16,038</b>	P433	P23,694
Noncurrent assets	<b>9,524</b>	<b>23,211</b>	6,297	16,000
Current liabilities	<b>(363)</b>	<b>(14,955)</b>	(251)	(16,754)
Noncurrent liabilities	<b>(4,829)</b>	<b>(2,249)</b>	(2,156)	(1,812)
<b>Net assets</b>	<b>P4,708</b>	<b>P22,045</b>	P4,323	P21,128
<b>Net income attributable to non-controlling interests</b>	<b>P9</b>	<b>P593</b>	P58	P793
<b>Other comprehensive income attributable to non-controlling interests</b>	<b>P -</b>	<b>(P180)</b>	P -	P142

Forward

	December 31, 2019		December 31, 2018	
	NVRC	PMRMB	NVRC	PMRMB
<b>Sales</b>	<b>P406</b>	<b>P143,205</b>	P685	P157,380
Net income	<b>P140</b>	<b>P2,193</b>	P97	P2,979
Other comprehensive income (loss)	-	<b>(60)</b>	-	5
<b>Total comprehensive income</b>	<b>P140</b>	<b>P2,133</b>	P97	P2,984
Cash flows provided by (used in) operating activities	<b>P150</b>	<b>P12,328</b>	P353	(P818)
Cash flows used in investing activities	<b>(106)</b>	<b>(8,271)</b>	(852)	(2,940)
Cash flows provided by (used in) financing activities	<b>(101)</b>	<b>(3,919)</b>	607	4,083
Effects of exchange rate changes on cash and cash equivalents	-	-	-	2
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(P57)</b>	<b>P138</b>	P108	P327

#### 14. Other Assets

This account consists of:

	Note	2019	2018
<b>Current</b>			
Prepaid taxes		<b>P17,703</b>	P16,664
Input VAT		<b>7,986</b>	17,562
Prepaid expenses	28	<b>1,417</b>	1,477
Special-purpose fund		<b>157</b>	154
Asset held for sale		-	9
Tax recoverable		-	145
Others - net		<b>167</b>	1,070
		<b>P27,430</b>	P37,081
<b>Noncurrent</b>			
Input VAT		<b>P1,061</b>	P1,507
Catalyst - net		<b>683</b>	437
Prepaid rent		<b>212</b>	3,038
Derivative assets designated as cash flow hedge	6, 34, 35	<b>166</b>	207
Noncurrent deposits	34, 35	<b>104</b>	94
Intangibles - net	4	<b>127</b>	138
Long-term receivables - net	34, 35	-	253
Others - net		<b>717</b>	811
		<b>P3,070</b>	P6,485

The "Others - net" under "Noncurrent" account includes marketing assistance to dealers and other prepayments amounting to P594, P777 and P532 as of December 31, 2019, 2018 and 2017, respectively, net of amortization amounting to P154, P236 and P229 in 2019, 2018 and 2017, respectively.

The amortization of prepaid rent amounted to nil, P245 and P195 in 2019, 2018 and 2017, respectively.

Amortization of intangibles, marketing assistance to dealers, other prepayments included as part of “Depreciation and amortization” under “Selling and administrative expenses” account in the consolidated statements of income amounted to P83, P97 and P138 in 2019, 2018 and 2017, respectively (Notes 23 and 25).

Amortization of catalyst, intangibles and other prepayments included as part of “Depreciation and amortization” under “Cost of goods sold” account in the consolidated statements of income amounted to P242, P584 and P684 in 2019, 2018 and 2017, respectively (Notes 22 and 25).

Asset held for sale represents the remaining 1,000 shares of Manila North Harbour Port, Inc. (MNHPI) with minimal carrying amount as of December 31, 2019. In 2019, 50,000 shares representing 0.17% interest was sold to a related party (Note 28).

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### 15. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 1 to 181 days and annual interest ranging from 2.30% to 8.50% in 2019, 2.65% to 7.00% in 2018 and 2.35% to 6.02% in 2017 (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 P4,065 in 2019, P3,165 in 2018 and P2,323 in 2017 (Note 26). Interest expense amounting to P33 was capitalized as part of property, plant and equipment in 2019 while nil in 2018 and 2017 (Note 10).

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### 16. Liabilities for Crude Oil and Petroleum Products

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

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

	<i>Note</i>	<b>2019</b>	2018
Third parties		<b>P39,361</b>	P25,908
Related parties	28	<b>1</b>	83
	34, 35	<b>P39,362</b>	P25,991

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## 17. Trade and Other Payables

This account consists of:

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Trade		<b>P20,533</b>	P19,856
Specific taxes and other taxes payable		<b>2,821</b>	3,262
Due to related parties	28	<b>1,009</b>	831
Deferred liability on consumer loyalty program		<b>867</b>	1,183
Accrued interest		<b>833</b>	917
Insurance liabilities		<b>739</b>	58
Retention payable		<b>719</b>	845
Dividends payable	33	<b>496</b>	206
Accrued rent		<b>288</b>	833
Retirement benefits liability	30	<b>90</b>	67
Accrued payroll		<b>24</b>	52
Others	39	<b>322</b>	361
	<b>34, 35</b>	<b>P28,741</b>	P28,471

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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.

The Group recognized revenue that was included in the deferred liability on consumer loyalty program amounting to P2,017 and P918 in 2019 and 2018, respectively (Note 37).

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## 18. Long-term Debt

This account consists of long-term debt of Parent Company:

	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Unsecured Peso-Denominated (net of debt issue costs)</b>			
Fixed rate corporate notes of 6.3212% due until 2018 and 7.1827% due until 2021	(a)	<b>P -</b>	P2,696
Term loan of 5.4583% due until 2022	(b)	<b>2,995</b>	3,991
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	(c)	<b>19,906</b>	19,870
Term loan of 5.5276% due quarterly until 2024	(e)	<b>10,136</b>	12,259
Term loan of 5.7584% due until 2022	(f)	<b>7,479</b>	9,965
Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025	(g)	<b>19,799</b>	19,768

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Forward



	<i>Note</i>	2019	2018
<b>Unsecured Foreign Currency-Denominated (net of debt issue costs)</b>			
Floating rate dollar loan - US\$1,000 million due until 2022	<i>(d)</i>	<b>P32,854</b>	P49,451
Floating rate dollar loan - US\$800 million due until 2024	<i>(h)</i>	<b>39,908</b>	-
	33, 34, 35	<b>133,077</b>	118,000
Less current portion		<b>16,881</b>	17,799
		<b>P116,196</b>	P100,201

- 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. The outstanding balances of Series A and B notes were paid in full on October 28, 2018 and 2019, respectively.
- 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 2019 and 2018, the Parent Company settled matured interim principal payments aggregating to P1,000 each year.
- 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. The Parent Company made partial principal payments of US\$177 million and US\$118 million in 2019 and of US\$30 million and US\$20 million in 2018 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 in 2016. As of December 31, 2019, the P4,821 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. In 2019, the P2,500 portion of the facility has already been paid.
- 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.
- h. On May 10, 2019, the Parent Company signed and executed a US\$800 million term loan facility. Initial drawdown of US\$300 million was made on May 15, 2019, the proceeds of which were used to refinance the Parent Company's existing dollar-denominated bilateral short-term loans. On May 31, 2019, the Parent Company drew an additional US\$236 million from the facility to partially prepay its US\$1,000 million term loan facility. Finally, the remaining balance of US\$264 million was drawn on July 10, 2019 to refinance various peso-denominated short-term loans and for general corporate purposes. The facility is amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning May 15, 2021. The facility is subject to a floating interest rate based on LIBOR plus a spread, repriced every 1, 3 or 6 months.

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, 2019 and 2018, 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 P6,893, P5,198 and P5,140 for the years ended 2019, 2018 and 2017, respectively (Note 26). Interest amounting to P21 was capitalized in 2019 (Note 10).

Movements in debt issue costs follow:

	<i>Note</i>	<b>2019</b>	2018
Balance at beginning of year		<b>P979</b>	P1,073
Additions		<b>710</b>	237
Amortization for the year	26	<b>(449)</b>	(331)
Balance at end of year		<b>P1,240</b>	P979

#### Repayment Schedule

As of December 31, 2019 and 2018, the annual maturities of long-term debt are as follows (Note 34):

#### 2019

<b>Year</b>	<b>Gross Amount</b>	<b>Debt Issue Costs</b>	<b>Net</b>
2020	<b>P17,072</b>	<b>P191</b>	<b>P16,881</b>
2021	<b>44,684</b>	<b>557</b>	<b>44,127</b>
2022	<b>24,450</b>	<b>161</b>	<b>24,289</b>
2023	<b>20,717</b>	<b>117</b>	<b>20,600</b>
2024	<b>20,594</b>	<b>144</b>	<b>20,450</b>
2025 and beyond	<b>6,800</b>	<b>70</b>	<b>6,730</b>
	<b>P134,317</b>	<b>P1,240</b>	<b>P133,077</b>

#### 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

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

Movements in the ARO are as follows:

	<i>Note</i>	<b>2019</b>	2018
Balance at beginning of year		<b>P3,592</b>	P2,681
Additions		<b>11</b>	40
Accretion for the year	26	<b>98</b>	189
Effect of change in lease term		-	295
Effect of change in estimates	4	<b>(1,187)</b>	-
Effect of change in discount rate		<b>(789)</b>	404
Settlement		<b>(5)</b>	(17)
Balance at end of year		<b>P1,720</b>	P3,592

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## 20. Other Noncurrent Liabilities

This account consists of:

	<i>Note</i>	<b>2019</b>	2018
Cylinder deposits		<b>P608</b>	P573
Cash bonds		<b>750</b>	434
Derivative liabilities designated as cash flow hedge		<b>337</b>	188
Others		<b>53</b>	79
	<b>34, 35</b>	<b>P1,748</b>	P1,274

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

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## 21. Equity

### a. Capital Stock

#### Common Shares

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Parent Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2019 and 2018, the Parent Company had 145,194 and 143,272 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.

On May 31, 2019, the SEC issued a permit for the Parent Company's public offering and sale of 15,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 5,000,000 preferred shares (collectively, the "Series 3 Preferred Shares") at an issue price of P1,000.00 per share.

On June 25, 2019, the Parent Company issued and listed on the PSE 20,000,000 Series 3 Preferred Shares. The net proceeds from the issuance were used for the repayment of the Parent Company's outstanding short-term loans and for general corporate purposes while the remaining balance was allocated for the redemption of the Series 2A Preferred Shares in November 2019.

The Series 3 Preferred Shares were issued in two (2) sub-series: (i) 13,403,000 Series 3A Preferred Shares with dividend rate of 6.8713% per annum and first optional redemption date on its 5.5th anniversary from the issuance date; and (ii) 6,597,000 Series 3B Preferred Shares with dividend rate of 7.1383% per annum and first optional redemption date on its 7th anniversary from the issuance date. Cash dividends are payable quarterly on March 25, June 25, September 25 and December 25 of each year, as and if declared by the Parent Company's BOD. Proceeds from issuance in excess of par value less related transaction costs amounting to P17,847 was recognized as additional paid-in capital.

On November 4, 2019, the Parent Company redeemed its 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. The redemption was approved by the Parent Company's BOD on March 12, 2019.

As of December 31, 2019 and 2018, the Parent Company had 22,877,680 and 10,000,000 (P1 par value) issued and outstanding preferred shares, respectively. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2019 and 2018 are as follows:

	<b>2019</b>	2018
Series 2A Preferred Shares	-	47
Series 2B Preferred Shares	<b>30</b>	30
Series 3A Preferred Shares	<b>8</b>	-
Series 3B Preferred Shares	<b>25</b>	-
	<b>63</b>	<b>77</b>

b. Retained Earnings

Declaration of Cash Dividends

On various dates in 2017, 2018 and 2019, the Parent Company's BOD approved the declaration of cash dividends for common and preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
<b>2017</b>				
Common	P0.10000	March 14, 2017	March 28, 2017	April 12, 2017
Series 2A	15.75000	March 14, 2017	April 12, 2017	May 3, 2017
Series 2B	17.14575	March 14, 2017	April 12, 2017	May 3, 2017
Series 2A	15.75000	March 14, 2017	July 18, 2017	August 3, 2017
Series 2B	17.14575	March 14, 2017	July 18, 2017	August 3, 2017
Series 2A	15.75000	August 8, 2017	October 16, 2017	November 3, 2017
Series 2B	17.14575	August 8, 2017	October 16, 2017	November 3, 2017
Series 2A	15.75000	August 8, 2017	January 16, 2018	February 5, 2018
Series 2B	17.14575	August 8, 2017	January 16, 2018	February 5, 2018
<b>2018</b>				
Common	P0.15000	March 13, 2018	March 27, 2018	April 18, 2018
Series 2A	15.75000	March 13, 2018	April 12, 2018	May 3, 2018
Series 2B	17.14575	March 13, 2018	April 12, 2018	May 3, 2018
Series 2A	15.75000	March 13, 2018	July 16, 2018	August 3, 2018
Series 2B	17.14575	March 13, 2018	July 16, 2018	August 3, 2018
Series 2A	15.75000	August 7, 2018	October 10, 2018	November 5, 2018
Series 2B	17.14575	August 7, 2018	October 10, 2018	November 5, 2018
Series 2A	15.75000	August 7, 2018	January 11, 2019	February 4, 2019
Series 2B	17.14575	August 7, 2018	January 11, 2019	February 4, 2019
<b>2019</b>				
<b>Common</b>	P0.10000	March 12, 2019	March 27, 2019	April 11, 2019
<b>Series 2A</b>	15.75000	March 12, 2019	April 4, 2019	May 3, 2019
<b>Series 2B</b>	17.14575	March 12, 2019	April 4, 2019	May 3, 2019
<b>Series 2A</b>	15.75000	March 12, 2019	July 12, 2019	August 5, 2019
<b>Series 2B</b>	17.14575	March 12, 2019	July 12, 2019	August 5, 2019
<b>Series 2A</b>	15.75000	August 6, 2019	October 11, 2019	November 4, 2019
<b>Series 2B</b>	17.14575	August 6, 2019	October 11, 2019	November 4, 2019
<b>Series 3A</b>	17.17825	August 6, 2019	September 2, 2019	September 25, 2019
<b>Series 3B</b>	17.84575	August 6, 2019	September 2, 2019	September 25, 2019
<b>Series 3A</b>	17.17825	November 5, 2019	December 2, 2019	December 26, 2019
<b>Series 3B</b>	17.84575	November 5, 2019	December 2, 2019	December 26, 2019
<b>Series 2B</b>	17.14575	November 5, 2019	January 14, 2020	February 3, 2020
<b>Series 3A</b>	17.17825	November 5, 2019	March 2, 2020	March 25, 2020
<b>Series 3B</b>	17.84575	November 5, 2019	March 2, 2020	March 25, 2020

Total cash dividends declared by the Parent Company amounted to P2,515 in 2019, P2,052 in 2018 and P1,584 in 2017.

#### 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.

On October 16, 2019, the BOD of NVRC authorized and approved the reversal of P400 appropriation following a change in the property acquisition plans of NVRC.

The appropriated retained earnings attributable to the equity holders of the Parent Company as of December 31, 2019 and 2018 amounted to P15,000 and P15,160, respectively.

- c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint ventures and an associate amounting to P28,791, P26,800 and P20,539 as of December 31, 2019, 2018 and 2017, 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:

	2019	2018	2017
<b>Balance at beginning of year</b>	<b>(P11,091)</b>	(P3,025)	(P5,859)
Net loss on cash flow hedges, net of tax	<b>(145)</b>	(77)	-
Changes in fair value of investment in debt instruments	<b>10</b>	(8)	(3)
Cumulative translation adjustment	<b>(969)</b>	1,231	2,838
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	-
<b>Balance at end of year</b>	<b>(P12,195)</b>	(P11,091)	(P3,025)

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 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.

Payments of distributions pertaining to SPCS were made on the following dates: July 17, 2019 (P838), January 17, 2019 (P859) and July 19, 2018 (P878).

g. RPS

On November 27, 2019, the Parent Company issued US\$6 million RPS to be used for capital expenditures requirements.

Holders of the RPS are conferred a right to receive distributions on a quarterly basis, every February 27, May 27, August 27 and November 27, at the rate of 4.0% per annum. The Parent Company has a right to defer the distribution under certain conditions.

The RPS have no fixed redemption date and are redeemable in whole, or in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at the Parent Company's option on any distribution payment date after 90 days from Issuance Date.

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## 22. Cost of Goods Sold

This account consists of:

	<i>Note</i>	<b>2019</b>	2018	2017
Inventories	9	<b>P463,028</b>	P498,117	P369,695
Depreciation and amortization	25	<b>8,430</b>	8,277	8,043
Materials and supplies		<b>4,099</b>	5,498	4,873
Purchased services and utilities		<b>2,101</b>	2,211	2,339
Personnel expenses	24	<b>1,771</b>	1,979	1,925
Others	29, 31	<b>4,426</b>	6,742	5,094
		<b>P483,855</b>	P522,824	P391,969

Distribution or transshipment costs included as part of inventories amounted to P11,380, P10,076 and P10,438 in 2019, 2018 and 2017, respectively.

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

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### 23. Selling and Administrative Expenses

This account consists of:

	<i>Note</i>	<b>2019</b>	2018	2017
Depreciation and amortization	25	<b>P4,815</b>	P3,266	P2,936
Purchased services and utilities		<b>4,597</b>	4,457	3,762
Personnel expenses	24	<b>3,318</b>	4,092	4,021
Maintenance and repairs		<b>1,342</b>	1,285	1,276
Advertising		<b>696</b>	746	1,524
Materials and office supplies		<b>528</b>	605	546
Taxes and licenses		<b>360</b>	368	342
Rent	2, 29	<b>38</b>	1,753	1,644
Impairment losses on trade and other receivables	4, 8	<b>35</b>	261	10
Others	9	<b>86</b>	148	136
		<b>P15,815</b>	P16,981	P16,197

Selling and administrative expenses include research and development costs amounting to P76, P86 and P65 in 2019, 2018 and 2017, respectively (Note 9).

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### 24. Personnel Expenses

This account consists of:

	<i>Note</i>	<b>2019</b>	2018	2017
Salaries, wages and other employee costs	28	<b>P4,919</b>	P5,446	P5,345
Retirement benefits costs - defined benefit plan	28, 30	<b>70</b>	523	508
Retirement benefits costs - defined contribution plan	28	<b>100</b>	102	93
		<b>P5,089</b>	P6,071	P5,946

The above amounts are distributed as follows:

	<i>Note</i>	<b>2019</b>	2018	2017
Costs of goods sold	22	<b>P1,771</b>	P1,979	P1,925
Selling and administrative expenses	23	<b>3,318</b>	4,092	4,021
		<b>P5,089</b>	P6,071	P5,946

## 25. Depreciation and Amortization

This account consists of:

	<i>Note</i>	<b>2019</b>	2018	2017
Cost of goods sold:				
Property, plant and equipment	10	<b>P8,081</b>	P7,693	P7,359
Right-of-use assets	11	<b>107</b>	-	-
Other assets	14	<b>242</b>	584	684
	22	<b>8,430</b>	8,277	8,043
Selling and administrative expenses:				
Property, plant and equipment	10	<b>2,254</b>	2,225	2,602
Right-of-use assets	11	<b>595</b>	-	-
Investment property	12	<b>1,883</b>	699	1
Intangible assets and others	14	<b>83</b>	342	333
	23	<b>4,815</b>	3,266	2,936
	37	<b>P13,245</b>	P11,543	P10,979

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

This account consists of:

	<i>Note</i>	<b>2019</b>	2018	2017
Interest expense and other financing charges:				
Long-term debt	18	<b>P6,423</b>	P4,867	P4,320
Short-term loans	15	<b>4,032</b>	3,165	2,323
Bank charges		<b>920</b>	1,133	839
Amortization of debt issue costs	18	<b>449</b>	331	820
Accretion on ARO	19	<b>98</b>	189	182
Accretion on lease liability	29	<b>1,165</b>	-	-
Product borrowings		<b>65</b>	-	-
Defined benefit obligation	30	<b>335</b>	-	-
Others		<b>3</b>	4	3
	37	<b>P13,490</b>	P9,689	P8,487
Interest income:				
Advances to related parties	28	<b>P113</b>	P212	P211
Short-term placements	5	<b>953</b>	416	236
Investments in debt instruments	7	<b>18</b>	24	22
Trade receivables	8	<b>40</b>	47	49
Cash in banks	5	<b>7</b>	7	16
Plan assets	30	<b>209</b>	-	-
Others		<b>-</b>	-	1
	37	<b>P1,340</b>	P706	P535

Forward

	<b>Note</b>	<b>2019</b>	2018	2017
Other income (expenses) - net:				
Foreign currency gains (losses) - net	34	<b>P2,609</b>	(P3,476)	P1,192
Changes in fair value of financial assets at FVPL	6	<b>30</b>	84	14
Hedging gains (losses) - net		<b>(1,783)</b>	218	(373)
Marked-to-market gains (losses) - net	35	<b>(1,926)</b>	4,326	(1,692)
Others - net		<b>758</b>	(635)	(48)
		<b>(P312)</b>	P517	(P907)

The Group recognized its share in the net income (loss) of PDSI amounting to P0.12, (P1) and P2 in 2019, 2018 and 2017, respectively, and its share in the net income of TBSB amounting to P1.69 in 2019, and P4 both in 2018 and 2017. These were recorded as part of "Others - net" under "Other income (expenses) - net" account in the consolidated statements of income. Bank charges amounting to P2 was capitalized as part of property, plant and equipment in 2019 while nil in 2018 and 2017 (Note 10).

Also included in "Others - net" were the following: (i) loss on disposal of investment in MNHPI amounting to P189 in 2017; (ii) rental income amounting to P63 in 2019, 2018 and 2017 (Note 29); and (iii) impairment losses on other receivables of POMSB amounting to P259 (net of P3 currency translation adjustment) in 2019 and interest income of P20 (Notes 8 and 39).

## 27. Income Taxes

Deferred tax assets and liabilities are from the following:

	<b>2019</b>	2018
Net retirement benefits liability	<b>P2,157</b>	P1,617
Rental	<b>1,364</b>	192
NOLCO	<b>1,286</b>	-
Various allowances, accruals and others	<b>789</b>	1,085
Inventory differential	<b>649</b>	(150)
MCIT	<b>491</b>	-
ARO	<b>278</b>	415
Unutilized tax losses	<b>237</b>	-
Fair market value adjustments on business combination	<b>(30)</b>	(32)
Unrealized foreign exchange losses (gains) - net	<b>(158)</b>	523
Capitalized taxes and duties on inventories deducted in advance	<b>(1,402)</b>	(863)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	<b>(4,609)</b>	(4,818)
Excess of double-declining over straight-line method of depreciation and amortization	<b>(7,138)</b>	(6,162)
	<b>(P6,086)</b>	(P8,193)

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

	2019	2018
Deferred tax assets - net	<b>P262</b>	P257
Deferred tax liabilities - net	<b>(6,348)</b>	(8,450)
	<b>(P6,086)</b>	(P8,193)

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

	2019	2018
Balance at beginning of year	<b>(P8,193)</b>	(P7,190)
Adjustments due to adoption of PFRS 16	<b>771</b>	-
Balance at beginning of year, as adjusted	<b>(7,422)</b>	(7,190)
Amounts recognized in profit or loss	<b>518</b>	(1,317)
Amounts recognized in OCI	<b>809</b>	375
Cumulative translation adjustment and others	<b>9</b>	(61)
	<b>(P6,086)</b>	(P8,193)

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:

	2019	2018	2017
Current	<b>P1,952</b>	P2,069	P2,754
Deferred	<b>(518)</b>	1,317	2,001
	<b>P1,434</b>	P3,386	P4,755

As at December 31, 2019, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year	Carryforward Benefits Up To	NOLCO	MCIT
2019	December 31, 2022	P4,286	P491

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

	2019	2018	2017
Excess of double-declining over straight-line method of depreciation and amortization	<b>P976</b>	P1,150	P1,425
Capitalized taxes and duties on inventories deducted in advance	<b>539</b>	575	77
Inventory differential	<b>(799)</b>	349	417
Unutilized tax gains (losses)	<b>(237)</b>	220	(23)
ARO	<b>137</b>	72	(114)
Various allowances, accruals and others	<b>322</b>	31	(222)

Forward

	2019	2018	2017
MCIT	(P491)	P -	P6
NOLCO	(1,286)	-	-
Rental	(1,172)	(4)	29
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	(209)	(322)	(535)
Unrealized foreign exchange losses (gains) - net	681	(787)	1,055
Others	1,021	33	(114)
	<b>(P518)</b>	P1,317	P2,001

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	2019	2018	2017
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%)
Interest income subjected to lower final tax		(1.84%)	(0.57%)	(0.13%)
Nontaxable income		(17.27%)	(11.13%)	(3.52%)
Nondeductible expense		4.27%	1.32%	0.91%
Nondeductible interest expense		0.61%	0.20%	0.06%
Changes in fair value of financial assets at FVPL	26	(0.24%)	(0.24%)	(0.02%)
Excess of optional standard deduction over deductible expenses		(0.32%)	(0.10%)	(0.06%)
Others, mainly income subject to different tax rates		23.14%	18.04%	1.04%
Effective income tax rate		<b>38.35%</b>	32.38%	25.23%

#### 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	2019	P113	P -	P1,971	P -	On demand;	Unsecured;
		2018	211	-	2,399	-	long-term;	no impairment
		2017	211	-	5,188	-	interest bearing	
Intermediate Parent	b, e, g, h	2019	13	228	8	95	On demand;	Unsecured;
		2018	12	1,026	7	25	non-interest bearing	no impairment
		2017	10	650	4	27		
Under Common Control	14, b, c, d, g, h, i, j	2019	6,246	4,904	1,296	2,015	On demand;	Unsecured;
		2018	6,523	4,904	2,097	889	non-interest bearing	no impairment
		2017	3,233	10,670	870	768		
Associate	b	2017	153	-	-	-	On demand; non-interest bearing	Unsecured; no impairment
Joint Ventures	c, f, g, h	2019	-	52	1	-	On demand; non-interest bearing	Unsecured; no impairment
		2018	7	59	1	-		
		2017	1	43	-	4		
		2019	P6,372	P5,184	P3,276	P2,110		
		2018	P6,753	P5,989	P4,504	P914		
		2017	P3,608	P11,363	P6,062	P799		

- As of December 31, 2019 and 2018, 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 6,852 square meters with a monthly rate of P6. The lease, which commenced on June 1, 2018, is for a period of one year and was subsequently renewed on a yearly basis in accordance with the written agreement of the parties.
- The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.
- Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.
- Amounts owed to related parties consist of trade and non-trade payables.

- i. In 2015, NVRC leased out certain parcels of its land to SMC Consolidated Power Corporation for a period of 25 years.
- j. In 2019, 50,000 shares of MNHPI representing 0.17% interest was sold to a related party at a gain of P3 recognized as part of "Others - net" (Note 26).
- 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):

	<b>2019</b>	2018	2017
Salaries and other short-term employee benefits	<b>P756</b>	P998	P906
Retirement benefits costs - defined benefit plan	<b>29</b>	135	166
Retirement benefits costs - defined contribution plan	<b>27</b>	35	33
	<b>P812</b>	P1,168	P1,105

## 29. Lease Commitments

### Group as Lessee

The Group entered into commercial leases on office space, buildings, machinery and equipment, service stations and certain parcels of land for its refinery and service stations (Note 11, 12 and 31). These leases' life ranges from one to 999 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.

Amounts recognized in profit or loss:

<b>2019 - Leases under PFRS 16</b>	<b>Note</b>	
Interest on lease liabilities	11	<b>P1,165</b>
Income from sub-leasing		<b>(1,395)</b>
Expenses relating to the variable portion of lease payments		<b>7</b>
Expenses relating to short-term leases		<b>62</b>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		<b>32</b>
		<b>(P129)</b>

Rent expense amounting to P63 is included in cost of goods sold - others (Note 22). Interest expense amounting to P58 was capitalized as part of property, plant and equipment in 2019 while nil in 2018 and 2017 (Note 10).

<b>2018 - Operating Leases under PAS 17</b>	<b>Note</b>	
Rent expense in "Selling and administrative expenses"	23	<b>P1,753</b>
Rent expense in "Cost of goods sold"	22	<b>53</b>
		<b>P1,806</b>



Amounts recognized in consolidated statements of cashflows:

	<b>Note</b>	
Interest paid under operating activities	26	P1,165
Principal lease payments under financing activities	33	1,128

Future minimum rental payables under the non-cancellable operating lease agreements as of December 31, 2018 are as follows:

Within one year	P1,917
After one year but not more than five years	6,741
After five years	16,743
	<b>P25,401</b>

Change in minimum rental payables as of December 31, 2018 is from additional contracts identified only in 2019.

Group as Lessor - Operating Lease

The Group has entered into lease agreements on its service stations and other related structures. 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.

The following table sets out a maturity analysis of lease payments, showing undiscounted lease payments to be received after the reporting period.

**2019 - Operating leases under PFRS 16**

Less than one year	<b>P1,304</b>
One to two years	<b>908</b>
Two to three years	<b>641</b>
Three to four years	<b>485</b>
Four to five years	<b>499</b>
More than five years	<b>7,562</b>
	<b>P11,399</b>

**2018 - Operating leases under PAS 17**

Within one year	P127
After one year but not more than five years	251
After five years	1,265
	<b>P1,643</b>

Rent income recognized in profit or loss amounted to:

	<b>Note</b>	<b>2019</b>	2018	2017
Other operating income		<b>P1,507</b>	P1,340	P1,180
Others - net	26	<b>63</b>	63	63
		<b>P1,570</b>	P1,403	P1,243

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### **30. Retirement Plan**

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plans recognized in consolidated statements of income 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, 2019. 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)		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
<b>Balance at beginning of year</b>	<b>(P5,779)</b>	(P5,872)	(P5,344)	<b>P3,279</b>	P883	P1,952	<b>(2,500)</b>	(P4,989)	(P3,392)
<b>Recognized in Profit or Loss</b>									
Current service cost	(370)	(337)	(313)	-	-	-	(370)	(337)	(313)
Past service cost - curtailment**	435	-	-	-	-	-	435	-	-
Interest expense*	(335)	(333)	(289)	-	-	-	(335)	(333)	(289)
Interest income*	-	-	-	209	147	94	209	147	94
Settlement loss**	(135)	-	-	-	-	-	(135)	-	-
	<b>(405)</b>	(670)	(602)	<b>209</b>	147	94	<b>(196)</b>	(523)	(508)
<b>Recognized in Other Comprehensive Income</b>									
Remeasurements:									
Actuarial gains (losses) arising from:									
Experience adjustments	(592)	(592)	(555)	-	-	-	(592)	(592)	(555)
Changes in financial assumptions	(54)	584	105	-	-	-	(54)	584	105
Changes in demographic assumptions	137	17	43	-	-	-	137	17	43
Return on plan asset excluding interest	-	-	-	(2,022)	(1,142)	(735)	(2,022)	(1,142)	(735)
	<b>(509)</b>	9	(407)	<b>(2,022)</b>	(1,142)	(735)	<b>(2,531)</b>	(1,133)	(1,142)
<b>Others</b>									
Benefits paid	1,934	777	571	(1,861)	(677)	(528)	73	100	43
Contributions	-	-	-	1,478	4,068	100	1,478	4,068	100
Transfer to other accounts payable	-	-	(4)	-	-	-	-	-	(4)
Translation adjustment	21	(23)	(86)	-	-	-	21	(23)	(86)
	<b>1,955</b>	754	481	<b>(383)</b>	3,391	(428)	<b>1,572</b>	4,145	53
<b>Balance at end of year</b>	<b>(P4,738)</b>	(P5,779)	(P5,872)	<b>P1,083</b>	P3,279	P883	<b>(P3,655)</b>	(P2,500)	(P4,989)

\*Starting 2019, interest expense on defined benefit obligation and interest income on plan assets are presented as part of Interest Expense and Other Financing Charges, and Interest Income, respectively (Note 26).

\*\*The significant reduction in the Parent Company's headcount resulted in non-routine benefit payments during the year. This led to the recognition of settlement loss and curtailment of past service cost in 2019.

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

	<b>Note</b>	<b>2019</b>	2018
Trade and other payables	17	<b>P90</b>	P67
Retirement benefits liability (noncurrent portion)		<b>3,565</b>	2,433
		<b>P3,655</b>	P2,500

Retirement benefits costs recognized in the consolidated statements of income by the Parent Company amounted to (P40), P410 and P408 in 2019, 2018 and 2017, respectively.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P110, P113 and P100 in 2019, 2018 and 2017, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2019 and 2018.

Plan assets consist of the following:

	<b>2019</b>	2018
Shares of stock:		
Quoted	<b>76%</b>	52%
Unquoted	<b>9%</b>	6%
Government securities	<b>9%</b>	5%
Cash and cash equivalents	<b>5%</b>	12%
Receivables	<b>0%</b>	21%
Others	<b>1%</b>	4%
	<b>100%</b>	100%

*Investment in Shares of Stock.* As of December 31, 2019, the Group's plan assets include 459,156,097 common shares of Petron with fair market value per share of P3.86 and 14,250,900 common shares of SMC with fair market value per share of P164.00.

The Parent Company's plan recognized a loss on the investment in marketable securities of Petron and SMC amounting to P1,780, P675 and P577 in 2019, 2018 and 2017, 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 P73 in 2019, P122 in 2018 and P85 in 2017.

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, 2019 of the plan's sale of investment in shares of Petron to SMCRP.

*Others* include investments in pooled funds and Petron bonds amounting to P128 and P28 as of December 31, 2019 and 2018, respectively. In 2019, the Plan has fully withdrawn its investment in the pooled funds and Petron bonds.

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 P601 to its defined benefit retirement plan in 2020.

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:

	2019	2018	2017
Discount rate	5.22% to 5.73%	5.50% to 7.48%	5.50% to 5.73%
Future salary increases	5.00% to 6.50%	5.00% to 7.00%	5.00% to 7.00%

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 6.00 to 20.20 years and 5.54 to 20.20 years as of December 31, 2019 and 2018, 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:

2019	Defined Benefit Liabilities	
	1 Percent Increase	1 Percent Decrease
Discount rate	(P209)	P239
Salary increase rate	237	(211)

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

The Parent Company has advances to PCERP amounting to P1,971 and P2,399 as of December 31, 2019 and 2018, 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 2019, 2018 and 2017 (Note 28).

In 2019 and 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, 2019 and 2018 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, 2019 and 2018.

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### 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 57% of crude and condensate volume processed are from EMEPMI with balance of around 43% from other term and 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, 2019 and 2018 (Note 16).

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

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

Tolling services started in 2008 on which PFC recognized revenue amounting to P113, P109 and P130 in 2019, 2018 and 2017, respectively.

*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, 2019 and 2018, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 39).

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## 32. Basic and Diluted Earnings Per Share

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

	2019	2018	2017
Net income attributable to equity holders of the Parent Company	<b>P1,701</b>	P6,218	P12,739
Dividends on preferred shares for the year	<b>(1,578)</b>	(646)	(646)
Distributions to the holders of capital securities	<b>(1,697)</b>	(2,971)	(4,024)
Net income (loss) attributable to common shareholders of the Parent Company (a)	<b>(P1,574)</b>	P2,601	P8,069
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	<b>(P0.17)</b>	P0.28	P0.86

As of December 31, 2019, 2018 and 2017, the Parent Company has no potential dilutive debt or equity instruments.

### 33. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

- a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2019	2018	2017
Decrease (increase) in assets:			
Trade and other receivables	<b>(P2,977)</b>	(P6,523)	(P6,593)
Inventories	<b>(8,569)</b>	(7,161)	(12,531)
Other assets	<b>7,940</b>	(5,049)	(1,511)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	<b>14,859</b>	(14,071)	7,837
Trade and other payables and others	<b>1,059</b>	16,597	(165)
	<b>12,312</b>	(16,207)	(12,963)
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, goodwill and others	<b>(465)</b>	591	(80)
	<b>P11,847</b>	(P15,616)	(P13,043)

- b. Changes in liabilities arising from financing activities:

	Dividends Payable	Lease Liabilities	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2019	P206	P -	P82,997	P118,000	P201,203
Adjustment due to adoption of PFRS 16	-	15,399	-	-	15,399
Balance as of January 1, 2019, as adjusted	206	15,399	82,997	118,000	216,602
Changes from financing cash flows:					
Payment of principal	-	(1,128)	-	-	(1,128)
Proceeds from availment of loans	-	-	345,984	40,891	386,875
Payments of loans	-	-	(357,851)	(23,707)	(381,558)
Dividends and distributions declared	4,390	-	-	-	4,390
Dividends and distributions paid	(4,100)	-	-	-	(4,100)
Total changes from financing cash flows	290	(1,128)	(11,867)	17,184	4,479
New leases	-	1,517	-	-	1,517
Interest expense	-	1,165	-	-	1,165
Interest paid	-	(1,165)	-	-	(1,165)
Effects of changes in foreign exchange rates	-	(39)	86	(2,558)	(2,511)
Other charges	-	-	(126)	451	325
<b>Balance as of December 31, 2019</b>	<b>P496</b>	<b>P15,749</b>	<b>P71,090</b>	<b>P133,077</b>	<b>P220,412</b>



	Dividends Payable	Lease Liabilities	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2018	P239	P -	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	P -	P82,997	P118,000	P201,203

### 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:

	2019		2018	
	US Dollar (in millions)	Phil. Peso Equivalent	US Dollar (in millions)	Phil. Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	461	23,324	217	11,397
Trade and other receivables	219	11,072	316	16,635
Other assets	13	646	27	1,426
	<b>693</b>	<b>35,042</b>	560	29,458
<b>Liabilities</b>				
Short-term loans	32	1,605	285	14,977
Liabilities for crude oil and petroleum products	267	13,505	480	25,243
Long-term debts (including current maturities)	1,454	73,638	950	49,951
Other liabilities	485	24,570	346	18,202
	<b>2,238</b>	<b>113,318</b>	2,061	108,373
<b>Net foreign currency-denominated monetary liabilities</b>	<b>(1,545)</b>	<b>(78,276)</b>	(1,501)	(78,915)

The Group incurred net foreign currency gains (losses) amounting to P2,609, (P3,476) and P1,192 in 2019, 2018 and 2017, respectively (Note 26), which were mainly countered by marked-to-market and realized hedging gains (losses) (Note 26). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of December 31 are shown in the following table:

	Php to US\$
<b>December 31, 2019</b>	<b>50.635</b>
December 31, 2018	52.580
December 31, 2017	49.930

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, 2019 and 2018:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
<b>2019</b>				
Cash and cash equivalents	(P365)	(P351)	P365	P351
Trade and other receivables	(110)	(203)	110	203
Other assets	(8)	(10)	8	10
	(483)	(564)	483	564
Short-term loans	-	32	-	(32)
Liabilities for crude oil and petroleum products	434	571	(434)	(571)
Long-term debts (including current maturities)	1,454	1,018	(1,454)	(1,018)
Other liabilities	374	373	(374)	(373)
	2,262	1,994	(2,262)	(1,994)
	<b>P1,779</b>	<b>P1,430</b>	<b>(P1,779)</b>	<b>(P1,430)</b>

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
<b>2018</b>				
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)
	<b>P1,362</b>	<b>P1,255</b>	<b>(P1,362)</b>	<b>(P1,255)</b>

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

#### Interest Rate Risk

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

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

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

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

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 consolidated statements of income, 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 P736 and P500 in 2019 and 2018, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

*Interest Rate Risk Table.* As of December 31, 2019 and 2018, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2019	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P5,643	P18,643	P5,643	P9,143	P14,807	P6,800	P60,679
Interest rate	5.5% - 5.8%	4.0% - 5.8%	5.5% - 5.8%	4.5% - 5.5%	5.5% - 7.8%	8.1%	
<b>Floating Rate</b>							
US\$ denominated (expressed in Php)	11,429	26,041	18,807	11,574	5,787	-	73,638
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	1, 3, 6 mos. Libor + margin	-	-
	P17,072	P44,684	P24,450	P20,717	P20,594	P6,800	P134,317

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

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

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

### 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:

	<b>Note</b>	<b>2019</b>	2018
Cash in banks and cash equivalents	5	<b>P32,049</b>	P14,143
Derivative assets	6	<b>746</b>	1,079
Investments in debt instruments	7	<b>420</b>	378
Trade and other receivables - net	8	<b>44,657</b>	42,497
Long-term receivables - net	14	-	253
Noncurrent deposits	14	<b>104</b>	94
		<b>P77,976</b>	P58,444

#### *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*

The Group limits its exposure to credit risk by investing only in liquid debt instruments 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, 2019 and 2018:

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
<b>December 31, 2019</b>				
Retail	P1,424	P3,918	P424	P5,766
Lubes	464	84	2	550
Gasul	910	22	62	994
Industrial	8,141	7,645	1,740	17,526
Others	3,672	6,466	1,161	11,299
	<b>P14,611</b>	<b>P18,135</b>	<b>P3,389</b>	<b>P36,135</b>

	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
	<b>P11,626</b>	<b>P14,239</b>	<b>P3,241</b>	<b>P29,106</b>

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 8). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P7,921 and P9,204 as of December 31, 2019 and 2018, respectively. These securities may only be called on or applied upon default of customers.

*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.

2019						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired			
Cash in banks and cash equivalents	P32,049	P -	P -	P -	P -	P32,049
Trade and other receivables	-	44,657	942	-	-	45,599
Derivative assets not designated as cash flow hedge	-	-	-	546	-	546
Derivative assets designated as cash flow hedge	-	-	-	-	200	200
Proprietary membership shares	-	-	-	284	-	284
Investments in debt instruments	257	-	-	-	163	420
Long-term receivables - net	-	-	318	-	-	318
Noncurrent deposits	104	-	-	-	-	104
	<b>P32,410</b>	<b>P44,657</b>	<b>P1,260</b>	<b>P830</b>	<b>P363</b>	<b>P79,520</b>

2018						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	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
	<b>P14,463</b>	<b>P42,750</b>	<b>P1,410</b>	<b>P1,111</b>	<b>P374</b>	<b>P60,108</b>

### 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, 2019 and 2018.

2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P34,218	P34,218	P34,218	P -	P -	P -
Trade and other receivables	44,657	44,657	44,657	-	-	-
Derivative assets (including non-current portion)	746	746	580	73	93	-
Proprietary membership shares	284	284	284	-	-	-
Investments in debt instruments	420	448	123	152	173	-
Noncurrent deposits	104	104	-	-	3	101
<b>Financial Liabilities</b>						
Short-term loans	71,090	71,466	71,466	-	-	-
Liabilities for crude oil and petroleum products	39,362	39,362	39,362	-	-	-
Trade and other payables*	24,679	24,679	24,679	-	-	-
Derivative liabilities (including non-current portion)	1,075	1,075	738	248	89	-
Long-term debts (including current maturities)	133,077	152,552	23,951	49,232	72,129	7,240
Lease liability (including current portion)	15,749	22,736	1,938	1,747	4,547	14,504
Cash bonds	750	750	-	732	2	16
Cylinder deposits	608	608	-	-	-	608
Other noncurrent liabilities**	53	53	-	24	10	19

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

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

2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P17,405	P17,405	P17,405	P -	P -	P -
Trade and other receivables	42,497	42,497	42,497	-	-	-
Derivative assets	1,079	1,079	872	61	146	-
Proprietary membership shares	254	254	254	-	-	-
Investments in debt instruments	378	394	-	136	258	-
Long-term receivables - net	253	253	-	-	253	-
Noncurrent deposits	94	94	-	-	3	91
<b>Financial Liabilities</b>						
Short-term loans	82,997	83,402	83,402	-	-	-
Liabilities for crude oil and petroleum products	25,991	25,991	25,991	-	-	-
Trade and other payables*	23,189	23,189	23,189	-	-	-
Derivative liabilities	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 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:

	<b>2019</b>	2018
Total assets	<b>P394,835</b>	P358,154
Total liabilities	<b>302,405</b>	271,968
Total equity	<b>92,430</b>	86,186
Debt to equity ratio	<b>3.3:1</b>	3.2:1
Assets to equity ratio	<b>4.3:1</b>	4.2:1

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	2019		2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	5	P34,218	P34,218	P17,405	P17,405
Trade and other receivables	8	44,657	44,657	42,497	42,497
Investments in debt instruments	7	257	257	226	226
Long-term receivables - net	14	-	-	253	253
Noncurrent deposits	14	104	104	94	94
FA at amortized cost		79,236	79,236	60,475	60,475
Investments in debt instruments	7	163	163	152	152
Derivative assets designated as cash flow hedge	6	200	200	222	222
FA at FVOCI		363	363	374	374
Financial assets at FVPL	6	284	284	254	254
Derivative assets not designated as cash flow hedge	6, 14	546	546	857	857
FA at FVPL		830	830	1,111	1,111
Total financial assets		P80,429	P80,429	P61,960	P61,960

	Note	2019		2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	15	P71,090	P71,090	P82,997	P82,997
Liabilities for crude oil and petroleum products	16	39,362	39,362	25,991	25,991
Trade and other payables*	17	24,679	24,679	23,189	23,189
Long-term debt including current portion	18	133,077	133,077	118,000	118,000
Derivative liabilities designated as cash flow hedge	20	724	724	332	332
Cash bonds	20	750	750	434	434
Cylinder deposits	20	608	608	573	573
Other noncurrent liabilities**	20	53	53	77	77
Other FL		270,343	270,343	251,593	251,593
Derivative liabilities not designated as cash flow hedge		351	351	470	470
Total financial liabilities		P270,694	P270,694	P252,063	P252,063

\*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 and Advances to Subsidiaries and a Joint Venture.* 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 the advances to subsidiaries and a joint venture, 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 valuation model based on applicable market rates of similar instruments.

*Financial Assets at FVPL.* The fair values of publicly traded instruments and similar investments are based on published market prices.

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

*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 2019 and 2018 are 7.57%% and 9.00% 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 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 that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency, interest rate and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risks. The portfolio is a mixture of instruments including forwards, swaps and options.

### Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges (Note 34).

December 31, 2019	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
<b>Foreign Currency Risk</b>				
<b>Call Spread Swaps</b>				
Notional amount	US\$129,000	US\$146,000	US\$73,000	US\$348,000
Average strike rate	P52.71 to P55.55	P52.59 to P55.61	P52.59 to P55.75	
<b>Foreign Currency and Interest Rate Risk</b>				
<b>Cross Currency Swap</b>				
Notional amount	US\$20,000	US\$40,000	US\$60,000	US\$120,000
Average strike rate	P47.00 to P57.50	P47.00 to P57.00	P47.00 to P56.67	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.75%	
<b>Interest Rate Risk</b>				
<b>Interest Rate Collar</b>				
Notional amount		US\$30,000	US\$75,000	US\$105,000
Interest rate		0.44% to 1.99%	0.44% to 1.99%	

December 31, 2018	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
<b>Foreign Currency Risk</b>				
<b>Call Spread Swaps</b>				
Notional amount	US\$22,000	US\$65,000	US\$120,000	US\$207,000
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P53.95 to P57.16	

The table below summarizes the amounts pertaining to the designated hedged item.

December 31, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
<b>Foreign Currency Risk</b>			
US dollar-denominated loan	P200	P -	(P139)
<b>Foreign Currency and Interest Rate Risks</b>			
US dollar-denominated loan	331	(206)	118
<b>Interest Rate Risks</b>			
US dollar-denominated loan	7	5	-

December 31, 2018	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
<b>Foreign Currency Risk</b>			
US dollar-denominated loan	P110	P -	(P77)

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, 2019 and 2018.

December 31, 2019	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of The Hedging Instrument Recognized in OCI	Cost of Hedging Recognized in OCI	Amount Reclassified from Hedging Reserve to Profit or Loss	Amount Reclassified from Cost of Hedging Reserve to Profit or Loss	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
<b>Foreign Currency Risk</b> Call spread swaps	US\$348	P156	P356	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(P200)	(P344)	P-	P254	Other income (expenses) - net
<b>Foreign Currency and Interest Rate Risks</b> Cross currency swap	120	37	368	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(331)	104	205	65	Interest Expense and other financing charges, and Other income (expenses) - net
<b>Interest Rate Risk</b> Interest rate collar	105	7	-	Other noncurrent assets, Derivative liabilities	7	-	-	-	

December 31, 2018	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of The Hedging Instrument Recognized in OCI	Cost of Hedging Recognized in OCI	Amount Reclassified from Hedging Reserve to Profit or Loss	Amount Reclassified from Cost of Hedging Reserve to Profit or Loss	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign Currency Risk Call spread swaps	US\$207	P222	P332	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(P110)	(P110)	P -	P47	Other income (expenses) - net

No hedging ineffectiveness was recognized in the 2019 and 2018 consolidated statements of income.

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

	December 31, 2019		December 31, 2018	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of year	P -	(P77)	P -	P -
Changes in fair value:				
Foreign currency risk	-	(344)	-	(157)
Foreign currency risk and interest rate risk	(499)	104	-	-
Interest rate risk	7	-	-	-
Amount reclassified to profit or loss:				
Foreign currency risk	-	254	-	47
Foreign currency risk and interest rate risk	205	65	-	-
Interest rate risk	-	-	-	-
Income tax effect	86	(23)	-	33
Balance at end of year	(P201)	(P21)	P -	(P77)

#### Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. 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 accounted for directly in the consolidated statements of income. Details are as follows:

#### *Freestanding Derivatives*

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Group.

*Currency Forwards.* As of December 31, 2019 and 2018, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$680 million and US\$907 million, respectively, and with various maturities in 2020 and 2019. As of December 31, 2019 and 2018, the net negative fair value of these currency forwards amounted to P160 and P296, respectively.

*Commodity Swaps.* The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2020 and 2019. 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 12.5 million barrels and 17.0 million barrels for 2019 and 2018, respectively. The estimated net receipts (payouts) for these transactions amounted to P355 and P546 as of December 31, 2019 and 2018, respectively.

*Commodity Options.* As of December 31, 2019, the Group has no outstanding 3-way options entered as hedge of forecasted purchases of crude oil. As of December 31, 2018, the Company has outstanding three-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 of these call and put options as of December 31, 2018 amounted to P137.



### *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, 2019 and 2018, 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, 2019 and 2018, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2019, 2018 and 2017, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P1,926), P4,326 and (P1,692), 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 2019 and 2018 are as follows:

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Fair value at beginning of year		<b>P387</b>	(P1,626)
Net changes in fair value during the year	26	<b>(1,926)</b>	4,326
Fair value of settled instruments		<b>1,734</b>	(2,313)
Fair value at end of year		<b>P195</b>	P387

### 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, 2019 and 2018. The different levels have been defined as follows:

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

	<b>2019</b>	<b>2018</b>
	<b>Level 2</b>	<b>Level 2</b>
Financial Assets:		
FVPL	<b>P284</b>	P254
Derivative assets	<b>746</b>	1,079
Investments in debt instruments	<b>163</b>	152
Financial Liabilities:		
Derivative liabilities	<b>(1,075)</b>	(802)

The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2019 and 2018. During the year, there were no transfers between and into and out of Level 1 and Level 2 fair value measurements.

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### **36. Registration with the Board of Investments (BOI)**

#### RMP-2 Project

On June 3, 2011, the BOI approved the Parent Company's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016 and the Parent Company availed of the ITH in 2017 and 2018. The Parent Company did not avail of the ITH in 2019.

On August 19, 2019, 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 2018 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Certificates of entitlement have been timely obtained by the Parent Company to support its ITH credits in 2018 and 2017.

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### **37. Segment Information**

Management identifies segments based on business and geographic locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The CEO (the chief operating decision maker) reviews management reports on a regular basis.

The Group's major sources of revenues are as follows:

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.
- c. Lease of acquired real estate properties and equipment for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.
- e. Export sales of various petroleum and non-fuel products to other countries such as China, Taiwan, Cambodia, Malaysia, South Korea, Singapore, USA, Vietnam, Thailand, Indonesia, Bangladesh and UAE.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.
- g. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

Revenues are mainly derived from the sale of petroleum products to retail and commercial customers in various geographical locations.

The Group has no significant remaining performance obligations as it mainly recognized revenues in amounts that correspond directly to the value of completed performance obligations.

#### Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

#### Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

#### Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Group.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the years ended December 31, 2019, 2018 and 2017.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
<b>2019</b>						
Revenue:						
External sales	P513,401	P -	P -	P961	P -	P514,362
Inter-segment sales	228,613	102	1,505	-	(230,220)	-
Operating income	15,579	78	271	132	139	16,199
Net income	5,017	70	140	137	(3,061)	2,303
Assets and liabilities:						
Segment assets*	444,239	4,355	9,901	673	(64,595)	394,573
Segment liabilities*	319,412	2,981	5,046	136	(31,518)	296,057
Other segment information:						
Property, plant and equipment	167,260	-	-	123	558	167,941
Depreciation and amortization	13,326	-	9	(92)	2	13,245
Interest expense	13,647	-	322	2	(481)	13,490
Interest income	1,388	44	240	15	(347)	1,340
Income tax expense	1,346	26	49	15	(2)	1,434

\*excluding deferred tax assets and liabilities

\*\*revenues from the use of loaned equipment are presented as part of leasing while revenues from consumer loyalty program and provisions of technical support are presented as part of others.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2018</b>						
Revenue:						
External sales	P554,958	P -	P1,117	P923	P388	P557,386
Inter-segment sales	284,132	116	686	-	(284,934)	-
Operating income	18,117	90	313	89	312	18,921
Net income	11,854	150	97	94	(5,126)	7,069
Assets and liabilities:						
Segment assets*	398,305	1,418	6,730	622	(49,178)	357,897
Segment liabilities*	276,810	231	2,378	115	(16,016)	263,518
Other segment information:						
Property, plant and equipment	163,418	-	-	132	434	163,984
Depreciation and amortization	11,515	-	9	19	-	11,543
Interest expense	9,689	-	154	-	(154)	9,689
Interest income	814	31	5	10	(154)	706
Income tax expense	3,306	22	24	12	22	3,386

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2017</b>						
Revenue:						
External sales	P433,879	P -	P -	P745	P -	P434,624
Inter-segment sales	199,117	83	584	-	(199,784)	-
Operating income	26,895	59	295	16	373	27,638
Net income	16,263	118	141	44	(2,479)	14,087
Assets and liabilities:						
Segment assets*	382,313	1,319	5,871	636	(52,316)	337,823
Segment liabilities*	248,118	291	4,439	108	(21,942)	231,014
Other segment information:						
Property, plant and equipment	172,212	-	-	134	5,344	177,690
Depreciation and amortization	10,952	-	9	18	-	10,979
Interest expense	8,487	-	164	-	(164)	8,487
Interest income	666	26	2	5	(164)	535
Income tax expense	4,648	16	27	3	61	4,755

\*excluding deferred tax assets and liabilities

Inter-segment sales transactions amounted to P230,220, P284,934 and P199,784 for the years ended December 31, 2019, 2018 and 2017, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2019, 2018 and 2017

	Retail	Lube	Gasul	Industrial	Others	Total
<b>2019</b>						
Revenue	<b>P249,210</b>	<b>P4,474</b>	<b>P25,745</b>	<b>P125,314</b>	<b>P108,658</b>	<b>P513,401</b>
Property, plant and equipment	<b>9,949</b>	<b>40</b>	<b>303</b>	<b>100</b>	<b>156,868</b>	<b>167,260</b>
Capital expenditures	<b>1,892</b>	<b>2</b>	<b>5</b>	<b>-</b>	<b>14,951</b>	<b>16,850</b>
<b>2018</b>						
Revenue	269,255	4,883	27,810	132,397	120,613	554,958
Property, plant and equipment	12,192	70	499	90	150,567	163,418
Capital expenditures	3,326	6	14	9	8,989	12,344
<b>2017</b>						
Revenue	212,840	5,307	22,850	101,333	91,549	433,879
Property, plant and equipment	20,648	86	435	153	150,890	172,212
Capital expenditures	2,473	1	100	49	4,821	7,444

#### Geographical Segments

The following table presents segment assets of the Group as of December 31, 2019 and 2018.

	2019	2018
Local	<b>P323,518</b>	P284,469
International	<b>71,055</b>	73,428
	<b>P394,573</b>	P357,897

#### 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, 2019, 2018 and 2017.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
<b>2019</b>						
Local	<b>P301,148</b>	<b>P60</b>	<b>P1,506</b>	<b>P961</b>	<b>(P2,230)</b>	<b>P301,445</b>
Export/international	<b>440,865</b>	<b>42</b>			<b>(227,990)</b>	<b>212,917</b>
<b>2018</b>						
Local	311,951	44	1,803	P923	(979)	313,742
Export/international	527,139	72	-	-	(283,567)	243,644
<b>2017</b>						
Local	244,582	29	584	745	(1,156)	244,784
Export/international	388,414	54	-	-	(198,628)	189,840

\*\*revenues from the use of loaned equipment are presented as part of leasing while revenues from consumer loyalty program and provisions of technical support are presented as part of others.

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### 38. Events After the Reporting Date

#### a. Dividend Declaration and Distributions

On January 17, 2020, the Parent Company paid distributions amounting to US\$11.500 million (P833) to the holders of the US\$500 million SPCS.

On February 27, 2020, the Parent Company paid distributions amounting to US\$60 thousand (P3) to the holders of the US\$6 million RPS.

On March 10, 2020, the BOD of the Parent Company approved the declaration of cash dividends for common, Series 2B and Series 3 preferred shareholders with the following details:

Type	Per Share	Record Date	Payment Date
Common	0.10000	March 24, 2020	April 8, 2020
Series 2B	17.14575	April 7, 2020	May 4, 2020
Series 3A	17.17825	June 1, 2020	June 25, 2020
Series 3B	17.84575	June 1, 2020	June 25, 2020

#### b. Effects of Corona Virus Disease 2019

On March 8, 2020, under Proclamation 922, the Office of the President declared a state of public health emergency due to the spread of the Corona Virus Disease 2019 (COVID-19).

The Group, being engaged in the fuel business, has been affected by the aforesaid declaration. This resulted in limited business operations in Luzon and in certain parts of the country. Given the restricted mobility in and out of the country and curtailed economic activities affecting fuel demand not only in the Philippines but in other affected countries, including Malaysia, the Group expects a significant decline in volume during the period. The impact on demand was notable in Luzon. In Malaysia, the decline in domestic demand for retail and commercial fuels, will be partly tempered by the surge in exports.

Global oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand drop caused by the COVID-19 pandemic. The price of benchmark crude Dubai dropped by 37% from \$54 per barrel in February to \$34 per barrel in March, which resulted in successive rollbacks in pump prices. Thus, the Group expects a corresponding decline in revenue. Nevertheless, the low level of oil prices will benefit the Group in terms of lower working capital requirement.

Despite this challenging business environment, the Group does not foresee any going concern issue affecting its business operations since it has a risk management system in place which includes commodity hedging that aims to minimize potential losses from the effects of oil price movements. Also, the Group activated its Business Continuity Plan to cope with the situation.

The Group does not foresee significant further decline in oil prices. The Organization of Petroleum Exporting Countries (OPEC) together with the other top oil producing countries agreed to end the price war and forged significant production cut of around 10 million barrels per day equivalent to about 10% of the global oil supply. The agreement is seen to prop up oil prices in the near term and re-balance global demand and supply of crude up to 2021. Furthermore, the Group expects the low volume period to be temporary and fuel demand will gradually recover. As of March 10, 2020, an estimate of the financial effect to the Group cannot be reliably made yet.

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### 39. Other Matters

#### a. Lease Agreements with PNOC

On October 20, 2017, the Parent Company filed with the Regional Trial Court (RTC) of Mandaluyong City a complaint against PNOC for the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Parent Company.

The subject landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by the Parent Company of the conveyed lots for its business operation. Thus, PNOC and the Parent Company executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years to expire in August 2018, with a provision for automatic renewal for another 25 years. In 2009, the Parent Company, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint alleges that PNOC committed a fundamental breach of the lease agreements when it refused 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.

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 was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. The Parent Company also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13, 2019, the trial court granted the Parent Company's motion for summary judgment and ordered (i) the rescission of the Deeds of Conveyance dated 1993 relating to the Parent Company's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to the Parent Company of all such properties, and (iii) the payment by the Parent Company to PNOC of the amount of P143 million, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. The Parent Company also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to the Parent Company all lease payments the latter had paid to PNOC since 1993. The motions for reconsideration were pending as of March 10, 2020.

Following the trial court's denial of PNOC's motion for reconsideration, PNOC filed a notice of appeal to the Court of Appeals, a copy of which was received by the Parent Company on March 9, 2020.

b. Swakaya Dispute

In 2015, a disputed trade receivable balance of RM24,835,000 (P307) in favor of POMSB was reclassified to long-term receivables.

The dispute arose from the supply by POMSB of diesel to Swakaya Sdn Bhd ("Swakaya"). In 2013, POMSB entered into an agreement with Swakaya to supply it with diesel. Swakaya had agreements to supply power plants operator with diesel for power generation. Later, due to a government investigation, Swakaya's bank accounts were frozen and that affected its ability to supply the power plants. Swakaya and the power plants operator agreed to ask POMSB to supply the power plants operator directly and for the said operator to pay POMSB directly for diesel supplied. This arrangement commenced. Unknown to POMSB, Swakaya had a financing arrangement with Sabah Development Bank ("SDB") and the power plants operator was placed under an obligation to SDB to remit all payments due to Swakaya to SDB. Due to some administrative issues, the moneys due to POMSB were remitted by power plants operator into a joint Swakaya/SDB Bank account. SDB then, despite its earlier promise to POMSB to remit the moneys to POMSB once POMSB establishes that the payment was for a direct supply to the power plants operator, refused and utilized the moneys to set off against Swakaya's debt to the bank. The sum involved was RM24,835,000 (P307). POMSB sued Swakaya and SDB for, among others, breach of trust. Swakaya did not appear in court and judgment was awarded in favor of POMSB and against Swakaya.

In April 2016, the Kota Kinabalu High Court ruled in favor of the POMSB and a judgment sum inclusive of interest amounting to RM27,759,000 (P343) was deposited to its solicitor account in August 2016. SDB subsequently filed an appeal to Court of Appeal.

In May 2017, the Court of Appeal re-affirmed the decision of the Kota Kinabalu High Court and dismissed SDB's appeal with costs of RM15,000 (P0.20) awarded to POMSB. In June 2017, SDB filed a Notice of Motion for leave to appeal to the Federal Court against the decision of the Court of Appeal, which was granted in April 2018. After hearing the appeal, in February 2020, the Federal Court allowed the appeal by SDB and set aside the Court of Appeal's decision. POMSB is exploring the possibility of a review of the said Federal Court decision.

Considering the length of time of litigation matters, a discount of RM7,641,000 (P95) was computed based on the original effective interest rate. Part of the discount, amounting to RM1,636,000 (P20) was unwound this year and recognized as interest income.

The balance amounting to RM23,074,000 (P282) was provided full impairment in 2019 (Note 26).



c. 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. The SC issued its Entry of Judgment declaring that its decision dated July 9, 2018 in the Parent Company’s favor already attained finality on April 1, 2019. This case could now be considered closed and terminated.

d. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent Company not criminally liable, but the SBMI found the Parent Company to have overloaded the vessel. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the Regional Trial Court of Guimaras 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, 2019. In the course of plaintiffs’ presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City, which, on January 9, 2020 issued a Resolution ordering the Parent Company to file its comment on plaintiffs’ petition within 10 days. Parent Company filed a motion for reconsideration of said Resolution, which remains pending. In the meantime, proceedings before the trial court continues.

e. Other Proceedings

The Group is also a party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these other proceedings will not have a material adverse effect on the Group's business financial condition or results of operations.

- f. The Group has unused letters of credit totaling approximately P21,041 and P33,193 as of December 31, 2019 and 2018, respectively.



**PETRON CORPORATION AND SUBSIDIARIES**  
**INDEX TO SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2019**

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**Statement of Management's Responsibility for the Consolidated Financial Statements**

**Report of Independent Auditors on Supplementary Information Filed Separately from the Consolidated Financial Statements**

**Supplementary Schedules to the Consolidated Financial Statements**

Supplementary Schedules of Annex 68 - J	Page No.
A. Financial Assets	NA <sup>(a)</sup>
B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	NA <sup>(b)</sup>
C. Amounts Receivable and Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements	1 - 2
D. Long-term Debt	3
E. Indebtedness to Related Parties	NA <sup>(c)</sup>
F. Guarantees of Securities of Other Issuers	NA
G. Capital Stock	4

<sup>(a)</sup>Balance of Financial Assets at Fair Value Through Profit or Loss is less than 5% of total current assets.

<sup>(b)</sup>Balance of account is less than 1% of the total assets of the Group and no individually significant advances over P100,000.

<sup>(c)</sup>Balance of account is less than 5% of total assets of the Group

**Map of the Conglomerate within which the Group belongs**

**Financial Soundness Indicators**

**Schedule of Proceeds from Recent Offering of Securities**

**Report on Independent Auditors on Supplementary Information Filed Separately from the Separate Financial Statements**

**Supplementary Schedule to Separate Financial Statements**

Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration



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Website home.kpmg/ph  
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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 10, 2020.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following schedules are the responsibility of the Group's management:

- Supplementary Schedules of Annex 68-J
- Map of the Conglomerate

These supplementary information are presented for purposes of complying with the Revised Securities Regulation Code (SRC) Rule 68, and are not required parts of the consolidated financial statements. Such supplementary information have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

### R.G. MANABAT & CO.

DARWIN P. VIROCEL  
Partner  
CPA License No. 0094495  
SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020  
Tax Identification No. 912-535-864  
BIR Accreditation No. 08-001987-031-2019  
Issued August 7, 2019; valid until August 6, 2022  
PTR No. MKT 8116787  
Issued January 2, 2020 at Makati City

March 10, 2020  
Makati City, Metro Manila



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of Petron Corporation (the "Company") as at and for the years ended December 31, 2019 and 2018, and have issued our report thereon dated March 10, 2020.

Our audits were made for the purpose of forming an opinion on the separate financial statements taken as a whole. The supplementary information included in the *Reconciliation of Retained Earnings Available for Dividend Declaration* is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code (SRC) Rule 68, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

### R.G. MANABAT & CO.

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## **REPORT OF INDEPENDENT AUDITORS ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 10, 2020. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas and calculations, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

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

DARWIN P. VIROCEL  
Partner  
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March 10, 2020  
Makati City, Metro Manila

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(Amounts in Millions)**

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	4,683	14,447	(14,521)	-	4,609	2,446	2,163	4,609
Overseas Ventures Insurance Corporation Ltd.	10	49	4	-	63	63	-	63
Petrogen Insurance Corporation	46	748	(669)	-	125	125	-	125
Petron Freeport Corporation	-	-	9	-	9	9	-	9
Petron Singapore Trading Pte., Ltd.	11,068	242,712	(231,783)	-	21,997	21,997	-	21,997
Petron Marketing Corporation	19	-	(2)	-	17	17	-	17
New Ventures Realty Corporation and Subsidiaries	70	310	(247)	-	133	51	82	133
Limay Energen Corporation	-	7	(1)	-	6	6	-	6
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	1	-	4	-	5	5	-	5
Petrochemical Asia (Hk) Limited and Subsidiaries	74	-	19	-	93	93	-	93
<b>TOTAL</b>	<b>15,971</b>	<b>258,273</b>	<b>(247,187)</b>	<b>-</b>	<b>27,057</b>	<b>24,812</b>	<b>2,245</b>	<b>27,057</b>



**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**  
**(Amounts in Millions)**

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	11,196	243,817	(232,720)	-	22,293	22,211	82	22,293
Overseas Ventures Insurance Corporation Ltd.	7	-	40	-	47	47	-	47
Petrogen Insurance Corporation	49	-	1,518	-	1,567	1,567	-	1,567
Petron Freeport Corporation	52	113	(88)	-	77	77	-	77
Petron Singapore Trading Pte., Ltd.	2,449	12,353	(13,977)	-	825	825	-	825
Petron Marketing Corporation	-	-	-	-	-	-	-	-
New Ventures Realty Corporation and Subsidiaries	2,216	150	(130)	-	2,236	73	2,163	2,236
Limay Energen Corporation	-	-	2	-	2	2	-	2
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	2	1,840	(1,832)	-	10	10	-	10
Petrochemical Asia (Hk) Limited and Subsidiaries	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>15,971</b>	<b>258,273</b>	<b>(247,187)</b>	<b>-</b>	<b>27,057</b>	<b>24,812</b>	<b>2,245</b>	<b>27,057</b>

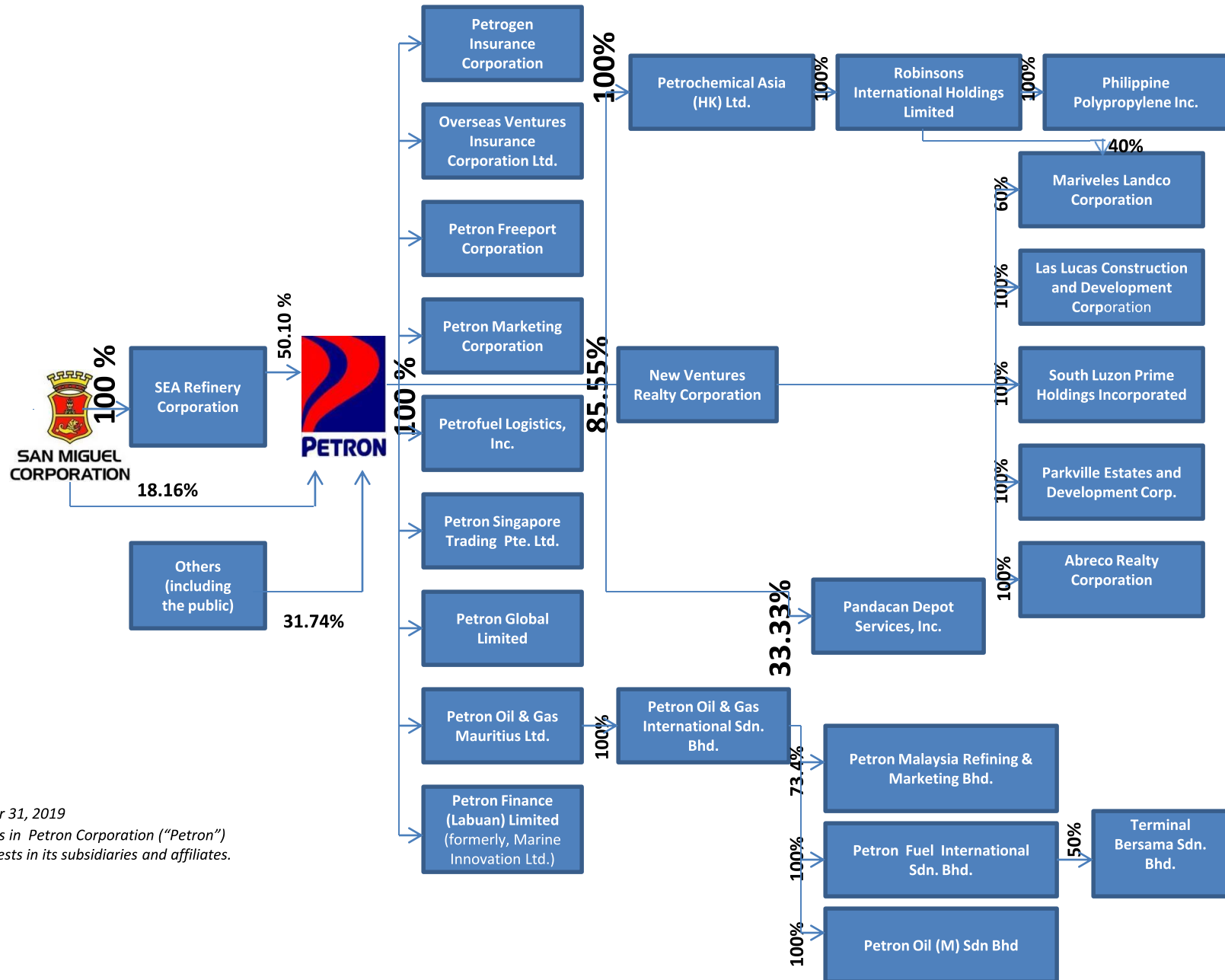
**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D - LONG-TERM DEBT**  
**DECEMBER 31, 2019**  
*(Amounts in Millions)*

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Amount Shown as Current	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Final Maturity
Unsecured term notes and bonds:							
<i>Peso denominated:</i>							
Fixed	Union Bank of the Philippines	3,000	998	2,995	5.4583%	2-yr grace period; amortized 5 years	October 2022
Fixed	Philippine Depository and Trust Corp.	13,000	-	12,947	4.0032%	Bullet	October 2021
Fixed	Philippine Depository and Trust Corp.	7,000	-	6,959	4.5219%	Bullet	October 2023
Fixed	Banco De Oro	10,179	2,127	10,136	5.5276%	Amortized quarterly for 7 years	July 2024
Fixed	Bank of the Philippine Islands	7,500	2,489	7,479	5.7584%	Amortized quarterly beginning on the fifth quarter	December 2022
Fixed	Philippine Depository and Trust Corp.	13,200	-	13,069	7.8183%	Bullet	April 2024
Fixed	Philippine Depository and Trust Corp.	6,800	-	6,730	8.0551%	Bullet	October 2025
		<u>60,679</u>	<u>5,614</u>	<u>60,315</u>			
<i>Foreign currency - denominated:</i>							
Floating	Standard Chartered Bank (Hongkong) Limited	33,130	11,267	32,854	LIBOR + margin	2-yr grace period; amortized 5 years	June 2022
Floating	Standard Chartered Bank (Hongkong) Limited	40,508	-	39,908	LIBOR + margin	2-yr grace period; amortized 5 years	May 2024
		<u>73,638</u>	<u>11,267</u>	<u>72,762</u>			
<b>Total Long-term Debt</b>		<b><u><u>P 134,317</u></u></b>	<b><u><u>P 16,881</u></u></b>	<b><u><u>P 133,077</u></u></b>			

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE G - CAPITAL STOCK**  
**DECEMBER 31, 2019**

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors and executive officers	Others
Common stock	9,375,104,497	9,375,104,497	Not applicable	6,858,912,221	1,835,756	2,514,356,520
Preferred stock	624,895,503	-	Not applicable	-	-	-
Series 2B Preferred		2,877,680	Not applicable	-	-	2,877,680
Series 3A Preferred		13,403,000	Not applicable	-	8,500	13,394,500
Series 3B Preferred		6,597,000	Not applicable	-	20,300	6,576,700

# PETRON GROUP STRUCTURE



\* Structure as of December 31, 2019 indicating voting interests in Petron Corporation ("Petron") and Petron's voting interests in its subsidiaries and affiliates.

**PETRON CORPORATION AND SUBSIDIARIES**  
**FINANCIAL SOUNDNESS INDICATORS**

<b>Financial Ratios</b>	<b>Formula</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Liquidity</b>			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>1.13</b>	1.04
b) Quick Ratio	$\frac{\text{Current Assets less Inventories and Other Current Assets}}{\text{Current Liabilities}}$	<b>0.50</b>	0.39
<b>Solvency</b>			
c) Debt to Equity Ratio	$\frac{\text{Total Interest-bearing Liabilities}^b}{\text{Total Equity}}$	<b>2.21</b>	2.33
d) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>4.27</b>	4.16
<b>Profitability</b>			
e) Return on Average Equity	$\frac{\text{Net Income}^a}{\text{Average Total Equity}}$	<b>2.58%</b>	7.61%
f) Return on Average Assets	$\frac{\text{Net Income}^a}{\text{Average Total Assets}}$	<b>0.61%</b>	2.03%
g) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$	<b>1.28</b>	2.08
<b>Operating Efficiency</b>			
h) Volume Growth	$\left( \frac{\text{Current Period Volume}}{\text{Prior Period Volume}} \right) - 1$	<b>-1.42%</b>	0.68%
i) Sales Growth	$\left( \frac{\text{Current Period Sales}}{\text{Prior Period Sales}} \right) - 1$	<b>-7.72%</b>	28.25%
j) Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Sales}}$	<b>3.15%</b>	<b>3.39%</b>

<sup>a</sup> trailing 12 months net income

<sup>b</sup> excludes lease liabilities

## PETRON CORPORATION

### Schedule of Proceeds from Recent Offering of Securities

Issuance of P15 Billion Perpetual Preferred Shares Series 3 with an Oversubscription Option of P5 Billion Perpetual Preferred Shares Series 3

#### i. Gross and Net Proceeds (as disclosed in the final prospectus)

The Company estimates that the net proceeds from the Offer shall amount to approximately P 19.84 billion, after deducting the following fees, commissions and expenses:

In P Millions	
<b>Gross Proceeds</b>	<b>P20,000.00</b>
Less: Underwriting fees for the Preferred Shares being sold by the Company	110.00
Taxes to be paid by the Company	8.48
Philippine SEC filing and legal research fee	5.62
PSE filing fee (inclusive of VAT)	22.00
Estimated legal and other professional fees	8.50
Estimated other expenses	1.00
<b>Total Expenses</b>	<b>P155.60</b>
<b>Net Proceeds</b>	<b>P19,844.40</b>

The net proceeds of the Offer shall be used primarily for the redemption of the Series 2A Preferred Shares, repayment of the Company's outstanding short-term debt extended by the Bank of the Philippine Islands, and for general corporate purposes.

#### ii. Actual Gross and Net Proceeds

In P Millions	
<b>Actual Gross Proceeds</b>	<b>P20,000.00</b>
Less: Underwriting Fees, Filing and Processing Fees, Documentary Stamp Tax, Legal and Professional Fees and Other Expenses	155.60
<b>Actual Net Proceeds</b>	<b>P19,844.40</b>

#### iii. Each Expenditure Item where the Proceeds was Used

In P Millions	
<b>Actual Net Proceeds</b>	<b>P19,844.40</b>
Less: Redemption of the Series 2A Preferred Shares	7,122.32
Repayment of outstanding short-term debt from Bank of the Philippine Islands	6,960.00
General corporate purposes	5,762.08
<b>Total Payments</b>	<b>P19,844.40</b>
<b>Balance</b>	<b>P0.00</b>

#### iv. Balance of the Proceeds as of the End of the Reporting Period

As of the year ended December 31, 2019, the proceeds were fully utilized.

**PETRON CORPORATION**  
**SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City**  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**

**December 31, 2019**

(Amounts in Thousand Pesos)

*(Figures based on audited  
separate financial statements)*

Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning		<b>P18,599,985</b>
<b>Add: Net income actually earned/realized during the period</b>		
Net income during the period closed to retained earnings	P114,923	
Less: Non-actual/ unrealized income, net of tax:		
Fair value gains arising from marked-to-market measurement (P2,229,316 if gross of tax)	1,560,521	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS (P580,062 if gross of tax)	406,043	
Sub-total	(1,851,641)	
<b>Net income (loss) actually earned (incurred) during the year</b>	<b>(1,851,641)</b>	<b>(1,851,641)</b>
Less: Dividend declarations during the year	(2,515,305)	
Distributions paid	(1,697,022)	
Effects of adjustment due to adoption of IAS 16 charged directly to opening retained earnings	(2,039,452)	
	(6,251,779)	<b>(6,251,779)</b>
<b>TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, ENDING</b>		<b>P10,496,565</b>



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Petron Corporation 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, 2019 and 2018**, 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 (the "Board") is responsible for overseeing the Group's financial reporting process.

The Board 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 stockholders, 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 10th day of March 2020



**SUBSCRIBED AND SWORN** to before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this March 10, 2020, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of the contents of thereof.

Name	Competent Evidence of Identity	Date/Place of Issue
Eduardo M. Cojuangco, Jr.	Passport No. P6769283A	13 April 2018/ DFA Manila
Ramon S. Ang	Passport No. P2247867B	22 May 2019 / DFA Manila
Emmanuel E. Eraña	Passport No. PO502156B	01 February 2019 /DFA NCR East

Doc. No. 147  
Page No. 31  
Book No. V  
Series of 2020.



**MARIAN WILMA H. BAUTISTA**  
Notary Public for Mandaluyong City  
40 San Miguel Avenue, 1550 Mandaluyong City  
Appointment No. 0540-19  
Until December 31, 2020  
Attorney's Roll No. 65589  
PTR No. 4330396/01-02-20/Mandaluyong  
IBP No. 089175/01-02-20/RSM  
MCLE Compliance No. VI-0002198/4-24-2017