Fueled by Passion

ANNUAL REPORT 2019

PETRON

Our Vision

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

Our Mission

We will achieve our vision by:

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

Contents

Fueled by Passion

People are the heart and soul of Petron. They are the fuel that drive and give meaning to our success. The year 2019 is a concrete testament that our strength lies in our people - our employees, customers, dealers, business partners, and other stakeholders especially those in our fencelines. Each of them has a hand in shaping our story and solidifying our legacy of leadership and service spanning more than eight decades. Together, we represent one community united in our goals, empowered by a shared past, and fueled by the same passion.

PETRON

We are Petron

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

Here in the Philippines, we supply nearly 30% of the country's total fuel requirements through the operation of our 180,000 barrel-per-day oil refinery in Bataan. Considered one of the most advanced facilities in the region, our refinery processes crude oil into a full range of petroleum products including gasoline, diesel, LPG, jet fuel, kerosene and petrochemicals.

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

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

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

Our product leadership also extends to our premium line of engine oils that meet or even exceed global standards. These are formulated, tested, and produced locally at our brand-new Lube Oil Blending Plant in Tondo, Manila, having twice the capacity of our former plant in Pandacan.

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

In line with our efforts to increase our presence in the region, we continue to expand our business in Malaysia, which comprises integrated refining, distribution, and marketing. We operate an 88,000 barrel-per-day refinery in Port Dickson, Lumut PME Plant, 10 terminals including four affiliates, and a retail network of around 700 service stations.

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

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

Eduardo M. Cojuangco Jr.
Chairman

Message to stockholders

Dear fellow stockholders,

To say that 2019 was a testing year for everyone in Petron would be an understatement. Having weathered a very tough 2018, we found ourselves confronted by another equally challenging year, one characterized by volatile world oil prices, razor thin margins in the refinery business, and a highly competitive downstream oil industry where discounts and promotions have become the norm.

Yet in many ways we can also boast that 2019 brought out the best in us. Hard times show us who we truly are and how strong and disciplined we can be. We worked extra hard to execute better on our strategies and improve virtually all areas of our business. Our passion for the work we do kept us going.

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The industry situation

Almost the same factors that weighed down our performance in 2018 persisted in 2019. For one, the market remained volatile due to oversupply and lower demand even as OPEC and other producers agreed to extend production cuts. It didn't help that the US-China trade war, among other geopolitical conflicts, put pressure on oil prices.

The benchmark Dubai crude averaged US$63 per barrel in 2019; in 2018, prices were at an average of US$69 per barrel. Regional prices of finished petroleum products and petrochemicals also dropped, while average crude premiums in 2019 almost trebled from the previous year, further depressing margins.

The proliferation of white stations in the Philippines has drastically changed the competitive landscape. Today, these stations comprise about 50% of the total downstream oil industry. Price wars intensified and the second tranche of excise taxes on fuel added P9.00 and P4.50 to every liter of diesel and gasoline, respectively. Rampant oil smuggling, which the government has tried to combat through its fuel marking program, led to a wide variation in pump prices—sometimes as much as a P10-P15 per liter difference.

Meeting the challenges

In 2019, consolidated revenues reached P514.4 billion, 8% lower than the previous year. Total sales volumes also slightly declined to 107 million barrels from 108.5 million barrels as local sales contracted by 5%. An earthquake in April forced **Petron Bataan Refinery (PBR)** to shutdown until August, leaving a huge dent on our domestic production and, consequently, our total sales volumes for the year.

While Petron missed its revenue targets, our judicious use of resources and the positive contributions of **Petron Malaysia** helped the company deliver a modest net income of P2.3 billion. Philippine operations posted a net loss of P1.4 billion from a P2.8 billion net income in 2018—again the result of the Bataan refinery shutdown, and start-up and stabilization activities in August and September.

Despite the decline in volumes, Petron maintained its overall market share, cornering about a third of local demand. We continue to lead the market in major segments like retail, industrial, and LPG.

Our company also remained a viable investment option, thanks to the continued support and confidence of the investment community. In June, Petron successfully listed P20 billion worth of preferred shares, making this our biggest preferred shares offering to date. The proceeds from this fundraising activity helped repay our short-term debts and infuse fresh capital into our ongoing expansion projects.

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Steadfast in pursuing growth

Despite these temporary setbacks, we continued to pursue our strategic goals to sustain our leadership and deliver long-term growth for the company.

While Petron still manages the most extensive network in the country, we opened 124 new stations in 2019, bringing our total number of stations to over 2,400. These new stations are helping fulfill our commitment to make a positive impact in just about every community in the country.

We made sure that our LPG products, **Petron Gasul** and **Fiesta Gas**, as well as our automotive lubricants are always within reach of our customers. We also grew our network of **Car Care Centers** and widened the range of food and lifestyle establishments at our stations.

Investing in the future

The year was also spent increasing operational efficiency at our refinery, terminals, and stations. We kept to our strategy of continuous improvement and expansion to better position Petron for the future.

Ramon S. Ang
President and Chief Executive Officer

The government's fuel marking program is a step in the right direction. To this end, all our major facilities, including our refinery and terminals, have already complied with the program.

Despite a slower crude run at Petron Bataan Refinery, we ramped up production of products that yielded for us higher returns. We applied the same principle at our **Polypropylene Plant** as we continued to develop high-demand product grades. Expansion at the plant is almost complete and this will increase its capacity from 160 MT per year to 225 MT.

Petron's **Logistics Master Plan (LMP)** has resulted in more streamlined and environment-friendly operations at the terminal level. Existing storage tanks were upgraded and new ones were built. We modernized our fleet of tank trucks and adopted new technology.

The **New Lube Oil Blending Plant (NLOBP)** was opened in Tondo, Manila, increasing our capacity to produce world-class lubes and greases. Petron's import operations at SL PHIVIDEC in Tagoloan, Misamis Oriental also began last year. This, in turn, facilitates direct import of our products in the southern Philippines.

Keeping our value chain clean and efficient

As a company, we believe that with growth comes the need for more sustainable operations. As we expand our business, we also make it an effort to go beyond compliance, affirming our commitment to health and safety, quality management, and environmental protection.

Petron's facilities, including PBR, have received the Integrated Management System (IMS) certification. Terminals in Cavite, Navotas, JOCASP NAIA and our Subic Blending Plant were recently certified under the new ISO 45001:2018 benchmark by Intertek. They were among the first in the industry to obtain this new certification and we expect the rest of our terminals to follow suit. Our Mandaue lab was also granted by the Philippine Accreditation Bureau an ISO/IEC 17025 certification which is the primary ISO standard for testing and calibration laboratories. Petron remains the only Philippine oil company with this distinction.

Our Operations Group maintained its flawless safety record with an accumulated 92 million safe manhours. Our refinery achieved 10.28 million manhours without lost-time incidents.

Our role in nation building

As the industry leader, we have been working hard to push for a level playing field. Fuel smuggling has worsened in recent years, depriving government of revenues for public expenditure and consumers with quality fuel products.

The government's fuel marking program is a step in the right direction. To this end, all our major facilities, including our refinery and terminals, have already complied with the program.

We also continued to support industry-wide efforts to suppress illegal practices in the liquefied petroleum gas (LPG) sector. In 2019, we successfully captured 3,000 cylinders of illegally refilled Gasul and Fiesta Gas. We also launched our new 2.7-kg Fiesta Gas cylinder as a safer alternative to butane canisters.

Giving back to our communities

Petron's CSR efforts on education, environment, health, livelihood and community engagement allow us to concretize our commitment to nation building and make a deep and lasting impact in our fenceline communities.

In December, we helped victims of the earthquake in North Cotabato as we distributed relief goods through **Petron Foundation**. Together with the **Petron Dealers Association (PETDA)**, we conducted relief operations for 850 families in the hard-hit area of Kidapawan City.

We also continued to take the lead in espousing good and responsible motoring practices. Hence, **Fuel Wise** – a nationwide advocacy that aims to inculcate among Filipino motorists a stronger sense of responsibility, awareness, and resolve to make better choices. We look forward to expanding the scope and influence of this project.

Sustaining momentum in Malaysia

We are also proud to report our progress in Malaysia almost eight years since entering this highly competitive market. While challenging in many respects, 2019 saw us strengthening our brand and catering to even more Malaysian consumers.

Together with our sister companies, we added 57 new stations to our growing retail network. Currently, there are now about 700 Petron stations strategically located all over Malaysia. We also served more households and commercial consumers through our clean-burning Gasul, now available at more Petron stations.

We are in the last few stages with our two major projects at our **Port Dickson Refinery (PDR)** – our Diesel Hydrotreater Project that will allow us to produce cleaner Euro 5 diesel, and the construction of two additional product tanks and jetty facilities to increase savings on freight cost. From where we stand, the future looks bright for Petron Malaysia.

Our people, our best assets

We rang the opening bell at the Philippine Stock Exchange (PSE) to celebrate our 25th year of listing in September. We wish we could have marked the occasion on a high note, but truth be told, the year could have been more difficult if not for the heart and passion of those who make up the entire organization. Their collective hardwork and dedication proved greater than the difficulties we conquered.

Already, we know that 2020 will be another challenging year for Petron. The COVID-19 pandemic is perhaps the greatest crisis of our generation and we are only just seeing its toll on both lives and livelihoods. We know that as our economy slowly reopens and businesses struggle to get back on their feet, we will need to find new growth pathways and reshape our business to align to the new economic realities once the immediate threat of the pandemic has passed. Nonetheless, we have never been more inspired to work together to fuel our nation forward while helping the most vulnerable members of society.

That said, we count on the invaluable support of our officers, employees, business partners, customers, and shareholders. Thank you for sharing in and fueling our passion for dedicated service. As we navigate our company through these turbulent times, let us keep in mind that Petron has survived many other hardships in the past. With such resilience being the hallmark of every single Petron employee, lasting advantages in brand, technology, and winning strategies that will matter in the months and years ahead, and an excellent team behind us, we are confident that Petron will pull through in this most difficult of times and emerge strong.

Eduardo M. Cojuangco, Jr.
Chairman

Ramon S. Ang
President and Chief Executive Officer

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Fueled by
Passion and Excellence

Each of our achievements reflects our strong corporate culture that every Petron employee embodies.

We stayed on the path of continued growth

Fueled by a commitment to serve even the most far-flung areas, we continued to make progress in one of our key priorities: bringing our world-class products and services closer to more consumers. We asserted our leadership in retail as we opened 124 new service stations in the country. Alongside expanding our reach, we also upgraded some of our existing stations to attend to our customers' needs better.

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Our service masters are regularly trained in product knowledge and customer service excellence.

Our growth didn't stop there. We stepped up our LPG network expansion as we added more than 600 branch stores and exclusive retail outlets. We also introduced our new 2.7-kg **Fiesta Gas** which by the end of the year had nearly 4,300 users already.

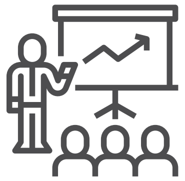
The consistent increase in our lubes outlets also reflects strong brand preference. As of end-2019, over 2,000 more outlets carried our top-of-the-line engine oils including **Blaze Racing, Rev-X,** and **SPRINT 4T**.

We opened 9 new Car **Care Center (CCC)** and **Car Care Center Express (CCCE)** branches proudly offering quality but affordable maintenance and repair services. Fueling convenience, we also welcomed more food and lifestyle locators at our stations.

As we commit ourselves to providing excellent products and aftersales services, we continued to enjoy the trust and confidence of our commercial and industrial accounts. We remained the market leader in the aviation sector, securing the biggest share in all of the country's major airports namely NAIA, Clark, Cebu, and Davao.

Everything we do is to enhance the experience and satisfaction of our millions of customers to whom we owe our success. Thus, we continued to invest in research and development and rolled out promos and campaigns that make for a more enriching Petron experience.

Our products remained compliant with the highest and most stringent standards for fuel quality and efficiency. Formulated with our advanced TriAction technology, our trailblazing fuels namely **Petron Blaze 100, XCS, Xtra Advance, Turbo Diesel,** and **Diesel Max** lead to more efficient engine operation, more power, and additional fuel economy.



We partnered with another leading brand, Jollibee, to make journeys more rewarding for our loyal customers.

We remained the market leader in the aviation sector, securing the biggest share in all of the country's major airports.

OUR 2019 GROWTH HIGHLIGHTS

OVER 2,400 STATIONS
(124 new builds)

ALMOST 6,000 LPG BRANCH STORES AND EXCLUSIVE RETAIL OUTLETS
(additional 600 branch stores and retail outlets combined)

NEARLY 20,000 NON-TRADITIONAL LUBES OUTLETS
(over 2,000 new outlets)

39 CAR CARE CENTER BRANCHES
(9 new outlets)

Our lubricant products, in turn, are tested by third party institutes allowing us to secure certifications and approvals from accredited global industry bodies and original equipment manufacturers (OEMs). This means that our lubes products, just like our fuels, meet or even exceed international standards.

As a fuel innovator and a trusted brand, we remained a major force in Philippine motorsports, supporting major motoring events like the Toyota Vios Cup and Kalayaan Cup, and honing future professional drivers through our sponsorship of the Asian karting Series (AKOC) and Karting Academy.

Finally, we marked 86 years of dedicated service with ***Kasabay Sa Lakbay***. Depicting life experiences where Petron has been the Filipino's reliable partner, this campaign is our humble way of thanking our millions of customers for making us part of their journeys and for staying loyal all these years.

We continued to reward our loyal customers through bonus points and discounts with our merchant partners. As of end-2019, we had nearly 1.6 million active **Petron Value Card (PVC)** members enrolled in our loyalty program. We also forged a new partnership with the Automobile Association Philippines (AAP), the country's oldest and largest auto club, as well as major dealerships to extend our brand of service to an even wider audience.

In 2019, Toyota chose Petron XCS to be the official fuel of the Vios Cup for the second straight year - a testament that even professional drivers can rely on our products in racing conditions.

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A salute to service

Jolieson Quilang
Service Master, Petron Kapitolyo

It is often the kind of service we receive that makes or breaks our impression of an establishment. At Petron, we provide only the best customer experience at our stations delivered by our reliable service masters and service station personnel.

Jolieson Quilang, a service master at our station in Kapitolyo, has been giving motorists the signature **Petron Best Day** for the past 14 years. Through years of experience and with the help of his colleagues and station dealer, he slowly learned that his job is far from just assisting customers. It is also about building relationships and maintaining them. Years later, he has gained loyal customers who only trust him to load and service their vehicles.

When asked what motivates him to always give his one hundred percent, he said: "Unang-una, mahalin mo ang trabaho mo. Para sa akin pangalawang tahanan ko na ito. Kaya naman naibibigay ko ang best ko." [First, love your job. This is my second home. That is the reason why I always give my best.]

Jolieson also appreciates how his dealer takes good care of his staff, whether in terms of engaging them in regular training or treating them as an extension of his own family.

Jolieson and his colleagues are the face of Petron. Reflected in that image, we see quality, dedication, and sincerity - the very values that we want our customers to feel every time they stop by to make us a part of their journeys.

We consistently aim for refinery optimization

Through our strategic efforts, we maintained our track record of refining excellence at the **Petron Bataan Refinery (PBR).** Despite challenges on the production side, we were quick to adapt to the market situation as we took steps to maintain our efficiency and profitability while ensuring a stable and reliable fuel supply.

While refining activities decelerated following the more than three-month total plant shutdown of the refinery, we identified new ways to increase production of more profitable products, optimizing RMP-2 (Refinery Masterplan Phase-2) which allows us to fully maximize the refinery's 180,000 barrel-per-day capacity.

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At the same time, we continued to develop new product grades at our **Polypropylene (PP) Plant** in Mariveles where we produce raw materials used for manufacturing yarn and fiber for sacks and ropes; film for packaging materials for food and apparel; and for bottle caps and furniture.

Our PP Plant was again recognized for its contribution to the Philippine economy. In the field of sustainable export development, the plant was awarded by DTI (Department of Trade and Industry) for being the country's top exporter in the chemicals category at the National Export Congress.The PP Plant also ranked among Subic's top taxpayers and top exporters with its polypropylene export reaching 59K MT in 2019. We look forward to fueling our economy even more once we complete the plant's expansion.

Our polypropylene plant in Mariveles was again recognized for its contribution to the Philippine economy. It was awarded by the Department of Trade and Industry for being the country's top exporter in the chemicals category at the National Export Congress.

In 2019, the refinery received its Integrated Management Systems (IMS) re-certification covering Quality Management System (QMS ISO 9001:2015), Environmental Management System (EMS ISO 14001: 2015), and Occupational Health and Safety Management (OHSM, BS OHSAS 18001: 2007). This was given upon by recommendation of TUV SUD PSB Philippines, Inc., attesting to its consistent excellent performance in health and safety, environmental management, and quality management. PBR has successfully maintained its IMS-certification for 11 years and counting.

The year 2019 also marked the PP plant's third recertification for ISO 9001:2015 Quality Management System. This came alongside the renewal of its Halal Management System accreditation and product certifications for its PETROLENE products.

Before 2019 ended, we rolled out the implementation of the fuel marking program – which requires the use of an official marker on petroleum products that are refined, manufactured, or imported into the country – at our Integrated Management Systems (IMS) - certified refinery in Limay, Bataan. For us, this meant more than just complying with government regulations but a show of support to the government's efforts to curb smuggling, believing in its potential to improve tax collection and promote consumer welfare.

Overcoming obstacles

Jeffrey P. Reginio
PBR Process Technician and SEA games medalist

Juggling two of the things you love at the same time seems demanding enough under normal circumstances. Jeffrey P. Reginio, however, takes this to the next level.

Jeffrey is a Process Technician at the Petron Bataan Refinery (PBR). He is also a budding athlete, and not just as a hobby. He recently competed at the 30th Southeast Asian Games as part of the Philippine National Team for Obstacle Course Racing (OCR). Even as a first-time national athlete, he was able to snatch the gold for the 400-meter Mixed Team Relay category along with his teammates.

The excitement he felt when he was chosen to represent the country outweighed the pressure that came with it. He did not let his shifting schedules at work stop him from pursuing his love for the sport. Instead of looking at them as two opposing responsibilities, he recognized that both emphasized on the values of discipline, teamwork, and excellence.

Jeffrey was fueled by a deep understanding of his strengths and vulnerabilities as an athlete and as a full-time employee. He was also able to channel the support of his loved ones into positive energy. "It was hard to balance my life as an engineer and as an athlete, but I overcame this challenge by planning ahead of time," he shares.

This engineer/athlete constantly faces obstacles on and off the course but he always made sure that he is having fun. "At the end of the day... there's always that thing we love that makes us feel alive, gives us the feeling of fulfillment, and challenges us to make us better."

For some people, this dedication might take its toll. For Jeffrey, it is precisely this kind of commitment that gets him up every morning. He is proud of what he has achieved, and even more motivated to see what other paths this humble feat will lead him to.

We improve every aspect of our supply chain

At Petron, efficiency and safety always go hand in hand. We make every effort to uphold operational excellence across our supply and delivery network while strictly adhering to relevant government and international standards. We believe in conducting our business safely, responsibly, and always with the future in mind.

The year 2019 marked the start of our New Lube Oil Blending Plant (NLOBP)'s commercial operations. Located at the Harbor Center in Tondo, Manila, the plant equipped with ABB-Cellier and OCME technology increases our capacity to produce our top-selling lubes and greases to better serve our market here and abroad. The new LOBP has a filling capacity of 90 million liters per year/shift, twice the capacity of our former plant in Pandacan.

Another major milestone, we commenced operations at our SL PHIVIDEC import terminal in Tagoloan, Misamis Oriental, increasing our efficiency in handling and distributing products in Mindanao. SL PHIVIDEC is our first import facility to comply with the fuel marking program shortly after its rollout at our refinery in December.

The year 2019 marked the start of our New Lube Oil Blending Plant's commercial operations. The plant increases our capacity to produce our top-selling lubes and greases to better serve our market here and abroad.

To support higher demand from both households and industrial LPG customers, we completed several projects such as our expanded refilling plant in San Pablo, Laguna; four additional LPG truck loading bays at our Rosario Terminal in Cavite; and the installation of LPG refilling equipment in other locations. We also commissioned our new LPG import facility in Tagoloan.

Our leadership in the aviation sector encouraged us to also expand and modernize our Jet-A1 facilities. We installed a Fuel Hydrant System (FHS) at the Mactan-Cebu International Airport to accommodate increased demand. Nine of our into-plane equipment in Cebu, as well as in Manila and Iloilo, were also upgraded for added reliability and efficiency.

Our import operations at SL PHIVIDEC in Tagoloan, Misamis Oriental facilitate direct import of our products in the South.

The new LPG refilling equipment in our Gasul Terminal in Pasic is one of several projects completed in support of our LPG business growth.

Through our robust into-plane operations, we helped ensure product availability at the Laoag Airport allowing the Philippine Air Force (AFP) to conduct rescue and relief operations for victims of the Batanes earthquake. This is a firm testament to our promise to fuel the nation's needs, especially during critical times.

We heavily invest in modern technology to continuously improve customer satisfaction. For 2019, our nationwide delivery improvement stood at 98%. This was achieved through tighter monitoring of tank truck attendance through our Central Monitoring System (CMS), strict compliance with our tank truck modernization program, and closer synergy within the organization.

To further speed up our product delivery process, we deployed 15 brand new MT trucks for LPG interplant deliveries in cooperation with Petrofuel Logistics Inc. (PFLI). We specifically created a truck hauling company for this initiative which can eventually cater to our products.

We put health and safety at the center of our operations. Several of our terminals and LPG 3rd-party refilling plants are now equipped with an advanced flammable vapor detection system. This serves as an early warning system in the event of any LPG release, preventing fire or explosion incidents. Our facilities are subject to regular inspection and repair to maintain their excellent condition. We also provide our personnel with extensive safety trainings and exercises.

We demonstrated our disaster preparedness when our own fire response teams helped our fenceline communities in Mandaue, Bacolod, Rosario, Pandacan, Limay, and Zamboanga. It is worth noting that our Zamboanga Terminal together with its terminal manager and one of its technicians was recognized by the Department of Labor and Employment (DOLE) for its OSH practices, while the Roxas Terminal firefighting team was named champion of the Region 6 Bureau of Fire Protection Firefighting Olympics.

We demonstrated our disaster preparedness when our own fire response teams helped our fenceline communities in Mandaue, Bacolod, Rosario, Pandacan, Limay, and Zamboanga.

The Subic Blending Plant along with the Rosario, JOCASP NAIA, and Navotas terminals is among the first in the industry to qualify for the new ISO 45001:2018 benchmark by Intertek.

All our terminals are certified with the internationally recognized Integrated Management Systems (IMS). Specifically, 30 of our terminals are ISO 9001 (QMS)-certified, 29 of them are ISO 14001 (EMS)-certified, and 25 are OHSAS 18001 (Occupational Health and Safety)-certified. For Security, 15 of our terminals with pier facilities are ISPS-certified. As of this writing, four of our terminals have successfully migrated to the new ISO 45001:2018 standard and were among the industry's first to be certified by Intertek. Majority of our terminals have been audited and recommended for this certification in line with the new standard.

Our dedicated R&D team constantly examines our products at our world-class laboratories to ensure their consistent quality. In 2019, our Mandaue lab was granted by the Philippine Accreditation Bureau an ISO/IEC 17025 certification, the primary ISO standard for testing and calibration laboratories. This is the second time we received this certification as our Pandacan lab was certified in 2016.

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MANAGEMENT SYSTEMS	
Occupational Health/Safety Management System, OHSAS 18001:2007	**25 Terminals**
Occupational Health/Safety Management System, ISO 45001:2018	**4 Terminals** **as of March 2020*
Quality Management System, ISO 9001:2015	**30 Terminals**
Environmental Management System, ISO 14001:2015	**29 Terminals**
International Ship & Port Facility Security	**15 Terminals**

Going above and beyond for health and safety

Rosario Terminal Manager Joey Ortega (right) with DOLE OSHC Executive Director Noel Binag

As an industry leader, Petron takes every measure to ensure that its facilities are always safe.

In December 2019, Petron Rosario Terminal and its Terminal Manager, Engineer Joey P. Ortega won both the regional and national awards for the Department of Labor and Employment's (DOLE) 11th *Gawad Kaligtasan at Kalusugan*. The terminal received the National Silver Award for the Industry Category while Engr. Ortega was declared the National OSH Champion for the Individual Category. These awards were given in recognition of the terminal's and Engr. Ortega's achievements in Occupational Health and Safety.

At the Rosario Terminal, the measures they have in place are not merely mandates to be followed but are part of their everyday life. Through Engr. Ortega's steady leadership, the terminal also imparts the same safety culture with its partners and communities utilizing a combination of different methods and advocacies.

Aside from efforts such as the Fire Emergency Safety & Security Training Academy (FiESSTA) and HSSE Passport System detailing the accreditation requirement for employees, other activities were put in place to enhance the capabilities and well-being of the employees and other stakeholders. Regular assemblies for contractors (Mogass 4-C), planning and assessment (Oplan TACAS), recognition ceremonies for drivers (BROD Program), and assistance for Petron Foundation's CSR programs are also conducted. This demonstrates how a holistic approach can be integrated into a facility's day-to-day operations to achieve its goals.

These were not, however, accomplished overnight. Engr. Ortega talked about the rigorous process of accreditation for the DOLE awards and how it took cooperation and drive from both internal and external stakeholders for all these efforts to come to fruition. Their success shows us that positive results come from consistent efforts, unbridled dedication, and healthy collaborations.

We take care of our people

Our dedicated and hardworking team provided us with the support we needed to overcome a year of fiercer competition and industry challenges. They played a crucial role in protecting our lead and reaching our long-term goals.

We continued to prioritize the personal and professional well-being of our people. We pursued our career development programs, as well as our mentoring and coaching programs to facilitate a more personalized learning experience.

Our refinery and operations personnel are provided advanced training on operational safety, disaster preparedness, and emergency response including handling oil spills, live fire control, and fire and explosion hazard management. This not only promotes operational excellence but also enriches our people's skills set.

In the same way, we also engage our dealers, service masters, haulers, and drivers for seminars and trainings to instill a deeper appreciation of our values and bring them closer to our customers.

To better align our structure, some key sections were reorganized resulting in more effective and more synergized operations - with the welfare and best interest of our employees always as our primary consideration.

We kept our compensation packages competitive against industry standards to retain and attract the best employees. The same can be said of our medical benefits which cover regular medical examinations, vaccinations, and safety trainings. These can also be enjoyed by our employees' dependents and our fenceline communities.

2019 Social Performance

Labor Practices	Health and Safety	Human Rights	Product Responsibility
2,247 Number of employees (Philippines)	**10.28 million** Safe manhours for PBR	**Zero** Incidence of child labor in any aspect of operations	**35,551** Feedback and inquiries received and handled by Petron Customer Relations Group and Sales Support Services
8.38% Attrition rate, lower than industry's 15%	**92 million** Accumulated safe manhours for Operations	**Zero** Incidence of discrimination in any aspect of operations	
100% Percentage of employees receiving regular performance reviews		**Zero** Operations and Suppliers identified in which the right to exercise freedom of association and collective bargaining may be at risk	

We continued to prioritize the personal and professional well-being of our people. We pursued our career development programs, as well as our mentoring and coaching programs to facilitate a more personalized learning experience.

We are making a difference in Malaysia

Petron Malaysia's continued and steady growth is one of the things we are most proud of. For 2019, our focus remained on pursuing long-term strategic programs such as retail network expansion, refinery and plant facilities upgrade, and supply chain enhancement.

Under the Petron Malaysia Group, we opened 57 new stations to close the year with about 700 stations. Through our continuously growing network, we can be certain that our products will always be accessible to the Malaysian consumer.

A key to our continued success, whether in the Philippines or in Malaysia, is our ability to innovate.

We built the first ever station in Malaysia utilizing a modular construction system. Beyond the visual transformation, this now provides us with a more efficient system for constructing service stations.

We also continued to improve the quality of our products, making sure that they - at the very least - meet government standards. All our **Blaze** fuels in Malaysia are now Euro 4M compliant with

We introduced our 'Modular Filling Station' in Nilai, Negeri Sembilan, a first of its kind service station built using a modular construction system.

our **Petron Blaze 95** being the latest one to upgrade to this standard. We also took further steps to enhance customer experience by accepting more e-wallet payment options at our stations.

Our Petron Miles Program is an extension of our promise to **Fuel Happy**, enriching the lives of our regular customers.

Through our partnership with other leading brands, our customers can earn more points and enjoy more rewards including access to special events and vacation getaways just by gassing up with us.

Our efforts to strengthen our brand and satisfy the needs of our customers enabled us to expand our market share across different trades. We continued to serve vital industries and noted an increased number of households using our clean-burning **Petron Gasul**, as a result of our LPG network expansion and increasing number of pick-up outlets at our stations.

Under the Petron Malaysia Group, **we opened 57 new stations to close the year with about 700 stations.** Through our continuously growing network, we can be certain that our products will always be accessible to the Malaysian consumer.

As part of our efforts to increase operational efficiency, we have two ongoing projects at Port Dickson Refinery (PDR). The Diesel Hydrotreater project which will allow us to produce Euro 5 diesel in compliance new government standards; and the Marine Import Facility 2 (MIF2) project which will cater to higher gasoline and jet fuel demand and generate more savings on freight cost.

PDR maintained its flawless safety performance and achieved 17 years without Lost Time Injury (LTI). This reflects our rigorous standards on safety, personal accountability, and procedural compliance. Our terminals upheld the same stringent standards, recording 24.49 million-man hours without LTI, equivalent to about 23 years.

We are pleased to see that our efforts continued to make a mark in the industry. We continued to earn new awards and recognition for our initiatives in marketing, human resources, and occupational health and safety.

Our efforts to strengthen our brand and satisfy the needs of **our customers enabled us to expand our market share across different trades.**

Port Dickson Refinery, which has a daily rated capacity of 88,000 barrels per day, continues to undergo upgrades in anticipation of future demand.

Fueled by a Promise of a Better Future

We put meaning into our success as we Fuel HOPE in others.

We take the lead in caring for the community

For decades, Petron has been putting meaning into its success by making sure that our fenceline communities are also part of our continued growth. Under our **Fuel HOPE** banner, we continued to commit to the promise of a better future, measuring our success through the lives we touch, the children we help graduate, and the projects that contribute to nation building.

At the core of our corporate social responsibility efforts is our **Tulong Aral ng Petron (TAP)** scholarship program. In 2019, we had almost 3,200 TAP scholars from elementary to college in partner schools in Metro Manila and in provinces where our terminals are located. 84 TAP scholars graduated with distinction at the end of SY 2018-2019.

Under our Fuel HOPE banner, **we continued to commit to the promise of a better future,** measuring our success through the lives we touch, the children we help graduate, and the projects that contribute to nation-building.

We continued to work with the Ten Outstanding Students of the Philippines in conducting our **Best U Can Be (BUCB)** workshop where we teach our scholars different life skills. This benefitted 658 TAP scholars in 2019 by strengthening their goals and values.

Under the Teacher Training Program, a total of 54 teachers in Science, Math and English from TAP partner schools underwent enhanced training on teaching pedagogies and critical contents. The training was facilitated by the Ateneo Center for Education and Philippine Business for Social Progress.

Apart from TAP, Petron's Bataan College Scholarship Program supported the education of 45 engineers, with four of them graduating cum laude. 32 of these scholars also passed the Board Licensure Exam, and 17 are employed at the Petron Bataan Refinery (PBR). As of 2019, a total of 123 among 301 total graduates are now working at PBR.

From dreamers to engineers

Rico Santiago and Iris Borladgan TAP scholars turned licensed engineers

Rico Santiago and Iris Borladgan began as **Tulong Aral ng Petron (TAP)** Grade 1 scholars who aspired to become licensed engineers. Through hard work and determination, they were able to carry their scholarship all through college while staying good friends.

Rico is the son of a tricycle driver and the first college graduate and board passer in the family. Even when he was unsure of his own capabilities, he was fortunate to have found his passion early on for science. "Nahanap ko po ang passion ko sa field of work na napili ko. Karamihan ng nagtatrabaho ngayon hinahanap pa rin nila kung saan sila masaya, pero ako po thankful kasi bata pa lang ako nahanap ko na."

[I found my passion in my field of work. Many of those who are working are still looking for what makes them happy, but I'm thankful that I found it at a young age.]

For Iris, she joined the roster of engineers and board passers in her family after her own board exams. However, growing up with people with the same goals did not guarantee her a smooth-sailing ride. She had to overcome the pressure of being the eldest among her siblings and the weight of her academic requirements. "May mga panahon na iniiiyak ko na lang, pero kahit ano mang hirap, worth it ang lahat," she said.

[There were times when I had to just cry it out but no matter how difficult it got, it was all worth it.]

Whenever these new engineers felt like their dream was slipping from them, they always looked back at the very reason why they took this direction. It was their passion for their craft, and their desire to create a positive impact on their families and communities, knowing that nothing is quite as motivating as seeing your dreams affect more than just yourself.

We continued to support the **Bataan Integrated Coastal Management Program (BICMP)** as we took part in hosting the annual Pawikan Festival. About 100 public school teachers and DepEd (Department of Education) officials were able to witness the rare privilege of seeing the hatching of turtle eggs and the laying of eggs by an adult pawikan during the Night Patrol. Through this learning experience, there is a better chance to promote awareness and care for our endangered marine animals and the environment.

Meanwhile, our relentless commitment to greening the nation continued to bear fruit as the previously adopted 30 hectares of reforestation sites in Tacloban and Roxas provinces have so far yielded nearly 1,100 tons of carbon. This was sequestered from the mangroves planted in 2016 using carbon capture measurement performed quarterly by DENR (Department of Environment and Natural Resources). We owe this to the continuing effort of the residents and LGUs in coordination with our Tacloban and Roxas Terminals.

Employees from various Petron terminals, business partners, and residents planted 79,000 mangroves and trees throughout the country in activities commemorating Earth Month and Environment Month. We also stayed united in our efforts to maintain the cleanliness of our coastlines as we took part in the International Coastal Cleanup Day.

Karen Balbuena, our fifth scholar of **Professional Masters in Tropical Marine Ecosystems Management (PM-TEM)**, graduated from the program's 3rd cycle. Her expertise in marine life protection will be a significant contribution in the implementation of our environmental programs.

> Our relentless commitment to greening the nation continued to bear fruit as the previously adopted 30 hectares of reforestation sites in Tacloban and Roxas provinces have so far yielded nearly 1,100 tons of carbon.

We continued to care for our communities through our **Petron clinics** which give free consultations, comprehensive medical services, and medicines. Our clinics in Limay Bataan; Pandacan, Manila; and Rosario, Cavite were able to serve around 7,000 individuals in 2019. The newest of the three, the Rosario clinic, already secured its License to Operate from the DOH Region 4-A as a Primary Clinical Laboratory.

We also continued to provide our fenceline communities ways to earn additional income. In 2019, we commissioned the **Rosario TAP Livelihood Association** composed of mothers of our TAP scholars to produce eco-bags using Petron tarpaulins. These were used as souvenir items for Petron's 2019 Stockholders meeting, and additional eco-bags were sold to employees during the Christmas holidays.

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To promote a safer community, we focused on educating motorists on road safety and responsible motoring practices through **Fuel Wise**. Petron's newest advocacy kicked-off through a nationwide stickering campaign, engaging motorists in describing what being a good motorist should be. The thought-provoking campaign follows the core of Petron's long-running road assistance program, ***Lakbay Alalay*** where motorists are offered different safety checks by automobile partners, medical assistance, and several traffic awareness campaigns at select service stations nationwide during high-traffic seasons.

Together with SMC Infrastructure and the Petron Dealers Association (PETDA), we partnered with the Department of Tourism (DOT) for the **Barrier-Free and Environmentally Sustainable Toilet (BEST)** Project

which aims to ensure the quality of restrooms in establishments near tourist destinations. Petron, being a champion of customer service excellence, was chosen to be DOT's first partner for the project, allowing us to expand our commitment to provide excellent customer service while having the opportunity to create a positive impact on the tourism industry.

We salute the dedication of our stakeholders to always reach out to those in need. When an intense earthquake affected parts of Mindanao, our network of dealers quickly raised funds to provide relief assistance to the communities damaged by the calamity. PETDA was able to secure a total of P1M for their **Tabang Mindanao** campaign that provided more than a thousand families relief packs. Used and outdated promo tarpaulins were also donated which were repurposed into makeshift shelter for the relocated families. As the disaster caused several service stations in Mindanao to temporarily stop their operations, PETDA also allocated part of their funds to financially assist displaced personnel.

The active involvement of our employees in our **Volunteers In Action (VIA)** program is an indispensable part of our CSR efforts. Our people continued to extend the same support to their counterparts in the San Miguel Group by taking part in ***Team Malasakit*** initiatives like ***Brigada Eskwela*** and the recently launched soup kitchen at the Better World Community in Tondo, Manila.

DOT Secretary Bernadette Romulo-Puyat and Petron President and CEO Ramon S. Ang at the signing of the Memorandum of Understanding (MOU) for the BEST project. The program complements Petron's long-time efforts to keep comfort rooms clean, safe and well-maintained.

Petron Malaysia remained as committed to creating stronger communities. We continued to share our success through our advocacies in collaboration with relevant government bodies and employee volunteers.

Our partnership with the Royal Malaysia Police (RMP) and Road Safety Department for the **Go-To-Safety Point (GTSP)** Program focuses on teaching road safety in secondary schools and universities throughout Malaysia. Fire safety is emphasized as well through our partnership with the Fire and Rescue Department. Activities for this advocacy include talks on LPG safety and live demonstrations on firefighting carried out in schools for the benefit of school children and teachers.

We continued to enjoy a healthy partnership with the **Negeri Sembilan Human Capital Award of Distinction** which taps into state schools to recognize individual and group achievements in academics, leadership, and sports. This aims to produce a well-balanced pool of human capital equipped for the future.

The arts remain to be a vital part of any culture. Thus, we continued to nurture and promote the artistry of Malaysian youth through **Vision Petron**.

Petron works with local municipalities to protect the environment through our **Green Programs** which in 2019 focused on educating the youth to develop a consciousness for environmental conservation at an early age.

Petron employees and, for the first time ever, service station dealers joined hands to volunteer for our flagship **Volunteerism in Action (VIA) 'Back-to-School'** program. Other VIA programs include the "**Sahur**" or **Pre-dawn Meal Program, Give A Kid A Book**, and **Let's Read!** along with the environment programs.

For us, sharing our success with the community is not an end goal, but a commitment fueled by passion. With this, we will continue to touch more lives, promote inclusive growth, and fuel progress for decades to come.

Petron Malaysia remained as committed to creating stronger communities. We continued to share our success through our advocacies in collaboration with relevant government bodies and employee volunteers.

2019 PETRON PHILIPPINES CSR PERFORMANCE

EDUCATION	ENVIRONMENT	COMMUNITY
3,194 Tulong Aral ng Petron (TAP) scholars (elementary to college) for SY 2019-2020	**17** Tree planting activities by Petron terminals	**100** Percentage of Petron terminals undertaking social development and initiatives
84 TAP graduates (senior high school and college)	**79,000** Mangrove propagules and seedlings planted	**16,904** Hours spent on volunteer work
Over 16,000 TAP scholars (since Year 1)	**73** Number of hectares adopted for reforestation	**7,000** Total number of individuals from Limay, Bataan. Pandacan, Manila, and Rosario, Cavite served in Petron clinics
256 Number of Petron Schools/ classrooms built (since 2002)	**1,089 tons** Amount of carbon sequestered from Petron reforestation sites (30 hectares)	**3,998** Beneficiaries of Petron's Livelihood Loan Assistance Program (since 2011)
400 Classrooms repaired/ refurbished in 61 schools benefitting 20,000 students under Brigada Eskwela in 2019	**41.24 kilometers** Length of coastline cleaned from coastal cleanup activities	**159** Number of Petron engineering scholars employed by the Petron Bataan Refinery for regular positions
10,291 Teachers, school heads and administrators benefitted from Teacher Training (since 2002)		**188** Total scholars hired by Petron including BPSU scholars who are only hired as an apprentice or cadet

Working together for others

Culminating its 60th year as an organization, the closing of 2019 signaled a grand celebration for the **Petron Dealers Association (PETDA)**, the nationwide network of Petron service station dealers. A series of strong earthquakes that rocked Mindanao, however, put their festive plans aside. With thousands displaced from their homes, including some of their own personnel, PETDA decisively moved as one body to help Mindanao rise from the devastation.

Driven by the spirit of tabang Mindanao (help Mindanao), Petron dealers throughout the Philippines pledged their support. In no time, they raised a million pesos, with their Southwest and Southeast Mindanao network volunteering to prepare relief packs containing rice, bread, powdered milk, canned goods and soap. They personally delivered these bags of hope in two waves to nearly 1,200 families temporarily housed in relocation centers in the Municipality of Makilala in North Cotabato and in Kidapawan City, Cotabato. Members of Petron's National Sales Division joined in these efforts, as well as PETDA member Madame Honeylet Avanceña, who contributed additional food items and beddings.

Believing that "charity begins at home", PETDA also allocated funds for employees of Petron service stations in Kidapawan who were adversely affected when these stations temporarily stopped operating because of damages from the earthquake.

As a call for support, PETDA President Victor T. Rebosura rallied his colleagues to share their blessings in these trying times. "Our collective help for Mindanao relies on our volunteering spirit. Realizing the extent of the damage, we agreed to just channel our resources to help our kababayans in Mindanao and support their urgent needs instead," he said.

By turning their anniversary celebration into a noteworthy advocacy, PETDA reaffirmed their solidarity not only as a team out to succeed in business, but also as a collective force that goes beyond profit to make a simple but lasting contribution to the community.

Fulfilling our mission

Having the opportunity to address the country's most pressing concerns is what fuels our passion. This 2020, we have seen the industry enter another challenging phase due to the coronavirus pandemic, affecting oil demand and prices. Still and all, the drive for us to take urgent and compassionate action has never been this strong.

When the enhanced community quarantine was implemented, we focused our energy and resources on meeting the fuel requirements of our domestic consumers and supporting the unhindered transportation of essential goods and personnel. We remained steadfast in fulfilling our promise to provide Filipinos a steady and reliable supply of fuel.

This came simultaneously with several efforts focused on alleviating the burdens of our fellow Filipinos particularly those on the frontlines. As of this writing, assistance in the form of fuel cards and other donations has been extended to medical frontliners and staff from various hospitals.

These we given to the Lung Center of the Philippines, Research Institute for Tropical Medicine (RITM), The Medical City, UST Hospital, San Lazaro Hospital, Manila Doctors Hospital, Medical Center Manila, Manila Central University Hospital, Philippine General Hospital, East Avenue Medical Center, Jose N. Rodriguez Memorial Hospital, St. Lukes Medical Center, as well as frontliners in Iloilo, Tagbilaran, and Cebu.

This 2020, **we have seen the industry enter another challenging phase due to the coronavirus pandemic, affecting oil demand and prices. Still and all, the drive for us to take urgent and compassionate action has never been this strong.**

Reaching into the hearts of our loyal customers, we launched a donation drive where in **Petron Value Card (PVC)** holders can donate their points to help procure medical supplies and relief packs for health workers. We also set aside our usual **Lakbay Alalay** activities for 2020 to focus on supporting frontliners. For a certain period, Petron matched donations to generate more funds.

Much-needed assistance was also extended to our fenceline communities and vulnerable sectors. For instance, our **Tulong Aral ng Petron (TAP)** scholars received financial aid totaling a million pesos.

In the spirit of malasakit, our service station dealers and LPG and lubes distributors all over the country have initiated their own CSR efforts to help in their respective areas, as well as their own staff, cope with the challenges and limitations brought by COVID-19.

Through the initiatives of our parent company, San Miguel Corporation (SMC), our extensive service station network has proven valuable in boosting food accessibility throughout Metro Manila.

Our stations also serve as sites for SMC Logistics reefer van-cum-rolling stores with the intention to provide consumers with a safe and convenient way to shop for food items during the quarantine. The food trucks contain frozen poultry products, fresh and processed meats, and ready-to-eat goods. The initiative is an expansion of San Miguel Foods Inc.'s Manukang Bayan rolling store concept.

Moreover, products ordered via SMC's online ordering system can be picked up from our participating **Treats** convenience stores further minimizing health risks. Most recently, a number of our stations have also become a way for farmers in the province to sell their fresh harvest through a partnership with the Department of Agriculture.

In all these, the health and well-being our people remain our top priority. We have widely implemented a work-from-home set up across the organization while those working on the frontlines - our office-based skeletal force, service station personnel, truck drivers, and other workers - are guided by the necessary protocols on top of our already stringent health and safety measures.

While we have our work cut out for us, we are hopeful that, slowly but surely, we will soon see our nation on the path to recovery and Petron will be there every step of the way.

Board of Directors

Eduardo M. Cojuangco, Jr.

Eduardo M. Cojuangco, Jr., Filipino, born 1935, 84, has served as the Chairman of the Company since February 10, 2015 and a Director since January 8, 2009. He is also the Chairman of the Executive Committee of the Company. He is also the Chairman of ECJ & Sons Agricultural Enterprises Inc., Eduardo Cojuangco Jr. Foundation Inc., Northern Cement Corporation and San Miguel Northern Cement, Inc., and a Director of Caiñaman Farms Inc. He attended the University of the Philippines Los Baños College of Agriculture and the California Polytechnic College in San Luis, Obispo, United States of America.

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

Ramon S. Ang

Ramon S. Ang, Filipino, born 1954, 66, 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, 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. and Privado Holdings, Corp.; President and Chief Executive Officer of Top Frontier Investments Holdings, Inc., San Miguel Food and Beverage, Inc. and Northern Cement Corporation; Chairman and Chief Executive Officer of SMC Asia Cars Distributors Corp.; and President of Ginebra San Miguel, Inc., and San Miguel Northern Cement, Inc. He is also the sole director and shareholder of Master Year Limited. Previously, Mr. Ang formerly held the following positions, among others: Chairman of Liberty Telecoms Holdings, Inc. and Cyber Bay Corporation; President and Chief Operating Officer of PAL Holdings, Inc., and Philippine Airlines, Inc.; Director of Air Philippines Corporation; Chairman of; Vice Chairman of Manila Electric Company ("MERALCO"); and Chairman of Manila North Harbour Port Inc. ("MNHPI"). Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

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

Lubin B. Nepomuceno

Lubin B. Nepomuceno, Filipino, born 1951, 69, has served as a Director of the Company since February 19, 2013 and the General Manager of the Company since February 10, 2015. He is also a member of the Company's Executive Committee. He holds the following positions, among others: President and Chief Executive Officer of PMC; Director and Chief Executive Officer of PMRMB; Director of POGI, PFISB, POMSB, LLCDC, NVRC, PFC, PPI, PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd. and Petron Singapore Trading Pte. Ltd. ("PSTPL"); Chairman of Petrogen Insurance Corporation ("Petrogen"); Chairman and Chief Executive Officer of Petron Foundation, Inc. ("PFI"); Chairman of Overseas Ventures Insurance Corporation Ltd. ("Ovincor") Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with SMC as a furnace engineer at the Manila Glass Plant in 1973 and rose to the ranks to become the General Manager of the San Miguel Packaging Group in 1998. He was also formerly the Senior Vice President and General Manager of the Company (September 2009 - February 2013) and the President of the Company (February 2013 - February 2015). He also served as a Director of MNHPI (2012 - 2014). Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and master's degree in Business Administration from the De La Salle University. He also attended the Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

Mr. Nepomuceno does not hold a directorship in any other company listed with the Philippine Stock Exchange ("PSE").

Margarito B. Teves

Margarito B. Teves, Filipino, born 1943, 76, has served as an Independent Director of the Company since May 20, 2014. He is the Chairman of the Corporate Governance Committee and a member of the Audit Committee of the Company. He is also an Independent Director of SMC and Atok Big Wedge Corporation ("Atok"), as well as Alphaland Corporation, Alphaland Balesin Island Club, Inc., AB Capital Investment Corp. and Atlantic Atrium Investments Philippines Corporation. He is also the Managing Director of The Wallace Business Forum. He was the Secretary of the Department of Finance of the Philippine government (2005 – 2010), and was previously the President and Chief Executive Officer of the Land Bank of the Philippines (2000 – 2005), among others. He was awarded as "2009 Finance Minister of Year/Asia" by the London-based The Banker Magazine. He holds a Master of Arts degree in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

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

Aurora T. Calderon

Aurora T. Calderon, Filipino, born 1954, 65, has served as a Director of the Company since August 13, 2010. She is an alternate member of the Executive Committee and a member of the Audit Risk Oversight and the Related Party Transaction Committees of the Company. She holds the following positions, among others: Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of SMC; Director of SMC, PMRMB, POGM, POGI, PMC, PFC, PSTPL, SRC, NVRC, LLCDC, Thai San Miguel Liquor Co., Ltd., SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp. 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, SMFB and GSMI are also listed with the PSE.

Ron W. Haddock

Ron W. Haddock, American, born 1940, 79, 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.

Virgilio S. Jacinto

Virgilio S. Jacinto, Filipino, born 1956, 63, has served as a Director of the Company since August 13, 2010. He is a member of the Corporate Governance Committee and an alternate member of the Executive Committee of the Company. He holds the following positions, among others: Corporate Secretary, Compliance Officer, Senior Vice President and General Counsel of SMC; Corporate Secretary and Compliance Officer of Top Frontier; Corporate Secretary of GSMI and the other subsidiaries and affiliates of SMC; and Director of various other local and offshore subsidiaries of SMC. Mr. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank, a Director of SMB, and San Miguel Northern Cement, Inc., a Partner of the Villareal Law Offices (June 1985 - May 1993) and an Associate of Sycip Salazar Feliciano & Hernandez Law Office (1981 - 1985). Atty. Jacinto is an Associate Professor of Law at the University of the Philippines. He obtained his law degree from the University of the Philippines (cum laude) where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard University.

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

Mirzan Mahathir
Mirzan Mahathir, Malaysian, born 1958, 61, 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 is listed on the Singapore Stoc Exchange. He was formerly the Executive Chairman and President of Konsortium Logistik Berhad (1992 - 2007). Mr. Mirzan graduated with a Bachelor of Science (Honours) degree in Computer Science from Brighton Polytechnic, United Kingdom and obtained his master's degree in Business Administration from the Wharton School, University of Pennsylvania, USA.

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

Artemio V. Panganiban
Artemio V. Panganiban, Filipino, born 1936, 83, has served as an Independent Director of the Company since October 21, 2010. He is the Chairman of the Risk Oversight Committee and a member of the Audit and Corporate Governance Committees of the Company. He is a columnist for the Philippine Daily Inquirer and officer, adviser or consultant to several business, civic, educational and religious organizations. He is an adviser of Metropolitan Bank and Trust Company, Bank of the Philippine Islands, and DoubleDragon Properties Corp. He was formerly the Chief Justice of the Supreme Court of the Philippines (2005 - 2006); Associate Justice of the Supreme Court (1995 - 2005); Chairperson of the Philippine House of Representatives Electoral Tribunal (2004 - 2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963 - 1995); President of Baron Travel Corporation (1967 - 1993); and professor at the Far Eastern University, Assumption College and San Sebastian College (1961 - 1970). He is an author of over a dozen books and has received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21st Century" conferred by the Supreme Court in 2006 and the "Outstanding Manilan" for 1991 by the City of Manila. Chief Justice Panganiban earned his Bachelor of Laws degree (cum laude) from the Far Eastern University in 1960, placed sixth in the bar exam that same year, and holds honorary doctoral degrees in law from several universities.

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

Nelly F. Villafuerte
Nelly F. Villafuerte, Filipino, born 1937, 83, has served as a Director of the Company since December 1, 2011. She is also a columnist for the Manila Bulletin and was a former Member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2005 until July 2011. She is the President and General Manager of LRV Agri-Science Farm, Inc. (a family-owned corporation). She is an author of business handbooks on microfinance, credit card transactions, exporting and cyberspace and a four (4)-volume series on the laws on banking and financial intermediaries (Philippines). Atty. Villafuerte has served as Governor of the Board of Investments (1998 - 2005), Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the Department of Trade and Industry ("DTI") (July 1998 - May 2000), Undersecretary for the Regional Operations Group of the DTI (May 2000 - 2005), and a Director of Top Frontier (2013 - February 2019). She holds a master's degree in Business Management from the Asian Institute of Management ("AIM") and was a professor of international law/trade/marketing at the graduate schools of AIM, Ateneo Graduate School of Business and De La Salle Graduate School of Business and Economics. Atty. Villafuerte obtained her Associate in Arts and law degrees from the University of the Philippines and ranked within the top 10 in the bar examinations.

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

Estelito P. Mendoza
Estelito P. Mendoza, Filipino, born 1930, 90, served as a Director of the Company from 1974 to 1986; thereafter, since January 8, 2009. He is a member of the Corporate Governance and the Audit Committees of the Company. He is likewise a member of the Board of Directors of SMC 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, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He holds a Bachelor of Laws degree from the University of the Philippines (cum laude) and Master of Laws degree from Harvard University. He is the recipient on June 28, 2010 of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns and was also awarded by the University of the Philippines Alumni Association its 1975 "Professional Award in Law" and in 2013 its "Lifetime Distinguished Achievement Award".

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

Horacio C. Ramos
Horacio C. Ramos, Filipino, born 1945, 75, has served as a Director of the Company since May 15, 2018. He is the President of Clariden Holdings, Inc. (2012 - present). He was a Director of SMC (2014 - 2016), the Secretary of the Department of Environment and Natural Resources (February 12 - June 30, 2010), the Director of Mines and Geosciences Bureau (June 1996 - February 2010). He holds a degree of Bachelor of Science in Mining Engineering from the Mapua Institute of Technology obtained in 1967, a Graduate Diploma in Mining and Mineral Engineering from the University of New South Wales, Australia in 1976, and a Master of Engineering in Mining Engineering also from the University of New South Wales, Australia in 1978.

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

Jose P. de Jesus
Jose P. de Jesus, Filipino, born 1934, 85, has served as a Director of the Company since May 20, 2014. He is also the Chairman of Clark Development Corporation. He was the President and Chief Executive Officer of Nationwide Development Corporation (September 2011 - December 2015), the Secretary of the Department of Transportation and Communications (July 2010 - June 2011), the President and Chief Operating Officer of MERALCO (February 2009 - June 2010), the President and Chief Executive Officer of Manila North Tollways Corporation (January 2000 - December 2008), Executive Vice President of the Philippine Long Distance Telephone Company (1993 - December 1999), Chairman of the Manila Waterworks & Sewerage System (1992 - 1993) and the Secretary of the Department of Public Works and Highways (January 1990 - February 1993). He was awarded the Philippine Legion of Honor, Rank of Commander in June 1992 by then President Corazon C. Aquino. He was Lux in Domino Awardee (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also a director of Citra Metro Manila Tollways Corporation, Private Infra Development Corporation and South Luzon Tollway Corporation. He is a Trustee of Kapampangan Development Foundation and Holy Angel University. Mr. de Jesus earned his Bachelor of Arts degree in Economics and holds a Master of Arts in Social Psychology from the Ateneo de Manila University. He also finished Graduate Studies in Human Development from the University of Chicago.

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

Reynaldo G. David
Reynaldo G. David, Filipino, born 1942, 77, has served as an Independent Director of the Company since May 12, 2009. He is the Chairman of the Audit Committee and is a member of the Risk Oversight, Corporate Governance and the Related Party Transaction Committees of the Company. He is also an Independent Director and a member of the Audit Committee, Nomination and Compensation Committee of SMC. He has previously held, among others, the following positions: Philippine Special Trade Representative with the rank of Special Envoy, President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. Other past positions include: Independent Director of ISM and Atok, Chairman of LGU Guarantee Corporation, Vice Chairman, Chief Executive Officer and Executive Committee Chairman of Export and Industry Bank (September 1997 - September 2004), Director and Chief Executive Officer of Unicorp Finance Limited and Consultant of PT United City Bank (concurrently held from 1993 - 1997), Director of Megalink Inc., Vice President and FX Manager of the Bank of Hawaii (April 1984 - August 1986), various directorships and/ or executive positions with The Pratt Group (September 1986 - December 1992), President and Chief Operating Officer of Producers Bank of the Philippines (October 1982 - November 1983), President and Chief Operation Officer of International Corporation Bank (March 1979 - September 1982), and Vice President and Treasurer of Citibank N. A. (November 1964 - February 1979). He was conferred with the Presidential Medal of Merit in 2010. A Ten Outstanding Young Men awardee for Offshore Banking in 1977, he was also awarded by the Association of Development Financing Institutions in Asia & the Pacific as the Outstanding Chief Executive Officer in 2007. A certified public accountant since 1964, he graduated from the De La Salle University with a combined Bachelor of Arts and Bachelor of Science in Commerce degrees in 1963 and attended the Advanced Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, honoris causa, by the Palawan State University in 2005 and the title Doctor of Humanities, honoris causa, by the West Visayas State University in 2009.

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

Carlos Jericho L. Petilla
Carlos Jericho L. Petilla, Filipino, born 1963, 56, has served as Independent Director of the Company since May 15, 2018. He is the Chairman of the Related Party Transactions Committee of the Company. He is the founder in 2001, and President and Chief Executive Officer of International Data Conversion Solutions, Inc. (2015 - present; 2001 - 2004); the President and Chief Executive Officer of Freight Process Outsourcing, Inc. (2015 - present), and a co-founder in 1989 and a Director of DDC Group of Companies (2015 - present; 1989 - 2004). He was previously the Secretary of the Department of Energy (2012 - 2015), the Provincial Governor of the Province of Leyte (2004 - 2012), and an Independent Director of MRC Allied, Inc. (2017 - 2018). Mr. Petilla has a Bachelor of Science degree in Management Engineering from the Ateneo De Manila University.

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

Corporate Governance

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

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

Corporate Governance Manual

On May 8, 2017, the Board of Directors approved the new Corporate Governance Manual of the Company, which was primarily based on the Code of Corporate Governance for Publicly-Listed Companies approved by the Securities and Exchange Commission ("SEC") pursuant to its Memorandum Circular No. 19 (2016) (the "Company Corporate Governance Manual").

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

Petron is in compliance with the Company Corporate Governance Manual.

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

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

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

Shareholders' Rights

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

Voting Rights of Common and Preferred Shares

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

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

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

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

Right to Information of Shareholders

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

In 2019, the notice and agenda of the annual stockholders' meeting held on May 21, 2019, together with the definitive information statement, were first released on March 27, 2019, 55 days before the meeting. The notice and agenda were further published in the Philippine Daily Inquirer and The Manila Bulletin on April 25, 2019 and April 26, 2019, respectively. The rationale for each agenda item was explained in the notice and agenda.

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

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

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

Right to Dividends

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

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

As of December 31, 2019, the outstanding capital stock of the Company was comprised of 9,375,104,497 common shares; 2,877,680 Series 2B preferred shares; 13,403,000 Series 3A preferred shares; and 6,597,000.00 Series 3B preferred shares. The Series 2A preferred shares issued in 2014 were redeemed on November 4, 2019.

The dividends for the Series 2A and Series 2B preferred shares issued by the Company in 2014 were fixed at the rate of 6.30% per annum and 6.8583% per annum, respectively, calculated in reference to the offer price of P1,000 per share on a 30/360-day basis and shall be payable quarterly in arrears, whenever approved by the Board of Directors. Since the listing of the Series 2 preferred shares in November 2014, cash dividends were paid out in February, May, August and November. The Series 2A preferred shares were redeemed by the Company on November 4, 2019 (since the fifth anniversary of the listing date, November 3, 2019, fell on a non-business day).

The new Series 3 preferred shares were issued by the Company on June 25, 2019. 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, based on the offer price of P1,000.00 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 preferred shares since their issuance and listing in June 2019.

Common Share Dividend Payments

Dividends of common shares are paid out within 30 days after the declaration by the Board of Directors, to the extent practicable.

On March 12, 2019, a cash dividend of P0.10 per common share was declared and paid out on April 11, 2019.

Preferred Share Dividend Payments

On March 12, 2019, cash dividends of (a) P15.75 per Series 2A preferred share were declared for two (2) quarters and paid out on May 3, 2019 and August 5, 2019 (with August 3 falling on a Saturday), respectively; and (b) P17.14575 per Series 2B preferred share were also declared for two (2) quarters and paid out on May 3, 2019 and August 5, 2019 (with August 3 falling on a Saturday), respectively;

Also, on August 6, 2019, cash dividends of (a) P15.75 per Series 2A preferred share were declared for the fourth quarter of 2019 and paid out on November 4, 2019 (with November 3 falling on a Sunday); (b) P17.14575 per Series 2B preferred share were also declared for the same quarters and paid out on November 4, 2019 (with November 3 falling on a Sunday); (c) P17.17825 per Series 3A preferred share for the third quarter and paid out on September 25, 2019; and (d) P17.84575 per Series 3B preferred share for the third quarter of 2019 and paid out on September 25, 2019.

Further, on November 5, 2019, cash dividends of (a) P17.14575 per Series 2B preferred share were also declared for the first quarter of 2020 and paid out on February 3, 2020, (b) P17.17825 per Series 3A preferred share for two (2) quarters and paid out on December 26, 2019 (with December 25 being a holiday) and March 25, 2020; and (d) P17.84575 per Series 3B preferred share for two (2) quarters and paid out on December 26, 2019 (with December 25 being a holiday) and March 25, 2020.

Appraisal Right

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

Rights of Minority Shareholders

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

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

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

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

All the past meetings of the stockholders were held in the principal place of business of the Company or any location within Metro Manila, Philippines as may be designated by the Board of Directors. The annual stockholders' meeting of the Company in 2019 was held at the Edsa Shangri-La Manila, Ortigas Centre, Mandaluyong City, Metro Manila and in 2018 at the Valle Verde Country Club in Pasig City, Metro Manila.

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

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

During the past annual stockholders' meetings, the Company provided shuttle services in strategic points in the vicinity of the venue to provide free shuttle service to stockholders to and from the meeting venue.

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

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

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

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

If at any stockholders' meeting a vote by ballot shall be taken, the Company's by-laws require the Chairperson to appoint two (2) Inspectors of Votes who will act as the Chairperson and the Vice Chairperson of the Voting Committee and, in turn, designate the other members of the Voting Committee. The Voting Committee to be created will adopt its own rules to govern the voting and take charge of the voting proceedings and the preparation and distribution of the ballots. Each member of the Voting Committee, who needs not be a stockholder, will subscribe to an oath to faithfully execute his/her duties as an inspector of votes with strict impartiality and according the best of his/her ability. In any event, the external auditor of the Company will be requested to supervise the voting proceedings.

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

Board of Directors

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

Responsibility, Duties and Functions

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

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

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

Conflict of Interest and Abstention from Voting in Case of Conflict

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

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

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

Multiple Board Seats

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

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

Composition and Diversity of Background and Skills

The Board of Directors is composed of 15 members (currently with four (4) independent directors) who are elected from the list of nominees short-listed by the Corporate Governance Committee. The Corporate Governance Committee determines whether the nominees have all the qualifications and none of the disqualifications, as well as the qualities that will enable the Board of Directors to fulfill its responsibilities and duties, including the pursuit of the Company's corporate strategies. The directors are elected annually at the stockholders' meeting and hold the position until their successors have been duly elected and qualified pursuant to the Company's by-laws.

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

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

The only executive directors of the Company are Messrs. Ramon S. Ang and Lubin B. Nepomuceno and neither of them serves as a director of more than two (2) listed companies outside the San Miguel Group to which the Company belongs.

The membership of the Board of Directors is a combination of executive and non-executive directors (who include the four (4) independent directors as of 2019) in order that no director or small group of directors can dominate the decision-making process. The non-executive directors possess such qualifications and stature that enable them to effectively participate in the deliberations of the Board of Directors. The diverse and varied skills, background and expertise of the directors ensure that matters that come before the Board of Directors are extensively discussed and evaluated.

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

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

Meetings and Seminars Attended

In 2019, the Board of Directors had six (6) meetings held on February 12, March 12, May 7, May 21, August 6 and November 5. Thirteen of the current directors attended all the board meetings held in 2019, with the remaining two (2) directors attending at least 83% of all the board meetings held in 2019 (or five (5) meetings out of the six (6) meetings held).

The schedule of the meetings for any given year is presented to the directors the year before. The Board of Directors was advised of the schedule of the board meetings for 2019 at the board meeting held on November 6, 2018. Should any matter requiring immediate approval by the Board of Directors arise, such matters are reviewed, considered and approved at meetings of the Executive Committee, subject to the Company's by-laws. Special meetings of the Board of Directors may also be called when necessary in accordance with the Company's by-laws.

In keeping abreast of the latest best practices in corporate governance and complying with applicable legal requirements, including SEC Memorandum Circular No. 13 (Series of 2013), all the directors of the Company attended a corporate governance seminar in 2019 conducted by providers duly accredited by the SEC.

The attendance of the directors at the meetings and corporate governance seminar held in 2019 is set out below:

Members	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
Eduardo M. Cojuangco, Jr.	✓	✓	✓	✓	✓	✓	✓	✓
Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	✓	✓	✓	✓	✓
Estelito P. Mendoza	✓	✓	✓	✓	✓	✓	✓	✓
Jose P. De Jesus	✓	✓	✓	✓	✓	✓	✓	✓
Ron W. Haddock	✓	✓	✓	✓	✓	✓	✓	✓
Mirzan Mahathir	✓	✓	✓	✓	✓	✓	✓	✓
Aurora T. Calderon	✓	✓	✓	✓	✓	✓	✓	✓
Virgilio S. Jacinto	✓	✓	✓	✓	✓	✓	✓	✓
Nelly Favis-Villafuerte	✓	✓	--	✓	✓	✓	✓	✓
Horacio C. Ramos	✓	✓	✓	✓	✓	✓	✓	✓
Reynaldo G. David	✓	✓	✓	✓	✓	✓	✓	✓
Artemio V. Panganiban	✓	✓	✓	✓	✓	✓	✓	✓
Margarito B. Teves	✓	✓	✓	✓	✓	✓	✓	✓
Carlos Jericho L. Petilla	✓	✓	✓	✓	✓	--	✓	✓

Legend: ✓ Present -- Absent

Independent Directors

The Company currently has four (4) independent directors in its Board of Directors, namely, Mr. Reynaldo G. David, former Supreme Court Chief Justice Artemio V. Panganiban, Mr. Margarito B. Teves, and Mr. Carlos Jericho L. Petilla.

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

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

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

The Chairperson; the President and Chief Executive Officer

The positions of Chairperson and Chief Executive Officer ("CEO") are held by two (2) different individuals.

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

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

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

Board Committees

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

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

Executive Committee

The Executive Committee is composed of not less than three (3) members, which shall include the Chairperson of the Board of Directors and the President, with two (2) alternate members. When the Board of Directors is not in session, the Executive Committee may exercise the powers of the former in the management of the business and affairs of the Company, except with respect to (a) the approval of any action for which stockholders' approval is also required, (b) the filling of vacancies in the Board of Directors, (c) the amendment or repeal of the by-laws or the adoption of new by-laws, (d) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable, (e) a distribution of dividends to the stockholders, and (f) such other matters as may be specifically excluded or limited by the Board of Directors.

In 2019, the Executive Committee was chaired by Mr. Eduardo M. Cojuangco, Jr., with Messrs. Ramon S. Ang and Lubin B. Nepomuceno as members. Ms. Aurora T. Calderon and Atty. Virgilio S. Jacinto acted as alternate members of the Executive Committee.

The Executive Committee held 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

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. Calderon. 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

Corporate Governance Committee

The Corporate Governance Committee 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.

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

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.

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

Related Party Transaction Committee

The Related Party Transaction Committee is composed of least three (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.

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:

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

Legend: ✓ Present - - Absent

Annual Assessment of Board, Committee and Individual Directors Performance

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

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

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, 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.

External Audit

R.G. Manabat & Co./KPMG ("KPMG") was the independent auditor of the Company for year 2019. KPMG was first appointed in 2010 and re-appointed yearly upon the review by the Audit Committee and recommendation by the Board of Directors. The partner of KPMG who led the audit of the Company for its 2019 financial statements was first appointed in 2015.

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

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

As in the previous years, representatives of KPMG attended the annual stockholders' meeting held on May 21, 2019.

Internal Audit

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

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

The IAD provides the Board of Directors, Management, and shareholders with reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate, and complied with.
The IAD is guided by the International Standards on Professional Practice of Internal Auditing. The IAD Head, in order to achieve the necessary independence to fulfill his responsibilities, directly reports functionally to the Audit Committee and administratively to the President.

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

Disclosure System

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

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

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

Stakeholder Relations

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

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

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

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

Code of Conduct and Ethical Business Policy

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

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

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

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

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

Anti-Bribery and Anti-Corruption

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

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

Conflict of Interest

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

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

Whistle-blowing and Non-Retaliation Policy

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

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

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

Policy on Securities Dealing

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

The officers, directors and employees of the Company who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information are prohibited from dealing in the securities of the Company during the blackout periods of (a) 10 business days before and five (5) business days after the deadline for the Company to make a structured disclosure or any disclosure of its financial results for any year, half-year, quarter or any other interim period and (b) five (5) business days before and five (5) business days after any non-structured disclosure of any material information other than financial results.

Under the Company Corporate Governance Manual, the directors and officers are obliged to report to the OGCCS any dealings in securities of the Company within three (3) business days after such dealings.

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

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

Personal Data Privacy Policy

On May 16, 2017, the Board of Directors of the Company adopted the Personal Data Privacy Policy of the Company. The Personal Data Privacy Policy of the Company mandates that all processing of personal data within the Company should be conducted in compliance with law and the data privacy principles of (i) transparency that allows a data subject to be aware of the nature, purpose, and extent of the processing of his/her personal data by the Company and his/her rights as a data subject; (ii) use for legitimate purpose that requires the processing of personal data by the Company to be compatible with a declared and specified legitimate purpose, and (iii) proportionality that requires the processing of personal data to be adequate, relevant, suitable, necessary, and not excessive in relation to a declared and specified purpose. The Company also has its data privacy officer.

Policy on Related Party Transactions

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.

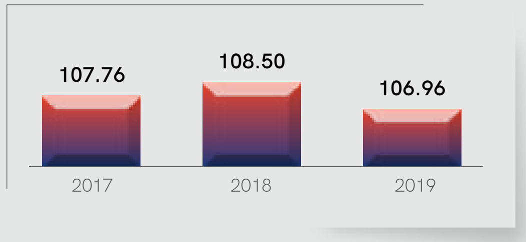
On November 5, 2019, upon the recommendation of the Related Party Transaction Committee of the Board of Directors and pursuant to the Policy on Related Party Transactions of the Company, the Board of Directors approved the relevant qualified transactions between the Company and its subsidiary Petron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

Financial
Highlights

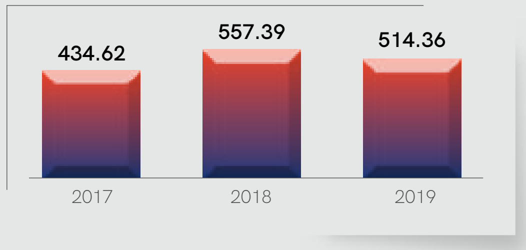
Amounts in Million Pesos, except per share and sales volume data

	2019	2018	2017
Net Sales	514,362	557,386	434,624
Gross Profit	30,507	34,562	42,655
Net Income	2,303	7,069	14,087
EBITDA	29,902	31,803	38,343
Total Assets	394,835	358,154	338,030
Earnings per share	(0.17)	0.28	0.86
Sales Volume (in thousand barrels)	106,959	108,498	107,760
Return on Sales	0.4%	1.3%	3.2%
Return on Assets	0.6%	2.0%	4.3%
Return on Equity	2.6%	7.6%	15.0%

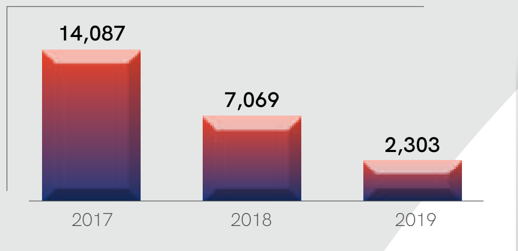
Sales Volume (in Million Barrels)



Sale (in Million Php)



Net Income (in Million Php)



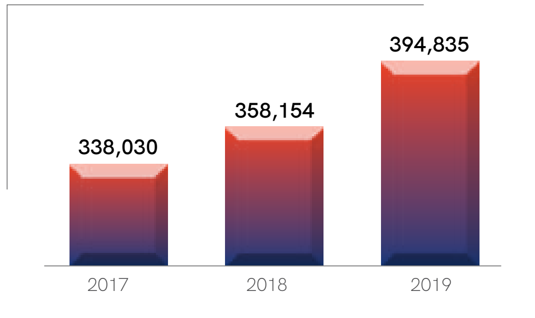
Overcoming the Challenges in 2019

The uncertainty in the global market due to trade wars and geopolitical conflicts continued to slowdown demand and put pressure on oil prices. Refining margins also weakened in 2019 compared to 2018. During the year, its Bataan refinery was forced to an unplanned total plant shutdown for more than 100 days following the earthquake which shook Luzon in April 22 resulting in lower production of finished products. These were among the challenges which strained the Company's performance in 2019.

Consolidated sales volume ended at 107 million barrels (MMB), slightly lower than previous year's 108.5 MMB as low production reduced Philippines' export sales of petrochemicals while its domestic sales were affected by stiff competition. Meanwhile, Petron's volumes in Malaysia posted a steady growth of 3% driven by its strong performance in the retail sector as it further expanded its network of retail outlets. Despite the decrease in total sales, the Company's market share in the Philippines remained at about a third of the country's domestic demand. Petron maintained its market leadership in the major sectors such as Retail, Industrial, and LPG.

The decline in sales volume coupled by the drop in the price of benchmark crude Dubai to US$63.53/bbl from US$69.42/bbl in 2018 pulled down revenue by 8% to P514.36 billion from P557.39 billion in the previous year.

Total Assets in Million Pesos



Amidst the hurdles that the Company went through during the year, it implemented various measures to manage costs. Nevertheless, earnings before income tax, depreciation and amortization (EBITDA) slid by 6%. Net income for the year settled at P2.3 billion, down by 67% from 2018.

Improved Liquidity

As of December 31, 2019, the Company's consolidated assets stood at P394.83 billion, 10% or P36.68 billion higher than the December 2018 balance of P358.15 billion. The increase in Assets can be traced largely to elevated Cash and Inventory levels, newly-recognized Right-of-use asset and Investment properties following the adoption of PFRS 16. The collection of government receivables partly offset the aforementioned increases.

Total liabilities rose by 11% to P302.41 billion from P271.97 billion traced mainly to new long-term loan, recorded lease liability (PFRS 16) and increased suppliers' credit. These increases were countered by the reduction in short term loans.

Total equity increased by 7% to P92.43 billion from the issuance of preferred shares.

Petron's current ratio improved to 1.1X, while return on assets and equity dropped to 0.6% and 2.6%, respectively.

Better operating cash flows

In Million Pesos	2 019	2018	2017
Beginning Cash Balance	17,405	17,014	17,332
Operating Inflows	25,362	5,047	15,753
Investing Outflows	(20,467)	(11,141)	(11,211)
Financing Inflows (Outflows)	13,116	5,949	(4,715)
Effects of Exchange Rate Changes	(1,198)	536	(145)
Ending Cash Balance	34,218	17,405	17,014

Cash balance almost doubled at P34.2 billion from the previous year level of P17.4 billion.

Cash generated from internal operations significantly improved to P25.36 billion after satisfying working capital requirements and mandatory payments of interest and taxes. Excess cash from operations combined with funds sourced from financing activities of P13.12 billion, net of dividends and distribution payments of P4.1 billion, were used to fund capital expenditures totaling P20.47 billion for refinery and terminal projects, network expansion and investment property acquisitions.

Audit
Committee Report

The Board of Directors
Petron Corporation

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

In the performance of our responsibilities, we report that in 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

Financial
Statements

STATEMENT OF MANAGEMENT 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

PETRON CORPORATION, SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines PO Box 014 MCPO 0708 Tel.: (632) 8 884 9200 • Pandacan Terminal, Jesus St., Pandacan, Manila Tel.: (632) 8-563-8526 to 32 • Mandaue Terminal, Looc, Mandaue City, Cebu Tel.: (032) 344-7341 • Davao Depot, Km. 9, Bo. Pampanga, Davao City Tel.: (082) 234-2185 / 233-0399 • Internet: http://www.petron.com

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. PG769283A	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

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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. 65569
PTR No. 4330395/01-02-20/Mandaluyong
IBP No. 091175/01-02-20/RSM
MCLE Compliance No. VI-0002198/4-24-2017

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 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.

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

Forward

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

See Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Million Pesos)

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

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

		Equity Attributable to Equity Holders of the Parent Company										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
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**
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		9,485	19,653	24,881	15,160	32,870	(2,940)	(11,091)	(10,000)	78,018	6,529	84,547
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
As of December 31, 2019		**P9,485**	**P37,500**	**P25,183**	**P15,000**	**P30,510**	**(P4,704)**	**(P12,195)**	**(P15,122)**	**P85,657**	**P6,773**	**P92,430**

Forward

	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings: Appro-priated	Retained Earnings: Unappro-priated	Equity Reserves: Reserve for Retirement Plan	Equity Reserves: Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company										
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

	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings: Appro-priated	Retained Earnings: Unappro-priated	Equity Reserves: Reserve for Retirement Plan	Equity Reserves: Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company										
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)

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

Forward

	Note	**2019**	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans	*33*	**P386,875**	P339,581	P298,669
Payments of:				
Loans	*33*	**(381,558)**	(312,564)	(298,199)
Lease liabilities	*29, 33*	**(1,128)**	-	-
Cash dividends and distributions	*21, 33*	**(4,100)**	(6,160)	(5,773)
Issuance of preferred shares	*21*	**19,847**	-	-
Redemption of preferred shares	*21*	**(7,122)**	-	-
Issuance of redeemable and senior perpetual capital securities	*21*	**302**	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		**13,116**	5,949	(4,715)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(1,198)**	536	(145)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**16,813**	391	(318)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**17,405**	17,014	17,332
CASH AND CASH EQUIVALENTS AT END OF YEAR	*5*	**P34,218**	P17,405	P17,014

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Reporting Entity

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

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.

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:

Items	Measurement Bases
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 2019	2018	Country of Incorporation
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 MRGVeloso 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:

ASSETS	
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)**
	P12,165
LIABILITIES AND EQUITY	
Trade and other payables	**(P824)**
Lease liabilities	**15,399**
Deferred tax liabilities - net	**(771)**
Total Liabilities	**13,804**
Retained earnings	**(1,461)**
Non-controlling interests	**(178)**
Total Equity	**(1,639)**
	P12,165

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	**P36,253**
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	**P15,399**

- *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.

<u>New and Amended Standards and Framework Not Yet Adopted</u>
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.

<u>Current versus Noncurrent Classifications</u>
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.

<u>Financial Instruments</u>
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.

<u>Financial Assets</u>
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.

<u>Financial Liabilities</u>
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.

<u>Investment Property</u>
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.

<u>Intangible Assets</u>
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).

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges (Note 34).

	Maturity			
December 31, 2019	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign Currency Risk				
Call Spread Swaps				
Notional amount	**US$129**	**US$146**	**US$73**	**US$348**
Average strike rate	**P52.71 to P55.55**	**P52.59 to P55.61**	**P52.59 to P55.75**	
Foreign Currency and Interest Rate Risk				
Cross Currency Swap				
Notional amount	**US$20**	**US$40**	**US$60**	**US$120**
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%**	
Interest Rate Risk				
Interest Rate Collar				
Notional amount		**US$30**	**US$75**	**US$105**
Interest rate		**0.44% to 1.99%**	**0.44% to 1.99%**	

	Maturity			
December 31, 2018	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign Currency Risk				
Call Spread Swaps				
Notional amount	US$22	US$65	US$120	US$207
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**
Foreign Currency Risk			
US dollar-denominated loan	**P200**	**P -**	**(P139)**
Foreign Currency and Interest Rate Risks			
US dollar-denominated loan	**331**	**(206)**	**118**
Interest Rate Risks			
US dollar-denominated loan	**(7)**	**5**	**-**

December 31, 2018	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign Currency Risk			
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 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.

<u>Related Parties</u>
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.

<u>Basic and Diluted Earnings Per Common Share (EPS)</u>
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.

<u>Operating Segments</u>
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.

<u>Contingencies</u>
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.

<u>Events After the Reporting Date</u>
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.

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.

<u>Estimates and Assumptions</u>
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:

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

5. Cash and Cash Equivalents

This account consists of:

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

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).

6. Financial Assets at Fair Value

This account consists of:

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

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:

	Note	2019	2018
Government securities		**P227**	P196
Other debt instruments		**193**	182
	34, 35	**420**	378
Less current portion		**109**	40
		P311	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:

	Note	2019	2018
Due in one year or less		**P109**	P40
Due after one year through six years		**311**	338
	34, 35	**P420**	P378

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

	Note	2019	2018
Financial assets at amortized cost		**P257**	P226
Financial assets at FVOCI		**163**	152
	34, 35	**P420**	P378

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

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

Forward

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

8. Trade and Other Receivables

This account consists of:

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

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

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

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

9. Inventories

This account consists of:

	2019	2018
Petroleum	**P33,173**	P27,512
Crude oil and others	**29,626**	26,765
Materials and supplies	**5,688**	5,504
Lubes, greases and aftermarket specialties	**3,723**	4,092
	P72,210	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		**P1,251**	P874
Additions:			
Loss on inventory obsolescence	*4*	**31**	-
Loss on inventory write-down	*4*	**564**	742
Reversals		**(742)**	(369)
Translation adjustment		**-**	4
Balance at end of year		**P1,104**	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
Cost								
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)
December 31, 2019		**22,717**	**192,451**	**19,280**	**5,652**	**4,162**	**16,872**	**261,134**
Accumulated Depreciation and Amortization								
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)
December 31, 2019		**13,205**	**61,390**	**12,832**	**4,672**	**1,094**	**-**	**93,193**
Carrying Amount								
December 31, 2018		P7,305	P134,160	P5,429	P1,035	P3,727	P12,328	P163,984
December 31, 2019		**P9,512**	**P131,061**	**P6,448**	**P980**	**P3,068**	**P16,872**	**P167,941**

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.

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
Cost				
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)
December 31, 2019	**5,526**	**1,055**	**24**	**6,605**
Accumulated Depreciation				
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
December 31, 2019	**872**	**221**	**3**	**1,096**
Carrying Amount				
December 31, 2019	**P4,654**	**P834**	**P21**	**P5,509**

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
Cost						
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)
December 31, 2019		**9,253**	**5,676**	**17,562**	**11,543**	**44,034**
Accumulated Depreciation						
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)
December 31, 2019		**-**	**4,122**	**8,978**	**999**	**14,099**
Carrying Amount						
December 31, 2018		P8,422	P1,584	P6,530	P -	P16,536
December 31, 2019		**P9,253**	**P1,554**	**P8,584**	**P10,544**	**P29,935**

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.

<u>Valuation Technique and Significant Unobservable Inputs</u>
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.

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

<u>Investment in Shares of Stock of Subsidiaries</u>
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:

	2019	2018
Cost		
Balance at beginning of year	**P8,532**	P8,277
Translation adjustments	**(213)**	255
Net carrying amount at end of year	**P8,319**	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
Non-controlling Interests Percentage	**14.45%**	**26.60%**	14.45%	26.60%
Carrying amount of non-controlling interest	**P440**	**P6,333**	P605	P6,102
Current assets	**P376**	**P16,038**	P433	P23,694
Noncurrent assets	**9,524**	**23,211**	6,297	16,000
Current liabilities	**(363)**	**(14,955)**	(251)	(16,754)
Noncurrent liabilities	**(4,829)**	**(2,249)**	(2,156)	(1,812)
Net assets	**P4,708**	**P22,045**	P4,323	P21,128
Net income attributable to non-controlling interests	**P9**	**P593**	P58	P793
Other comprehensive income attributable to non-controlling interests	**P -**	**(P180)**	P -	P142

Forward

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

14. Other Assets

This account consists of:

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

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).

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:

	Note	2019	2018
Third parties		**P39,361**	P25,908
Related parties	*28*	**1**	83
	34, 35	**P39,362**	P25,991

17. Trade and Other Payables

This account consists of:

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

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).

18. Long-term Debt

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

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

Forward

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

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

Repayment Schedule

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

2019

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

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:

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

20. Other Noncurrent Liabilities

This account consists of:

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

"Others" account includes liability to a contractor and supplier.

21. Equity

a. Capital Stock

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

	2019	2018
Series 2A Preferred Shares	**-**	47
Series 2B Preferred Shares	**30**	30
Series 3A Preferred Shares	**8**	-
Series 3B Preferred Shares	**25**	-
	63	77

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
2017				
Common	P0.10000	March 14, 2017	March 28, 2017	April 12, 2017
Series 2A	15.75000	March 14, 2017	April 12, 2017	May 3, 2017
Series 2B	17.14575	March 14, 2017	April 12, 2017	May 3, 2017
Series 2A	15.75000	March 14, 2017	July 18, 2017	August 3, 2017
Series 2B	17.14575	March 14, 2017	July 18, 2017	August 3, 2017
Series 2A	15.75000	August 8, 2017	October 16, 2017	November 3, 2017
Series 2B	17.14575	August 8, 2017	October 16, 2017	November 3, 2017
Series 2A	15.75000	August 8, 2017	January 16, 2018	February 5, 2018
Series 2B	17.14575	August 8, 2017	January 16, 2018	February 5, 2018
2018				
Common	P0.15000	March 13, 2018	March 27, 2018	April 18, 2018
Series 2A	15.75000	March 13, 2018	April 12, 2018	May 3, 2018
Series 2B	17.14575	March 13, 2018	April 12, 2018	May 3, 2018
Series 2A	15.75000	March 13, 2018	July 16, 2018	August 3, 2018
Series 2B	17.14575	March 13, 2018	July 16, 2018	August 3, 2018
Series 2A	15.75000	August 7, 2018	October 10, 2018	November 5, 2018
Series 2B	17.14575	August 7, 2018	October 10, 2018	November 5, 2018
Series 2A	15.75000	August 7, 2018	January 11, 2019	February 4, 2019
Series 2B	17.14575	August 7, 2018	January 11, 2019	February 4, 2019
2019				
Common	P0.10000	March 12, 2019	March 27, 2019	April 11, 2019
Series 2A	15.75000	March 12, 2019	April 4, 2019	May 3, 2019
Series 2B	17.14575	March 12, 2019	April 4, 2019	May 3, 2019
Series 2A	15.75000	March 12, 2019	July 12, 2019	August 5, 2019
Series 2B	17.14575	March 12, 2019	July 12, 2019	August 5, 2019
Series 2A	15.75000	August 6, 2019	October 11, 2019	November 4, 2019
Series 2B	17.14575	August 6, 2019	October 11, 2019	November 4, 2019
Series 3A	17.17825	August 6, 2019	September 2, 2019	September 25, 2019
Series 3B	17.84575	August 6, 2019	September 2, 2019	September 25, 2019
Series 3A	17.17825	November 5, 2019	December 2, 2019	December 26, 2019
Series 3B	17.84575	November 5, 2019	December 2, 2019	December 26, 2019
Series 2B	17.14575	November 5, 2019	January 14, 2020	February 3, 2020
Series 3A	17.17825	November 5, 2019	March 2, 2020	March 25, 2020
Series 3B	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
Balance at beginning of year	**(P11,091)**	(P3,025)	(P5,859)
Net loss on cash flow hedges, net of tax	**(145)**	(77)	-
Changes in fair value of investment in debt instruments	**10**	(8)	(3)
Cumulative translation adjustment	**(969)**	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	-
Balance at end of year	**(P12,195)**	(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.

22. Cost of Goods Sold

This account consists of:

	Note	**2019**	2018	2017
Inventories	*9*	**P463,028**	P498,117	P369,695
Depreciation and amortization	*25*	**8,430**	8,277	8,043
Materials and supplies		**4,099**	5,498	4,873
Purchased services and utilities		**2,101**	2,211	2,339
Personnel expenses	*24*	**1,771**	1,979	1,925
Others	*29, 31*	**4,426**	6,742	5,094
		P483,855	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.

23. Selling and Administrative Expenses

This account consists of:

	Note	2019	2018	2017
Depreciation and amortization	25	**P4,815**	P3,266	P2,936
Purchased services and utilities		**4,597**	4,457	3,762
Personnel expenses	24	**3,318**	4,092	4,021
Maintenance and repairs		**1,342**	1,285	1,276
Advertising		**696**	746	1,524
Materials and office supplies		**528**	605	546
Taxes and licenses		**360**	368	342
Rent	2, 29	**38**	1,753	1,644
Impairment losses on trade and other receivables	4, 8	**35**	261	10
Others	9	**86**	148	136
		P15,815	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).

24. Personnel Expenses

This account consists of:

	Note	2019	2018	2017
Salaries, wages and other employee costs	28	**P4,919**	P5,446	P5,345
Retirement benefits costs - defined benefit plan	28, 30	**70**	523	508
Retirement benefits costs - defined contribution plan	28	**100**	102	93
		P5,089	P6,071	P5,946

The above amounts are distributed as follows:

	Note	2019	2018	2017
Costs of goods sold	22	**P1,771**	P1,979	P1,925
Selling and administrative expenses	23	**3,318**	4,092	4,021
		P5,089	P6,071	P5,946

25. Depreciation and Amortization

This account consists of:

	Note	2019	2018	2017
Cost of goods sold:				
Property, plant and equipment	10	**P8,081**	P7,693	P7,359
Right-of-use assets	11	**107**	-	-
Other assets	14	**242**	584	684
	22	**8,430**	8,277	8,043
Selling and administrative expenses:				
Property, plant and equipment	10	**2,254**	2,225	2,602
Right-of-use assets	11	**595**	-	-
Investment property	12	**1,883**	699	1
Intangible assets and others	14	**83**	342	333
	23	**4,815**	3,266	2,936
	37	**P13,245**	P11,543	P10,979

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

This account consists of:

	Note	2019	2018	2017
Interest expense and other financing charges:				
Long-term debt	18	**P6,423**	P4,867	P4,320
Short-term loans	15	**4,032**	3,165	2,323
Bank charges		**920**	1,133	839
Amortization of debt issue costs	18	**449**	331	820
Accretion on ARO	19	**98**	189	182
Accretion on lease liability	29	**1,165**	-	-
Product borrowings		**65**	-	-
Defined benefit obligation	30	**335**	-	-
Others		**3**	4	3
	37	**P13,490**	P9,689	P8,487
Interest income:				
Advances to related parties	28	**P113**	P212	P211
Short-term placements	5	**953**	416	236
Investments in debt instruments	7	**18**	24	22
Trade receivables	8	**40**	47	49
Cash in banks	5	**7**	7	16
Plan assets	30	**209**	-	-
Others		**-**	-	1
	37	**P1,340**	P706	P535

Forward

	Note	2019	2018	2017
Other income (expenses) - net:				
Foreign currency gains (losses) - net	34	**P2,609**	(P3,476)	P1,192
Changes in fair value of financial assets at FVPL	6	**30**	84	14
Hedging gains (losses) - net		**(1,783)**	218	(373)
Marked-to-market gains (losses) - net	35	**(1,926)**	4,326	(1,692)
Others - net		**758**	(635)	(48)
		(P312)	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:

	2019	2018
Net retirement benefits liability	**P2,157**	P1,617
Rental	**1,364**	192
NOLCO	**1,286**	-
Various allowances, accruals and others	**789**	1,085
Inventory differential	**649**	(150)
MCIT	**491**	-
ARO	**278**	415
Unutilized tax losses	**237**	-
Fair market value adjustments on business combination	**(30)**	(32)
Unrealized foreign exchange losses (gains) - net	**(158)**	523
Capitalized taxes and duties on inventories deducted in advance	**(1,402)**	(863)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**(4,609)**	(4,818)
Excess of double-declining over straight-line method of depreciation and amortization	**(7,138)**	(6,162)
	(P6,086)	(P8,193)

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

	2019	2018
Deferred tax assets - net	**P262**	P257
Deferred tax liabilities - net	**(6,348)**	(8,450)
	(P6,086)	(P8,193)

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

	2019	2018
Balance at beginning of year	**(P8,193)**	(P7,190)
Adjustments due to adoption of PFRS 16	**771**	-
Balance at beginning of year, as adjusted	**(7,422)**	(7,190)
Amounts recognized in profit or loss	**518**	(1,317)
Amounts recognized in OCI	**809**	375
Cumulative translation adjustment and others	**9**	(61)
	(P6,086)	(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	**P1,952**	P2,069	P2,754
Deferred	**(518)**	1,317	2,001
	P1,434	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 Incurred/Paid	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	**P976**	P1,150	P1,425
Capitalized taxes and duties on inventories deducted in advance	**539**	575	77
Inventory differential	**(799)**	349	417
Unutilized tax gains (losses)	**(237)**	220	(23)
ARO	**137**	72	(114)
Various allowances, accruals and others	**322**	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)
	(P518)	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		**38.35%**	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	no impairment
		2017	10	650	4	27	bearing	
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	no impairment
		2017	3,233	10,670	870	768	bearing	
Associate	*b*	2017	153	-	-	-	On demand; non-interest bearing	Unsecured; no impairment
Joint Ventures	*c, f, g, h*	**2019**	**-**	**52**	**1**	**-**	On demand;	Unsecured;
		2018	7	59	1	-	non-interest	no impairment
		2017	1	43	-	4	bearing	
		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		

a. 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).

b. 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.

c. 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.

d. 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.

e. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.

f. TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.

g. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.

h. Amounts owed to related parties consist of trade and non-trade payables.

i. In 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):

	2019	2018	2017
Salaries and other short-term employee benefits	**P756**	P998	P906
Retirement benefits costs - defined benefit plan	**29**	135	166
Retirement benefits costs - defined contribution plan	**27**	35	33
	P812	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:

2019 - Leases under PFRS 16	***Note***	
Interest on lease liabilities	*11*	**P1,165**
Income from sub-leasing		**(1,395)**
Expenses relating to the variable portion of lease payments		**7**
Expenses relating to short-term leases		**62**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		**32**
		(P129)

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).

2018 - Operating Leases under PAS 17	***Note***	
Rent expense in "Selling and administrative expenses"	*23*	**P1,753**
Rent expense in "Cost of goods sold"	*22*	**53**
		P1,806

Amounts recognized in consolidated statements of cashflows:

	Note	
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
	P25,401

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	**P1,304**
One to two years	**908**
Two to three years	**641**
Three to four years	**485**
Four to five years	**499**
More than five years	**7,562**
	P11,399

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
	P1,643

Rent income recognized in profit or loss amounted to:

	Note	**2019**	2018	2017
Other operating income		**P1,507**	P1,340	P1,180
Others - net	*26*	**63**	63	63
		P1,570	P1,403	P1,243

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
Balance at beginning of year	**(P5,779)**	(P5,872)	(P5,344)	**P3,279**	P883	P1,952	**(2,500)**	(P4,989)	(P3,392)
Recognized in Profit or Loss									
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)**	-	-
	(405)	(670)	(602)	**209**	147	94	**(196)**	(523)	(508)
Recognized in Other Comprehensive Income									
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)
	(509)	9	(407)	**(2,022)**	(1,142)	(735)	**(2,531)**	(1,133)	(1,142)
Others									
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)
	1,955	754	481	**(383)**	3,391	(428)	**1,572**	4,145	53
Balance at end of year	**(P4,738)**	(P5,779)	(P5,872)	**P1,083**	P3,279	P883	**(P3,655)**	(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:

	Note	2019	2018
Trade and other payables	17	**P90**	P67
Retirement benefits liability (noncurrent portion)		**3,565**	2,433
		P3,655	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:

	2019	2018
Shares of stock:		
Quoted	**76%**	52%
Unquoted	**9%**	6%
Government securities	**9%**	5%
Cash and cash equivalents	**5%**	12%
Receivables	**0%**	21%
Others	**1%**	4%
	100%	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:

	Defined Benefit Liabilities	
2019	**1 Percent Increase**	**1 Percent Decrease**
Discount rate	**(P209)**	**P239**
Salary increase rate	**237**	**(211)**

	Defined Benefit Liabilities	
2018	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.

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).

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	**P1,701**	P6,218	P12,739
Dividends on preferred shares for the year	**(1,578)**	(646)	(646)
Distributions to the holders of capital securities	**(1,697)**	(2,971)	(4,024)
Net income (loss) attributable to common shareholders of the Parent Company (a)	**(P1,574)**	P2,601	P8,069
Weighted average number of common shares outstanding (in millions) (b)	**9,375**	9,375	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	**(P0.17)**	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	**(P2,977)**	(P6,523)	(P6,593)
Inventories	**(8,569)**	(7,161)	(12,531)
Other assets	**7,940**	(5,049)	(1,511)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	**14,859**	(14,071)	7,837
Trade and other payables and others	**1,059**	16,597	(165)
	12,312	(16,207)	(12,963)
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, goodwill and others	**(465)**	591	(80)
	P11,847	(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**
Balance as of December 31, 2019	**P496**	**P15,749**	**P71,090**	**P133,077**	**P220,412**

	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
Assets				
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
	693	**35,042**	560	29,458
Liabilities				
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
	2,238	**113,318**	2,061	108,373
Net foreign currency-denominated monetary liabilities	**(1,545)**	**(78,276)**	(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$
December 31, 2019	**50.635**
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**	
2019	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
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)**
	P1,779	**P1,430**	**(P1,779)**	**(P1,430)**

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

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**
Fixed Rate							
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%**	
Floating Rate							
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
Fixed Rate							
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%	-
Floating Rate							
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:

	Note	**2019**	2018
Cash in banks and cash equivalents	*5*	**P32,049**	P14,143
Derivative assets	*6*	**746**	1,079
Investments in debt instruments	*7*	**420**	378
Trade and other receivables - net	*8*	**44,657**	42,497
Long-term receivables - net	*14*	**-**	253
Noncurrent deposits	*14*	**104**	94
		P77,976	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**
December 31, 2019				
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**
	P14,611	**P18,135**	**P3,389**	**P36,135**

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

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					
	12-month ECL	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
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**
	P32,410	**P44,657**	**P1,260**	**P830**	**P363**	**P79,520**

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

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**
Financial Assets						
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**
Financial Liabilities						
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
Financial Assets						
Cash and cash equivalents	P17,405	P17,405	P17,405	P -	P -	P -
Trade and other receivables	42,497	42,497	42,497	-	-	-
Derivative assets	1,079	1,079	872	61	146	-
Proprietary membership shares	254	254	254	-	-	-
Investments in debt instruments	378	394	-	136	258	-
Long-term receivables - net	253	253	-	-	253	-
Noncurrent deposits	94	94	-	-	3	91
Financial Liabilities						
Short-term loans	82,997	83,402	83,402	-	-	-
Liabilities for crude oil and petroleum products	25,991	25,991	25,991	-	-	-
Trade and other payables*	23,189	23,189	23,189	-	-	-
Derivative liabilities	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:

	2019	2018
Total assets	**P394,835**	P358,154
Total liabilities	**302,405**	271,968
Total equity	**92,430**	86,186
Debt to equity ratio	**3.3:1**	3.2:1
Assets to equity ratio	**4.3:1**	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:

		2019		2018	
	Note	**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

		2019		2018	
	Note	**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.

<u>Derivative Financial Instruments</u>
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).

	Maturity			
December 31, 2019	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign Currency Risk				
Call Spread Swaps				
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**	
Foreign Currency and Interest Rate Risk				
Cross Currency Swap				
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%**	
Interest Rate Risk				
Interest Rate Collar				
Notional amount		**US$30,000**	**US$75,000**	**US$105,000**
Interest rate		**0.44% to 1.99%**	**0.44% to 1.99%**	

	Maturity			
December 31, 2018	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign Currency Risk				
Call Spread Swaps				
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**
Foreign Currency Risk			
US dollar-denominated loan	**P200**	**P -**	**(P139)**
Foreign Currency and Interest Rate Risks			
US dollar-denominated loan	**331**	**(206)**	**118**
Interest Rate Risks			
US dollar-denominated loan	**7**	**5**	**-**

December 31, 2018	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign Currency Risk			
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 Assets**	**Carrying Amount Liabilities**	**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**
Foreign Currency Risk									
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
Foreign Currency and Interest Rate Risks									
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
Interest Rate Risk									
Interest rate collar	**105**	**7**	**-**	Other noncurrent assets, Derivative liabilities	**7**	**-**	**-**	**-**	

December 31, 2018	Notional Amount	Carrying Amount Assets	Carrying Amount Liabilities	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
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:

	Note	**2019**	2018
Fair value at beginning of year		**P387**	(P1,626)
Net changes in fair value during the year	*26*	**(1,926)**	4,326
Fair value of settled instruments		**1,734**	(2,313)
Fair value at end of year		**P195**	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.

	2019	2018
	Level 2	Level 2
Financial Assets:		
FVPL	**P284**	P254
Derivative assets	**746**	1,079
Investments in debt instruments	**163**	152
Financial Liabilities:		
Derivative liabilities	**(1,075)**	(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.

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.

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
2019						
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
2018						
Revenue:						
External sales	P554,958	P -	P1,117	P923	P388	P557,386
Inter-segment sales	284,132	116	686	-	(284,934)	-
Operating income	18,117	90	313	89	312	18,921
Net income	11,854	150	97	94	(5,126)	7,069
Assets and liabilities:						
Segment assets*	398,305	1,418	6,730	622	(49,178)	357,897
Segment liabilities*	276,810	231	2,378	115	(16,016)	263,518
Other segment information:						
Property, plant and equipment	163,418	-	-	132	434	163,984
Depreciation and amortization	11,515	-	9	19	-	11,543
Interest expense	9,689	-	154	-	(154)	9,689
Interest income	814	31	5	10	(154)	706
Income tax expense	3,306	22	24	12	22	3,386

**excluding deferred tax assets and liabilities*

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2017						
Revenue:						
External sales	P433,879	P -	P -	P745	P -	P434,624
Inter-segment sales	199,117	83	584	-	(199,784)	-
Operating income	26,895	59	295	16	373	27,638
Net income	16,263	118	141	44	(2,479)	14,087
Assets and liabilities:						
Segment assets*	382,313	1,319	5,871	636	(52,316)	337,823
Segment liabilities*	248,118	291	4,439	108	(21,942)	231,014
Other segment information:						
Property, plant and equipment	172,212	-	-	134	5,344	177,690
Depreciation and amortization	10,952	-	9	18	-	10,979
Interest expense	8,487	-	164	-	(164)	8,487
Interest income	666	26	2	5	(164)	535
Income tax expense	4,648	16	27	3	61	4,755

**excluding deferred tax assets and liabilities*

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
2019						
Revenue	**P249,210**	**P4,474**	**P25,745**	**P125,314**	**P108,658**	**P513,401**
Property, plant and equipment	**9,949**	**40**	**303**	**100**	**156,868**	**167,260**
Capital expenditures	**1,892**	**2**	**5**	**-**	**14,951**	**16,850**
2018						
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
2017						
Revenue	212,840	5,307	22,850	101,333	91,549	433,879
Property, plant and equipment	20,648	86	435	153	150,890	172,212
Capital expenditures	2,473	1	100	49	4,821	7,444

<u>Geographical Segments</u>

The following table presents segment assets of the Group as of December 31, 2019 and 2018.

	2019	2018
Local	**P323,518**	P284,469
International	**71,055**	73,428
	P394,573	P357,897

<u>Disaggregation of Revenue</u>

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
2019						
Local	**P301,148**	**P60**	**P1,506**	**P961**	**(P2,230)**	**P301,445**
Export/international	**440,865**	**42**			**(227,990)**	**212,917**
2018						
Local	311,951	44	1,803	P923	(979)	313,742
Export/international	527,139	72	-	-	(283,567)	243,644
2017						
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.*

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.

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.

Terminals and Airport Installations

LUZON

BATANGAS
Bo. Mainaga, Mabini, Batangas

LIMAY
Limay, Bataan

NAVOTAS
PFDA CMPD., Navotas, Metro Manila

PALAWAN
Parola, Brgy. Maunlad, Puerto Princesa City

PORO
Poro Pt., San Fernando, La Union

ROSARIO
General Trias, Rosario, Cavite

VISAYAS

BACOLOD
Bo. San Patricio, Bacolod City

ILOILO
Lapuz, Iloilo City

ISABEL
LIDE, Isabel, Leyte

MACTAN
MEPZ, Lapu-Lapu City

MANDAUE
Looc, Mandaue City

ORMOC
Bo. Linao, Ormoc City

ROXAS
Arnaldo Blvd., Culasi

TACLOBAN
Anibong, Tacloban City

MINDANAO

DAVAO
Km. 9, Bo. Pampanga, Davao City

BAWING
Purok Cabu, Bawing, General Santos City

ILIGAN
Bo. Tuminobo, Iligan City

JIMENEZ
Jimenez, Misamis Occidental

NASIPIT
Talisay, Nasipit, Agusan del Norte

TAGOLOAN
Tagoloan, Misamis Oriental

ZAMBOANGA
Brgy. Campo Islam, Lower Calarian, Zamboanga City

AIRPORT INSTALLATIONS

DAVAO
Davao Airport

LAGUINDINGAN
Misamis Oriental

LAOAG
Laoag Airport

NAIA JOCASP
Compound, NAIA, Pasay City

LPG OPERATIONS

PASIG
Bo. Ugong, Pasig, Metro Manila

LEGASPI
Lakandula Drive, Brgy. Bonot, Legaspi City

SAN FERNANDO
San Fernando, Pampanga

Product List

FUELS

Automotive Fuels
Petron Blaze 100 Euro 6
Petron XCS
Petron Xtra Advance
Petron Turbo Diesel
Petron Diesel Max

Industrial Fuels
Petron Fuel Oil

Aviation Fuels
Aviation Gasoline
Jet A-1

Household Fuels
Gasul
Fiesta
Gaas

AUTOMOTIVE LUBRICATING OILS

Diesel Engine Oils
Rev-X Turbo HTP
Rev-X Fully Synthetic
Rev-X Synthetic Blend
Rev-X Premium Multi-grade
Rev-X Multi-grade
Rev-X Pantra
Rev-X HD4X
Rev-X HD
Rev-X Hauler
Petron XD3
Petron Railroad Extra

Gasoline Engine Oils
Blaze Racing HTP
Blaze Racing Fully Synthetic
Blaze Racing Synthetic Blend
Blaze Racing Premium Multi-grade
Blaze Racing Multi-grade
Ultron Race / Fully Synthetic
Ultron Rallye / Synthetic Blend
Ultron Touring / Premium Multi-grade
Ultron Extra / Multi-grade
Petron MO

Motorcycle Oils
Petron Sprint 4T Fully Synthetic
Petron Sprint 4T Premium Multi-grade
Petron Sprint 4T Multi-grade
Petron Sprint 4T Monograde
Petron Sprint 4T Scooter Oil Fully Synthetic
Petron Sprint 4T Scooter Oil Synthetic Blend
Petron Sprint 4T Scooter Oil Premium Multi-grade
Petron Scooter Gear Oil
2T Powerburn
2T Premium
2T Autolube

Automotive Gear Oils
Petron GHTP Gear Oil
Petron GX
Petron GEP
Perton GST

Automotive Transmission Fluids
Petron ATF Premium HTP
Petron ATF Premium
Petron TF 38
Petron TDH 50

Other Automotive Oils
STM

INDUSTRIAL LUBRICATING OILS

Turbine, Hydraulic and Circulating Oils
Hydrotur AW 22 / 32 / 46 / 68 / 100
Hydrotur AWX 32 / 68 / 100
Hydrotur AW GT 32
Hydrotur EP 46
Hydrotur N 100
Hydrotur R 32 / 46 / 68 / 100 / 150 / 185 / 220 / 320
Hydrotur SX 68
Hydrotur T 32 / 46 /68
Hydrotur TEP 68 / 77

Industrial Gear Oils
Hydrotur SX 220
Hypex EP 68 / 100 / 150 / 220 / 320 / 460 / 570 / 680 / 1000 / 4000 (Oil-Based)
Hypex EP 2K / 4K / 25K (Asphalt-Based)
Milrol 5K
Gearfluid 2K / 5K / 8K
Gearkote 3K / 22K / 68K
Petrocyl S 390 / 700
Petrocyl 680

Cutting Oils
Turnol 40
Petrokut 10 / 27

Refrigeration Oils
Zerflo 68
Zerflo P68

Transformer Oil
Voltran 60

Slideway Oil
Hydrotur SW 68
Hydrotur SW 220

Other Industrial Lubricating Oils
Airlube 100 / 150 / 320
Petrosine 68
Petron Universal Tractor Fluid - new

MARINE LUBRICATING OILS

Crosshead Engine Cylinder Oils
Petromar DCL 7050
Petromar DCL 4000 Series

Trunk Piston Engine Oils
Petromar HF 1040 / 1540
Petromar HF 2040
Petromar HF 3000 series
Petromar HF 4000 series
Petromar HF 5040 / 5540
Petromar XC 1030 / 1040 / 1050 / 1530 / 1540
Petromar XC 2030 / 2040
Petromar XC 3030 / 3040
Petromar XC 4040 / 4050
Petromar XC 5040 / 5540
Petron MS 9250 / 9370
Crosshead Engine System Oil
Petromar 65

Marine outboard 2-stroke oil
Petron Regatta

GREASES

Multi-purpose Greases
Petrogrease MP 2 / 3
Molygrease Premium
Petrogrease Premium

Water Resistant Grease
Petrogrease XX

Extreme Pressure Greases
Petrogrease EP 00 / 0 / 1 / 2
Molygrease EP 2
Molygrease EP 2P
Petrogrese EP 375

High Temperature Greases
Petrogrease HT

Complex Greases
Petron Grease HTP Lithium Complex – from High Temperature Greases
Petron Premium Lithium Complex

F. ASPHALTS

Penetration Asphalt
Petropen

Cutback Asphalt
Petropen CB

Emulsified Asphalt
Petromul SS-1
Petromul CSS -1

Blown Asphalts
Asphaltseal
Asphalt Joint Sealer

Polymer Modified Bitumen
Petron Polymer Modified Bitumen

SPECIAL PRODUCTS

Process Oils
Stemol 68
Petrosine 68
Process Oil series

Heat Transfer Oil
Petrotherm 32

Cleaning Agent
Greaseaway
Greasolve

Protective Coatings
Petrokote 392
Marinekote
Autokote
Cablekote 70

AFTERMARKET SPECIALTIES

PetroMate Oil Saver
PetroMate Oil Improver
PetroMate Gas Saver
PetroMate Diesel Power Booster
PetroMate Engine Flush
PetroMate Super Coolant
PetroMate Clean N' Shine
PetroMate Penetrating Oil
PetroMate Greaseaway
PetroMate Carbon Buster
PetroMate Brake and Clutch Fluid
Petron Brake Fluid HTP DOT 4

PERFORMANCE ADDITIVES & CHEMICALS

pCHEM DEF (Diesel Exhaust Fluid)
pCHEM 3500
pCHEM 3500F
pCHEM 140M
pCHEM 3500MF
pCHEM 500FS
pCHEM 1000
pCHEM 100X
pCHEM 3500M
pCHEM 3000DP
pCHEM 6000DP
pCHEM BT25

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