

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-C

### CURRENT REPORT UNDER SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17.2(c) THEREUNDER

1. Date of Report (Date of earliest event reported)  
Apr 8, 2021
2. SEC Identification Number  
31171
3. BIR Tax Identification No.  
000-168-801
4. Exact name of issuer as specified in its charter  
PETRON CORPORATION
5. Province, country or other jurisdiction of incorporation  
Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
San Miguel Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City  
Postal Code  
1550
8. Issuer's telephone number, including area code  
(63 2) 8884-9200
9. Former name or former address, if changed since last report  
N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

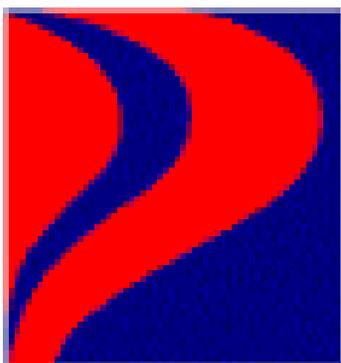
Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON (PCOR)	9,375,104,497
PREFERRED SERIES 2B (PRF2B)	7,768,082
PREFERRED SERIES 3A (PRF3A)	13,403,000
PREFERRED SERIES 3B (PRF3B)	6,597,000
PCOR SERIES A BONDS DUE 2021 (IN MIL PESO)	13,000
PCOR SERIES B BONDS DUE 2023 (IN MIL PESO)	7,000

PCOR SERIES C BONDS DUE 2024 (IN MIL PESO)	13,200
PCOR SERIES D BONDS DUE 2025 (IN MIL PESO)	6,800
TOTAL DEBT AS OF DEC 31, 2020 (IN MIL PESO-CONSO)	197,158

11. Indicate the item numbers reported herein

Item 9

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*



**PETRON**

**Petron Corporation**

**PCOR**

**PSE Disclosure Form 4-30 - Material Information/Transactions**  
**References: SRC Rule 17 (SEC Form 17-C) and**  
**Sections 4.1 and 4.4 of the Revised Disclosure Rules**

**Subject of the Disclosure**

Preliminary Offering Circular containing information pertaining to the Company and its subsidiaries material to the contemplated issuance by the Company of US Dollar-denominated senior perpetual capital securities

**Background/Description of the Disclosure**

Preliminary Offering Circular containing information pertaining to the Company and its subsidiaries material to the contemplated issuance by the Company of US Dollar-denominated senior perpetual capital securities

**Other Relevant Information**

Please see attached letter dated April 8, 2021.

**Filed on behalf by:**

<b>Name</b>	Jhoanna Jasmine Javier-Elacio
<b>Designation</b>	Legal Manager and Assistant Corporate Secretary



April 8, 2021

**PHILIPPINE STOCK EXCHANGE, INC.**

Disclosure Department  
6<sup>th</sup> Floor, PSE Tower  
5<sup>th</sup> Avenue corner 28<sup>th</sup> Street  
Bonifacio Global City, Taguig City

Attention: **Ms. Janet A. Encarnacion**  
Head, Disclosure Department

**PHILIPPINE DEALING & EXCHANGE CORP.**

29<sup>th</sup> Floor, BDO Equitable Tower  
8751 Paseo de Roxas  
Makati City 1226

Attention: **Atty. Marie Rose M. Magallen-Lirio**  
Head - Issuer Compliance and Disclosure Department

Gentlemen:

Further to our earlier disclosure today, please find attached a copy of the preliminary offering circular containing information pertaining to Petron Corporation (the "Company") and its subsidiaries material to the contemplated issuance by the Company of US Dollar-denominated senior perpetual capital securities.

Very truly yours,

A handwritten signature in black ink that reads "JACruz".

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

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

*Important: You must read the following before continuing.* The following applies to the preliminary offering circular following this page (the “**Offering Circular**”), and you are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE SECURITIES AND THE INFORMATION CONTAINED IN AN OFFERING CIRCULAR THAT WILL BE DISTRIBUTED TO YOU ON OR PRIOR TO THE CLOSING DATE AND NOT ON THE BASIS OF THE ATTACHED DOCUMENTS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

*Confirmation of the Representation:* In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities described herein, investors must not be located in the United States. This Offering Circular is being sent at your request and by accepting the electronic mail and accessing this Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Circular to any other person.

The materials relating to any offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the Joint Lead Managers (as defined in the Offering Circular) or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Company (as defined in the Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers or any person who controls any of the Joint Lead Managers or any director, officer, employee or agent of any of the Joint Lead Managers or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from any of the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



## Petron Corporation

(a company incorporated with limited liability under the laws of the Republic of the Philippines)

US\$[●] Senior Perpetual Capital Securities

Issue price:[●]%

The US\$[●] senior perpetual capital securities (the “**Securities**”) are issued by Petron Corporation (“**Petron**” or the “**Company**”). The Securities confer a right to receive distributions (each, a “**Distribution**”) at the applicable rate described below for the period from and including [●] 2021 or from and including the most recent Distribution Payment Date (as defined in the Terms and Conditions of the Securities) to, but excluding, the next Distribution Payment Date or any redemption date. Subject to Condition 4.5 (*Optional Deferral of Distributions*), Distributions are payable semi-annually in arrears on the Distribution Payment Dates in each year. “**Distribution Payment Dates**” are defined as [●] and [●] of each year, commencing on [●] 2021. Unless previously redeemed in accordance with the Terms and Conditions of the Securities and subject to Condition 4.4 (*Increase in Rate of Distribution*), Distributions (i) from and including [●] to, but excluding, [●] the (“**Step Up Date**”) shall accrue on the outstanding principal amount of the Securities at [●]% per annum (the “**Initial Rate of Distribution**”) and (ii) from and including each Reset Date (as defined in the Terms and Conditions of the Securities) (including the Step Up Date) to, but excluding, the immediately following Reset Date, shall accrue on the outstanding principal amount of the Securities at the relevant Reset Rate of Distribution (as defined in the Terms and Conditions of the Securities).

The Company may, in its sole and absolute discretion, on any day which is not less than five Business Days (as defined in the Terms and Conditions of the Securities) prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date (i) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities (each as defined in the Terms and Conditions of the Securities) of the Company, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Company or (ii) at the discretion of the Company, any Junior Securities or Parity Securities have been redeemed, repurchased or otherwise acquired by the Company or any of its subsidiaries. Any such deferred Distribution will constitute “**Arrears of Distribution**” and will not be due and payable until the relevant Payment Reference Date (as defined in the Terms and Conditions of the Securities). Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution (as defined in the Terms and Conditions of the Securities) as the principal amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

The Securities are undated securities in respect of which there is no fixed redemption date. Subject to applicable law, the Company may redeem the Securities (in whole but not in part) on the Step Up Date or any subsequent Distribution Payment Date at the Redemption Price (as defined in the Terms and Conditions of the Securities), on the giving of not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*). The Securities may also be redeemed (in whole but not in part) at the option of the Company at the Redemption Price upon the occurrence of certain changes in Philippine tax law requiring the payment of Additional Amounts (as defined in the Terms and Conditions of the Securities). In addition, the Securities may be redeemed (in whole but not in part) at the option of the Company (A) upon the occurrence of Change of Control Event (as defined in the Terms and Conditions of the Securities) (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price (as defined in the Terms and Conditions of the Securities) or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence of a Reference Security Default Event (as defined in the Terms and Conditions of the Securities) at any time at the Redemption Price, (C) upon the occurrence and continuation of an Accounting Event (as defined in the Terms and Conditions of the Securities) (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price or (D) in the event less than 25% of the aggregate principal amount of the Securities originally issued remain outstanding, (j) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

The Securities are being offered only outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”). The Securities have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Unless they are so registered, the Securities may be offered only in transactions that are exempt from or not subject to registration under the Securities Act or the securities laws of any other jurisdiction. For further details, see “*Subscription and Sale*.”

Investing in the Securities involves certain risks. See “*Risk Factors*” beginning on page 18.

THE SECURITIES BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE PHILIPPINE SECURITIES REGULATION CODE (“**PHILIPPINE SRC**”). ANY FUTURE OFFER OR SALE OF THE SECURITIES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE PHILIPPINE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE PHILIPPINE SRC.

Approval in-principle has been obtained from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for the listing and quotation of the Securities on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Admission of the Securities to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Company or the Securities. The Securities will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for as long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require.

The Securities will be evidenced by a global certificate (the “**Global Certificate**”) in registered form, which will be registered in the name of a nominee of, and deposited with a common depository for, Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”).

*Sole Global Coordinator*

**HSBC**

*Joint Lead Managers and Joint Bookrunners  
(in alphabetical order)*

**DBS Bank  
Ltd.**

**HSBC**

**MUFG**

**SMBC  
Nikko**

**Standard  
Chartered Bank**

**UBS**

*Domestic Lead Managers  
(in alphabetical order)*

**BDO Capital & Investment  
Corporation**

**China Bank Capital  
Corporation**

**PNB Capital and Investment  
Corporation**

Offering Circular dated , 2021

In this Offering Circular, unless the context otherwise requires, references to the “**Company**” and “**Petron**” refer to Petron Corporation or Petron Corporation and its consolidated subsidiaries, as the context requires, the “**Sole Global Coordinator**” refers to The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”) and the “**Joint Lead Managers**” refers to DBS Bank Ltd., HSBC, MUFG Securities Asia Limited, SMBC Nikko Capital Markets Limited, Standard Chartered Bank and UBS AG Singapore Branch in their capacity as Joint Lead Managers and Joint Bookrunners. Certain acronyms, technical terms and other abbreviations used are defined in the “*Glossary*” of this Offering Circular.

The Company, having made all reasonable enquiries, confirms that: (i) this Offering Circular contains all information with respect to the Company and the Securities, which is material in the context of the issue and offering of the Securities; (ii) the statements contained in it relating to the Company are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Company are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Company or the Securities, the omission of which would, in the context of the issue and offering of the Securities, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements. In addition, the Company accepts full responsibility for the accuracy of the information contained in this Offering Circular.

**Prospective investors should rely only on the information contained in this Offering Circular. The Company and the Joint Lead Managers have not authorized anyone to provide prospective investors with information that is different. The information in this document may only be accurate on the date of this Offering Circular. Nothing in this Offering Circular should be relied upon as a promise or representation as to future results or events, and neither the delivery of this Offering Circular nor any offering or sale of the Securities shall under any circumstances imply that there has been no change in the affairs of the Company or that the information herein is correct as of any date subsequent to the date hereof.**

This Offering Circular is being furnished by the Company in connection with an offering exempt from the registration requirements under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) solely for the purpose of enabling a prospective investor to consider whether to purchase the Securities. The information contained herein has been provided by the Company and other sources identified herein. None of the Joint Lead Managers, The Hongkong and Shanghai Banking Corporation Limited (the “**Trustee**”) or the Agents (as defined in the Terms and Conditions of the Securities) has independently verified the information contained herein and, to the fullest extent permitted by law, assumes no responsibility for its accuracy. No representation or warranty, express or implied, is made by the Joint Lead Managers, the Trustee or the Agents as to the accuracy or completeness of such information, and nothing contained herein is, or may be relied upon as, a promise or representation by the Joint Lead Managers, the Trustee or the Agents as to the past, present or the future. None of the Joint Lead Managers, the Trustee or the Agents accepts any liability in relation to the information contained in or omitted from this Offering Circular or any other information provided by the Company, or for any other statement made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or any person on any of their behalf in connection with the Company or in connection with the offering of the Securities. The Joint Lead Managers, the Trustee and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise that any of them might otherwise have in respect of this Offering Circular or any such statement. Further, none of the Joint Lead Managers, the Trustee or the Agents undertake to advise any investor or potential investor in the Securities of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents, as the case may be.

The distribution of this Offering Circular and the offering and sale of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes must inform themselves about and observe any such restrictions. There are restrictions on the distribution of this Offering Circular and the offer and sale of the Securities in certain jurisdictions, including the United States, the United Kingdom, Singapore, Hong Kong, Japan, the European Economic Area and the Philippines. This Offering Circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in any circumstance in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation.

Each person investing in the Securities shall be deemed to acknowledge that:

- it has been afforded an opportunity to request from the Company and to review, and has received, all additional information considered by such person to be necessary to verify the accuracy of, or to supplement, the information contained herein;
- it has had the opportunity to review all of the documents described herein;
- it has not relied on the Joint Lead Managers, the Trustee, the Agents or any person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy of the information contained in the Offering Circular or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Securities other than those contained in this Offering Circular and, if given or made, such other information or representation should not be relied upon as having been authorized by the Company, the Joint Lead Managers, the Trustee or the Agents.

Neither this Offering Circular nor any other information supplied in connection with the offering of the Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Company, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular, or recipient of any other information supplied in connection with the offering of the Securities, should purchase the Securities. In making an investment decision, prospective investors must rely on their own investigation, examination and analysis of the Company and the terms of the Securities, including, without limitation, the merits and risks involved, an assessment of the Company's creditworthiness, such prospective investor's own determination of the suitability of any such investment with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment. None of the Company, the Joint Lead Managers, the Trustee or the Agents is making any representation to any prospective investor regarding the legality of an investment in the Securities by such investor under any legal investment or similar laws or regulations. No person should construe the contents of this Offering Circular as legal, business or tax advice and should consult with their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of receiving the Securities. The offering of the Securities is being made on the basis of this Offering Circular. Any decision to invest in the Securities must be based on the information contained in this Offering Circular. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Securities.

Each purchaser of the Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Securities or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Securities under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Company, the Joint Lead Managers, the Trustee or the Agents shall have any responsibility therefor.

Each person receiving this Offering Circular is advised to read and understand the contents of this Offering Circular before investing in the Securities. If in doubt, such person should consult his or her advisors. The Company reserves the right to withdraw this offering of the Securities at any time. The Company and the Joint Lead Managers also reserve the right to reject any offer to purchase the Securities in whole or in part for any reason and to allocate to any prospective investor less than the full amount of Securities sought by such investor.

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other United States, Philippine or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States and the Philippines. This Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, any securities offered hereby in any circumstances in which such offer is unlawful.

The Securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable state, Philippine or other securities laws pursuant to registration thereunder or exemption therefrom. See “*Subscription and Sale – Selling Restrictions*.” Prospective investors should thus be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

**PRIIPS REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); and/or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**PRIIPS REGULATION/PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “**EUWA**”); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Securities or otherwise making them available to retail investors in the UK has been prepared and, therefore, offering or selling the Securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

This Offering Circular has been prepared on the basis that any offer of the Securities in the UK will be made pursuant to an exemption under Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the “**UK Prospectus Regulation**”) from a requirement to publish a prospectus for offers of Securities. This Offering Circular is not a prospectus for the purpose of the UK Prospectus Regulation.

**MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a “**distributor**”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

**UK MIFIR PRODUCT GOVERNANCE/TARGET MARKET** – Solely for the purposes of a manufacturer’s product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA, subject to amendments made by the Markets in Financial Instruments (Amendment) (EU Exit) Regulations 2018 (SI 2018/1403) (as may be amended or superseded from time to time, “**UK MiFIR**”); and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the manufacturer’s target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

**Singapore SFA Product Classification** – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Company has determined, and hereby notify all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## **PRESENTATION OF FINANCIAL INFORMATION**

The financial information included in this Offering Circular has been derived from the consolidated financial statements of the Company and its subsidiaries. Unless otherwise indicated, the description of the Company’s business activities in this Offering Circular is presented on a consolidated basis. Unless otherwise indicated, financial information in this Offering Circular has been prepared in accordance with Philippine Financial Reporting Standards (“PFRS”).

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

References to “US\$” and “U.S. dollars” in this Offering Circular are to United States dollars, the lawful currency of the United States of America, references to “P”, “Philippine Peso”, “Peso”, and “PHP” are to the lawful currency of the Philippines and references to “RM”, “Ringgit Malaysia”, “Ringgit” and “sen” are to the lawful currency of Malaysia. The Company publishes its financial statements in Philippine Pesos. All references in this Offering Circular to the “Philippines” are to the Republic of the Philippines. This Offering Circular contains translations of certain Philippine Peso amounts into U.S. dollar amounts at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Philippine Peso amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all.

Unless otherwise indicated, all translations from Philippine Pesos to U.S. dollars have been made at a rate of ₱48.036 = US\$1.00, being the rate quoted on the Bangko Sentral ng Pilipinas (“BSP”) Reference Exchange Rate Bulletin for the purchase of U.S. dollars with Philippine Pesos on December 29, 2020 (the last date such rate was available for the month of December). On the same date, the closing spot rate quoted by Bank Negara Malaysia was RM4.0440 = US\$1.00. See “Exchange Rates” for further information regarding the rates of exchange between (i) the Philippine Peso and the U.S. dollar and (ii) the Ringgit Malaysia and the U.S. dollar.

## **INDUSTRY AND MARKET DATA**

Certain information in this Offering Circular relating to the Philippines, Malaysia and the industry in which the Company’s business operates, including statistics relating to market size and market share, is derived from various internal surveys, market research, government data, private publications and/or the Company’s internal assumptions and estimates. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable. However, there is no assurance that such information is accurate, complete, up-to-date or consistent with information compiled within or outside the Philippines or Malaysia. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Company, the Joint Lead Managers, nor the Trustee and the Agents make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

## **NON-PFRS FINANCIAL MEASURES**

This Offering Circular contains references to EBITDA. EBITDA is a supplemental measure of the performance and liquidity of the Company that is not required by, or presented in accordance with, PFRS. Further, EBITDA is not a measurement of the financial performance or liquidity of the Company under PFRS and should not be considered as an alternative to net income, gross revenues or any other performance measure derived in accordance with PFRS or as an alternative to cash flow from operations or as a measure of the liquidity of the Company. The Company calculates EBITDA as income from operations plus depreciation & amortization plus/minus inventory loss/gain and realized commodity

hedging loss/gain for a 12-month period. Income from operations is computed as gross profit less selling and administrative expenses, net of other operating income. The calculation of EBITDA by the Company may be different from the calculations used by other companies, and, as a result, the EBITDA of the Company may not be comparable to other similarly titled measures of other companies.

The Company believes that EBITDA facilitates operating performance comparisons from period to period and from company to company by eliminating potential differences caused by variations in capital structures, tax positions and the age and book depreciation of tangible assets. The Company presents EBITDA because it believes it is frequently used by securities analysts and investors in the evaluation of companies in its industry.

## **ENFORCEABILITY OF CIVIL LIABILITIES**

The Company is established in the Philippines and most of its assets are located in the Philippines and Malaysia. Substantially all of its directors and senior management reside in the Philippines and all or a substantial portion of their assets are located in the Philippines. The Company has been advised by its Philippine legal counsel, Picazo Buyco Tan Fider & Santos, that a final and conclusive judgment on the merits rendered against the Company and these persons by courts outside the Philippines obtained in an action predicated upon the civil liability provisions of laws other than Philippine laws would be recognized and enforced by the courts in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) such persons had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of law or fact and (iv) such judgment was not contrary to public policy, public order, law, morals or good customs in the Philippines.

The Company also has operations in Malaysia. A judgment obtained against the Company in a court of a reciprocating country (as listed in the First Schedule of the Reciprocal Enforcement of Foreign Judgments Act 1958 (Revised 1972) of Malaysia (the “**Enforcement Act**”)) in respect of any sum payable by the Company may be recognized and enforced by the courts of Malaysia upon registration of the judgment with the courts of Malaysia under the Enforcement Act within six years after the date of the judgment, or, where there have been proceedings by way of appeal against the judgment, after the date of the last judgment given in those proceedings, so long as the judgment (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction and the judgment debtor being the defendant in the original court received notice of those proceedings in sufficient time to enable it to defend the proceedings; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; (vii) could be enforced by execution in the country of that original court; (viii) is for a fixed sum; (ix) is not preceded by a final and conclusive judgment by a court having jurisdiction in that matter; and (x) is vested in the person by whom the application for registration was made.

Under current Malaysian law, any judgment obtained for a fixed sum against the Company in a court of a foreign jurisdiction with which Malaysia has no arrangement for reciprocal enforcement of judgments, after due service of process, may, at the discretion of the courts of Malaysia, be actionable in the courts of Malaysia by way of a suit on a debt if such judgment is final and conclusive. However, such action may be met with defenses, including, but not limited to, defenses based on the conditions listed above. A money judgment by the courts of a non-reciprocating country may be recognized by Malaysian courts and be enforced by way of summary judgment without re-examination of the issues in dispute provided that the judgment (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; and (vii) is for a fixed sum.

*See “Risk Factors – Risks relating to the Philippines and Malaysia – Investors may face difficulties in enforcing judgments against the Company.”*

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this Offering Circular that are not statements of historical fact constitute “forward-looking statements.” Some of these statements can be identified by forward-looking terms, such as “anticipate”, “believe”, “can”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “will” and “would” or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Company’s expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Company’s business strategy, its revenue and profitability (including, without limitation, any financial or operating projections or forecasts), planned projects and other matters discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular involve known and unknown risks, uncertainties and other factors that may cause the Company’s actual financial results, performance or achievements to be materially different from any future financial results, performance or achievements expressed or implied by such forward-looking statements or other projections.

The factors that could cause the Company’s actual results to be materially different include, among others:

- changes in crude oil prices;
- general political and economic conditions in the Philippines, Malaysia and elsewhere in the Asia-Pacific region;
- changes in currency exchange rates;
- accidents, natural disasters or other adverse incidents in the operation of the Company’s facilities;
- terms on which the Company finances its working capital and capital expenditure requirements;
- the ability of the Company to successfully implement its strategies;
- changes in governmental regulations, including those pertaining to regulation of the oil industry, zoning, tax, subsidies, operational health, safety and environmental standards;
- competition in the oil industry in the Philippines and Malaysia; and
- the historic and ongoing impact of the COVID-19 pandemic on the operations, financial condition, and cash flows of the Company, its facilities and other businesses.

Additional factors that could cause the Company’s actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*.”

Should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected as well as from historical results. Specifically, but without limitation, revenues could decline, costs could increase, capital costs could increase, capital investments could be delayed and anticipated improvements in performance might not be realized fully or at all. Although the Company believes that the expectations of its management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, prospective investors are encouraged to carefully review the forward-looking statements herein. In any event, these statements speak only as of the date hereof or the respective dates indicated herein, and the Company, the Joint Lead Managers, the Trustee and the Agents undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

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## SUMMARY

*The following summary is qualified in its entirety by, and is subject to, the more detailed information and the consolidated financial statements of the Company that appear elsewhere in this Offering Circular. Because it is a summary, it does not contain all of the information that a prospective investor should consider before investing in the Securities.*

### OVERVIEW

Petron Corporation (“**Petron**” or the “**Company**”) operates the only integrated oil refinery in the Philippines and is a leading oil marketing company. The Company had an overall market share of approximately 24.0%\* of the Philippine oil market in the first half of 2020 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the Philippine Department of Energy (“**DOE**”). Petron is also a leading player in the Malaysian market. The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil’s downstream oil business in Malaysia. For the year ended December 31, 2020, the Company ranked third in the Malaysian retail market with more than 21% market share, based on Company estimates using its internal assumptions and calculations and industry data from a third-party market research consultant appointed by Malaysian retail market participants to compile industry data. Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia with a combined refining capacity of 268,000 barrels per day (“**bpd**”).

The Company’s Freeport Area of Bataan (“**FAB**”)-registered Petron Bataan Refinery in Limay, Bataan in the Philippines, a full conversion refinery with a crude oil distillation capacity of 180,000 bpd, processes crude oil into a range of white petroleum products such as naphtha, gasoline, diesel, LPG, jet fuel, kerosene, and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene.

From the Petron Bataan Refinery, the Company moves its products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 13 terminals in Luzon, seven in Visayas and eight in Mindanao, as well as four airport installations in Luzon, five in Visayas and three in Mindanao. Through this nationwide network, the Company supplies its various petroleum products such as gasoline, diesel, and LPG to its customers as well as jet fuel to international and domestic carriers.

Through its network of approximately 2,435 retail service stations in the Philippines as of December 31, 2020, the Company sells gasoline, diesel, and kerosene to motorists and to the public transport sector. Approximately 34% of the Company’s service stations are Company-owned-dealer-operated (“**CODO**”) while the remaining 66% are dealer-owned-dealer-operated (“**DODO**”). As of December 31, 2020, the Company’s LPG distribution network includes about 1,117 branch stores as well as 44 car care centers. Petron also sells its LPG brands “*Gasul*” and “*Fiesta Gas*” to households and other consumers through its extensive dealership network.

In Malaysia, the Company owns and operates the Port Dickson Refinery located in the state of Negeri Sembilan, which has a crude oil distillation capacity of 88,000 bpd, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and low-sulfur waxy residue (“**LSWR**”). As of December 31, 2020, the Company had 10 product terminals, a Palm Oil Methyl Ester (“**PME**”) production facility and a network of more than 720 retail service stations in Malaysia, of which about 60% are CODO and 40% are DODO.

While the Company’s products are primarily sold to customers in the Philippines and Malaysia, the Company also exports various petroleum products and petrochemical feedstock, including LSWR, gasoline, diesel, LPG, molten sulfur, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region such as South Korea, Taiwan, China, Vietnam, Singapore, Hong Kong, Thailand and Indonesia. The Company’s revenues from these export sales amounted to ₱15.5 billion, or 5% of total sales for the year ended December 31, 2020.

\* Market share is derived from Company estimates based on Company information and data from the Philippine Department of Energy for the first half of 2020. Company estimates exclude all direct imports of end users.

For the years ended December 31, 2018, 2019 and 2020, the Company's sales were ₱557,386 million, ₱514,362 million and ₱286,033 million (US\$5,954.6 million), respectively, and net income was ₱7,069 million, ₱2,303 million and net loss of ₱11,413 million (US\$237.6 million), respectively.

Petron is a subsidiary of San Miguel Corporation ("SMC"), one of the largest and most diversified conglomerates in the Philippines, which has market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure and property, and investments in car distributorship and banking services. The Company's common shares are listed on the Philippine Stock Exchange under the symbol "PCOR" and the common shares of its subsidiary, Petron Malaysia Refining & Marketing BHD are listed on the Bursa Malaysia under the symbol "PETRONM."

## **STRENGTHS**

The Company believes that its principal competitive strengths include the following:

- Market leadership in the Philippine downstream oil sector
- Logistically-advantaged supply position in the Philippines
- Operations in markets with favorable industry dynamics
- Expanded product offering driving non-fuel retail volumes
- Capitalizing on its large customer loyalty card programs in the Philippines and successful rollout of the Petron App
- Focus on higher yield products at the integrated Petron Bataan Refinery
- Established position in the Malaysian downstream oil sector
- Experienced management team and employees and strong principal shareholder in San Miguel Corporation

## **STRATEGIES**

The Company's principal strategies are set out below:

- Maximize volume growth and further increase market share in the downstream oil markets in the Philippines and Malaysia
- Innovation as tool for customer retention and growth
- Maximize production of high margin refined petroleum products and petrochemicals
- Ensure reliability and efficiency of refinery operations
- Continue to evaluate possible selective synergistic acquisitions

## **CORPORATE INFORMATION**

Petron Corporation was incorporated under the laws of the Philippines in 1966. The Company's head office and principal place of business is located at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Philippines. The Company's telephone number at this location is (632) 8884-9200. The Company's primary website is [www.petron.com](http://www.petron.com). Information contained on the Company's website does not constitute a part of this Offering Circular. The Company's common shares are listed and traded on the Philippine Stock Exchange, Inc. under the symbol "PCOR". Its preferred shares are listed and traded on the same exchange under the symbols "PRF2B", "PRF3A" and "PRF3B." The Company's US\$500,000,000 senior perpetual capital securities are listed on the Singapore Exchange Securities Trading Limited under the name "PETRON CORP US\$500M4.6%PCS." In Malaysia, the common shares of Petron Malaysia Refining & Marketing Berhad is listed in Bursa Malaysia under the symbol "PETRONM."

## **The COVID-19 Pandemic**

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, was declared as a pandemic by the World Health Organization and spread globally over the course of 2020. Countries have taken measures in varying degrees to contain the spread of COVID-19, including social distancing measures, community quarantine or lockdowns, the suspension of operations of non-essential businesses and travel restrictions.

For its part, the Government issued a series of directives and social distancing measures as part of its efforts to contain the outbreak in the Philippines. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and an enhanced community quarantine (“**ECQ**”) was imposed on the island of Luzon, including Metro Manila, which lasted through May 15, 2020 (the “**ECQ period**”). Under the ECQ guidelines, restrictions on movement outside of the residence were set in place (ranging from stay-at-home orders to total lockdowns), mass transport facilities were suspended, schools were closed and alternative work arrangements were implemented. The COVID-19 pandemic affected most daily activities and forced many businesses to suspend operations or shut down for the duration of the ECQ. Only essential businesses such as plants involved in manufacturing and processing basic food products, medicine, medical devices/equipment and essential products such as hygiene products, and delivery services transporting food, medicine and essential goods, as well as essential sectors such as hospitals, power and water utilities were allowed to operate, subject to certain conditions and limitations on operating capacity. Similarly, in Malaysia, a movement control order (“**MCO**”) was instituted.

After the ECQ was lifted in certain areas, a modified ECQ (“**MECQ**”), general community quarantine (“**GCQ**”) or modified GCQ (“**MGCQ**”) was implemented. The graduated lockdown schemes from ECQ, MECQ, GCQ, and MGCQ impose varying degrees of restrictions on travel and business operations in the Philippines. The Government continues to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities. On March 27, 2021, the Government placed Metro Manila and certain neighboring provinces under ECQ from March 29, 2021 until April 11, 2021.

The ECQ, graduated quarantine measures and MCO restrictions significantly affected volumes of both Philippine and Malaysian operations as these reduced economic activities and restricted travel. As such, the operations of the Petron Bataan Refinery were suspended from May to August 2020. The Port Dickson Refinery, on the other hand, continued operations during the MCO although production was reduced to minimum turn-down rate in line with reduced domestic demand. In addition, there was a scheduled 20-day shutdown in October 2020 for catalyst regeneration. The Company saw a gradual recovery in sales volumes starting the third quarter of 2020 with fuel consumption increasing, partly as a result of relaxing quarantine measures. Given the volatility in oil prices, however, particularly when global oil prices plunged in March 2020 coupled with modest gains after the easing of certain restrictions, the Company’s consolidated sales for the year ended December 31, 2020 were substantially lower than for the year 2019 and resulted in a net loss.

The extent of the COVID-19 pandemic impact in the short-term will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19 both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted.

### **Measures Taken to Ensure Safety and Well-Being**

To ensure a safe return to work, the SMC Group purchased polymerase chain reaction (“**PCR**”) testing kits to cover the estimated 70,000 employees, consultants, partners and service providers in the SMC Group’s system, including Petron’s employees. The Company has been cautiously allowing employees to return to the workplace and has taken measures to ensure employee safety and well-being and to protect its facilities, which include, but are not limited to, checking the temperature of employees and other persons when they enter its offices and facilities, maintaining an adequate supply of alcohol and hand sanitizers for use at the premises, requiring employees to wear masks and other protective clothing as appropriate, minimizing in-person meetings, and implementing additional cleaning and sanitization routines.

The Company continues to review and will implement the necessary changes to its operations and business processes as well as its capital expenditure plans in view of the global and local economic factors as a result of the COVID-19 pandemic.

Together with SMC, Petron also continued to support health workers and underprivileged communities affected by the pandemic. Petron has donated free fuel, PPE, and other donations to medical frontliners, its scholars, and communities. Through SMC, Petron also provided fuel subsidy for the Department of Transportation (“**DOTr**”) to help medical frontliners avail of free transport. Petron also partnered with Hyundai Philippines to help transport frontliners and locally stranded individuals. Petron recently pledged its support to the Ingat Angat program, a multi-sector campaign envisioned to rebuild consumer confidence in the new normal. Leveraging on its vast nationwide presence, Petron – which operates the widest petroleum retail network in the country – has displayed Ingat Angat collaterals at 900 of its service stations.

### **The CREATE Act**

On March 26, 2021, Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises bill (the “**CREATE Act**”), was signed into law by the President of the Republic of the Philippines.

The tax reforms under the CREATE Act include, among others:

- (a) a reduction in corporate income tax effective July 1, 2020, as follows: (i) from 30% to 25%, for corporations with a net taxable income of more than ₱5 million or total assets (excluding land) of more than ₱100 million and (ii) from 30% to 20%, for corporations that do not fall under (i);
- (b) the imposition of corporate income tax on regional operating headquarters;
- (c) the imposition of conditions for claims of tax exemption for foreign-sourced dividends;
- (d) increase in the applicable tax on interest income earned by a resident foreign corporation under the expanded foreign currency deposit system and capital gains from the sale of shares of stock not traded in the stock exchange and earned by a resident foreign corporation and nonresident foreign corporation;
- (e) amendments on tax free exchanges;
- (f) introduction of additional VAT exempt transactions;
- (g) decrease in the rate of percentage tax from July 1, 2020 until June 30, 2023; and
- (h) the rationalization of tax incentives that may be granted by investment promotion agencies (such as the Authority of the Freeport Area of Bataan), acting upon the delegated authority of the Fiscal Incentives Review Board, to qualified registered business enterprises. In the interest of national economic development and upon the recommendation of the Fiscal Incentives Review Board, the President of the Philippines may modify the mix, period or manner of availment of incentives provided under the CREATE Act or craft the appropriate financial support package for a highly desirable project or a specific industrial activity (subject to maximum incentive levels recommended by the Fiscal Incentives Review Board), provided that (i) the grant of income tax holiday shall not exceed eight years and thereafter, a special income tax rate of 5% may be granted and (ii) the total period of incentive availment shall not exceed 40 years.

Registered business enterprises with incentives granted prior to the effectivity of the CREATE Act shall be subject to the following rules:

- (1) registered business enterprises whose projects or activities were granted only an income tax holiday prior to the effectivity of the law shall be allowed to continue to avail the income tax holiday for the remaining period specified in the terms and conditions of their registration, provided that enterprises that have been granted the income tax holiday but have not yet availed of such incentive upon the effectivity of the law may use the income tax holiday for the period specified in the terms and conditions of their registration;
- (2) registered business enterprises whose projects or activities were granted an income tax holiday prior to the effectivity of the law and that are entitled to 5% tax on gross income earned incentive after the income tax holiday shall be allowed to avail of the 5% tax on gross income incentive based on the law; and

- (3) registered business enterprises currently availing of the 5% gross income earned incentive granted prior to the effectivity of the law shall be allowed to continue of such tax incentive for 10 years.

As part of the rationalization of tax incentives, the CREATE Act further provides that (i) any law to the contrary notwithstanding, the importation of petroleum products by any person shall be subject to the payment of applicable duties and taxes under the Customs Modernization and Tariff Act and the National Internal Revenue Code, respectively, upon importation into the Philippine customs territory and/or into free zones (as defined in the Customs Modernization and Tariff Act), subject to the right of the importer to file claims for refund of duties and taxes under applicable law; and (ii) the importation of crude oil that is intended to be refined at a local refinery, including the volumes that are lost and not converted to petroleum products when the crude oil actually undergoes the refining process, shall be exempt from payment of applicable duties and taxes, provided the applicable duties and taxes on the refined petroleum products shall be paid upon the lifting of the petroleum products produced from the imported crude oil in accordance with the rules and regulations that may be prescribed by the Bureau of Customs and the Bureau of Revenue.

Under the CREATE Act, the Company shall be entitled to, among others: (i) avail of a lower corporate income tax and (ii) the tax exemption for the importation of crude oil to be refined at a local petroleum refinery.

### **Freeport Area of Bataan Registration**

On December 28, 2020, the Authority of the Freeport Area of Bataan (“**AFAB**”) and the Company entered into a Registration Agreement pursuant to which the Company’s Petron Bataan Refinery complex was approved as a FAB-registered enterprise. The Company believes that the AFAB registration would result in a more level playing field among fuel and oil marketing and distribution companies. The Company’s competitiveness has suffered vis-à-vis other players in the market which are not refiners because value-added tax (“**VAT**”) is imposed on the Company’s importation of crude oil while non-refiners pay VAT and excise tax upon importation and, in the case of non-refiners located in special economic zones, upon withdrawal of finished products. There are generally 60 days between importation of crude and lifting of the finished products produced therefrom at the Petron Bataan Refinery, and another 15 days to sell at retail, so the Company is unable to pass on the VAT for a longer time compared to its non-refining competitors. Also, not all of the crude imported by the Company, for which VAT is imposed and paid, is refined into finished petroleum products and sold to consumers, again resulting to higher input VAT absorbed by the Company and adding to the disparity versus its non-refining competitors. As a FAB-registered enterprise, the Company will be entitled to: (i) tax- and duty-free importation of merchandise which include raw materials, capital equipment machineries and spare parts; (ii) exemption from export wharfage dues, export taxes, imposts, and fees; and (iii) VAT zero-rating of local purchases subject to compliance with BIR and AFAB requirements.

Petron subsidiary New Ventures Realty Corporation (“**NVRC**”) also applied for the declaration of the Petron Bataan Refinery properties, its leased premises, as a FAB Expansion Area. On December 28, 2020, NVRC likewise entered into a FAB Expansion Area Agreement with the AFAB. Locators within NVRC’s FAB Expansion Area will be entitled to the same incentives above.

### **Other Recent Developments**

The Company has decided to proceed with a temporary shutdown of the Petron Bataan Refinery from February 10, 2021 to conduct maintenance activities on key process units while demand is low. The Company expects to resume operations at the Petron Bataan Refinery in May 2021.

On February 22, 2021, the Company executed an asset and purchase agreement with San Miguel Foods, Inc. and Foodcrave Marketing, Inc. (collectively, the “**San Miguel Food Group**”) for the reacquisition by the Company of the *Treats* convenience store business for an aggregate purchase price of ₱64 million. The sale was completed on March 1, 2021.

## SUMMARY FINANCIAL INFORMATION

The following tables present summary consolidated financial information for the Company and should be read in conjunction with the auditors' reports and with the Company's consolidated financial statements and notes thereto and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Offering Circular. The summary financial information presented below as of December 31, 2019 and 2020 and for the years ended December 31, 2018, 2019 and 2020 have been derived from the audited consolidated financial statements, including the notes thereto, included elsewhere in this Offering Circular, audited by R.G. Manabat & Co., a member firm of KPMG. The Company's financial information included in this Offering Circular has been prepared in accordance with PFRS. The information below is not necessarily indicative of the results of future operations. Each of the Joint Lead Managers and any of their respective affiliates, directors, officers and advisers disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of any financial information of the Company.

### SUMMARY CONSOLIDATED STATEMENT OF INCOME

	(Audited)			
	For the years ended December 31,			
	2018	2019	2020	2020
	(in millions of ₱)			(in millions of US\$)
Sales . . . . .	557,386	514,362	286,033	5,954
Cost of goods sold . . . . .	522,824	483,855	277,320	5,773
Gross profit . . . . .	34,562	30,507	8,713	181
Selling and administrative expenses . . . . .	(16,981)	(15,815)	(14,389)	(300)
Other operating income . . . . .	1,340	1,507	1,047	22
Interest expense and other financing charges . . . . .	(9,689)	(13,490)	(11,313)	(235)
Interest income . . . . .	706	1,340	780	16
Other income (expenses) – net . . . . .	517	(312)	(1,049)	(22)
	(24,107)	(26,770)	(24,924)	(519)
Income (loss) before income tax . . . . .	10,455	3,737	(16,211)	(338)
Income tax expense (benefit) . . . . .	3,386	1,434	(4,798)	(100)
Net income (loss) . . . . .	7,069	2,303	(11,413) <sup>(1)</sup>	(238)
<b>Attributable to:</b>				
Equity holders of the Parent Company . . . . .	6,218	1,701	(11,380)	(237)
Non-controlling interests . . . . .	851	602	(33)	(1)
Basic/Diluted Earnings (Loss) per Common Share attributable to equity holders of the Parent Company . . . . .	₱0.28	₱(0.17)	₱(1.58)	US\$(0.03)

(1) In the first half of 2020, net loss was ₱14,236 million, and in the second half of 2020, net income was ₱2,823 million.

**SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	(Audited)		
	As of December 31,		
	2019	2020	2020
	(in millions of ₱)		(in millions of US\$)
<b>Current assets:</b>			
Cash and cash equivalents . . . . .	34,218	27,053	563
Financial assets at fair value . . . . .	864	603	13
Investments in debt instruments . . . . .	109	184	4
Trade and other receivables – net . . . . .	44,657	27,195	566
Inventories . . . . .	72,210	44,922	935
Other current assets . . . . .	27,430	32,337	673
<b>Total current assets</b> . . . . .	<b>179,488</b>	<b>132,294</b>	<b>2,754</b>
<b>Non-current assets:</b>			
Investments in debt instruments . . . . .	311	197	4
Property, plant and equipment – net . . . . .	168,267	168,831	3,515
Right-of-use assets – net . . . . .	5,509	6,045	126
Investment property – net . . . . .	29,935	30,049	625
Deferred tax assets – net . . . . .	262	2,190	46
Goodwill – net . . . . .	8,319	8,031	167
Other non-current assets – net . . . . .	2,744	2,088	43
<b>Total non-current assets</b> . . . . .	<b>215,347</b>	<b>217,431</b>	<b>4,526</b>
<b>Total assets</b> . . . . .	<b>394,835</b>	<b>349,725</b>	<b>7,280</b>
<b>Current liabilities:</b>			
Short-term loans . . . . .	71,090	77,704	1,617
Liabilities for crude oil and petroleum products . . . . .	39,362	22,320	465
Trade and other payables . . . . .	28,741	15,402	321
Lease liabilities – current portion . . . . .	1,295	1,243	26
Derivative liabilities . . . . .	738	1,124	23
Income tax payable . . . . .	267	162	3
Current portion of long-term debt – net . . . . .	16,881	31,114	648
<b>Total current liabilities</b> . . . . .	<b>158,374</b>	<b>149,069</b>	<b>3,103</b>
<b>Non-current liabilities</b>			
Long-term debt – net of current portion . . . . .	116,196	88,340	1,839
Retirement benefits liability – net . . . . .	3,565	3,705	77
Deferred tax liabilities – net . . . . .	6,348	3,084	64
Lease liabilities – net of current portion . . . . .	14,454	14,561	303
Asset retirement obligation . . . . .	1,720	2,867	60
Other non-current liabilities . . . . .	1,748	1,904	40
<b>Total non-current liabilities</b> . . . . .	<b>144,031</b>	<b>114,461</b>	<b>2,383</b>
<b>Total liabilities</b> . . . . .	<b>302,405</b>	<b>263,530</b>	<b>5,486</b>
<b>Equity Attributable to Equity Holders of the Parent Company*</b>			
Capital stock . . . . .	9,485	9,485	197
Additional paid-in capital . . . . .	37,500	37,500	781
Capital securities . . . . .	25,183	36,481	759
Retained earnings . . . . .	45,510	29,799	620
Equity reserves . . . . .	(16,899)	(18,371)	(382)
Treasury stock . . . . .	(15,122)	(15,122)	(315)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b> . . . . .	<b>85,657</b>	<b>79,772</b>	<b>1,660</b>
Non-controlling interests . . . . .	6,773	6,423	134
<b>Total equity</b> . . . . .	<b>92,430</b>	<b>86,195</b>	<b>1,794</b>
<b>Total liabilities and equity</b> . . . . .	<b>394,835</b>	<b>349,725</b>	<b>7,280</b>

\* Under the Company's financial statements, the "Parent Company" refers to Petron Corporation.

## SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	(Audited)			
	For the years ended December 31,			
	2018	2019	2020	2020
	(in millions of ₱)			(in millions of US\$)
Net cash flows provided by operating activities . . . . .	5,047	25,362	2,533	53
Net cash flows used in investing activities . . . . .	(11,141)	(20,467)	(8,437)	(176)
Net cash flows provided by financing activities . . . . .	5,949	13,116	318	7
Effect of exchange rate changes on cash and cash equivalents . . . . .	536	(1,198)	(1,579)	(33)
Net increase (decrease) in cash and cash equivalents . . . . .	391	16,813	(7,165)	(149)
Cash and cash equivalents at beginning of year . . . . .	17,014	17,405	34,218	712
Cash and cash equivalents at end of year . . . . .	<u>17,405</u>	<u>34,218</u>	<u>27,053</u>	<u>563</u>

### Other Financial and Operating Data

	For the years ended December 31,			
	2018	2019	2020	2020
	(in millions of ₱ except sales volume and ratios)			(in millions of US\$)
Sales volume ('000 barrels per day) . . . . .	297	293	215	N/A
Net debt <sup>(1)</sup> . . . . .	183,592	169,949	170,105	3,541
Ratio of total debt to equity . . . . .	2.33	2.21	2.29	N/A
EBITDA <sup>(2)</sup> . . . . .	36,009	30,533	17,248 <sup>(5)</sup>	359
Capital expenditures <sup>(3)</sup> . . . . .	10,416	19,808	8,480	177
Total debt <sup>(4)</sup> . . . . .	200,997	204,167	197,158	4,104

(1) Net debt represents the sum of short-term loans, current portion of long-term debts – net and long-term debts – net of current portion, less cash and cash equivalents.

(2) The Company defines EBITDA as income from operations plus depreciation & amortization plus/minus inventory loss/gain and realized commodity hedging loss/gain for a 12-month period. Income from operations is computed as gross profit less selling and administrative expenses plus other operating income.

The table below provides a computation for EBITDA.

	For the years ended December 31,			
	2018	2019	2020	2020
	(in millions of ₱)			(in millions of US\$)
Gross profit . . . . .	34,562	30,507	8,713	181
<b>Deduct:</b>				
Selling and administrative expenses (net of other operating income) . . . . .	15,641	14,308	13,342	277
Net operating income (loss) . . . . .	18,921	16,199	(4,629) <sup>(6)</sup>	(96)
<b>Add/deduct:</b>				
Depreciation and amortization . . . . .	11,543	13,245	9,490 <sup>(7)</sup>	197
Inventory Gain/Loss and Realized Commodity Hedging Gain/Loss – net . . . . .	5,545	1,089	12,387	258
EBITDA . . . . .	<u>36,009</u>	<u>30,533</u>	<u>17,248</u>	<u>359</u>

- (3) Capital expenditures represent the sum of additions to property, plant and equipment for the period.
- (4) Total debt consists of the sum of short-term loans, current portion of long-term debts-net and long-term debts-net of current portion.
- (5) In the first half of 2020, EBITDA was ₱7,921 million, and in the second half of 2020, EBITDA was ₱9,327 million.
- (6) In the first half of 2020, net operating loss was ₱14,543 million, and in the second half of 2020, net operating income was ₱9,914 million.
- (7) In the first half of 2020, depreciation and amortization was ₱4,851 million, and in the second half of 2020, depreciation and amortization was ₱4,639 million.

## SUMMARY OF THE OFFERING

The following is a brief summary of certain terms of the Securities. For a more complete description of the terms of the Securities, see “Terms and Conditions of the Securities.” Capitalized terms not otherwise defined herein shall have the meanings set forth under “Terms and Conditions of the Securities.”

**Company** ..... Petron Corporation, a company incorporated with limited liability under the laws of the Republic of the Philippines.

**Securities Offered** ..... US\$[●] senior perpetual capital securities.

**Status of the Securities** ..... The Securities constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights.

The claims of the holders, in respect of the Securities, including in respect of any claim to Arrears in Distribution, will, in the event of the Winding-Up of the Issuer (subject to and to the extent permitted by applicable law), rank at least *pari passu* with each other and with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer.

**No Set-off** ..... To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

**Initial Rate of Distribution** ..... [●]% per annum plus any increase pursuant to Condition 4.4 (*Increase in Rate of Distribution*).

**Issue Price** ..... [●]%

**Form and Denomination** ..... The Securities are issued in registered form in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

**Distributions** ..... Subject to Condition 4.4 (*Increase in Rate of Distribution*) and Condition 4.5 (*Optional Deferral of Distributions*), the Securities will confer a right to receive distributions (“**Distributions**”):

- (a) from the period commencing on (and including) the Issue Date to (but excluding) [●] (the “**Step Up Date**”), at the Initial Rate of Distribution; and
- (b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Holders, the Principal Paying Agent and the Registrar),

payable semi-annually in arrears on [●] and [●] of each year (each a “**Distribution Payment Date**”) commencing on [●] 2021.

“**Reset Date**” means the Step Up Date and any subsequent date which is the [fifth anniversary] of any Reset Date.

**Increase in Rate of Distribution...** 2.50% per annum.

**Optional Deferral of Distributions .....**

The Issuer may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred (the “**Deferral Election Event**”). Any such deferred Distribution will constitute “**Arrears of Distribution**” and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

The Issuer will notify the Securityholders (in accordance with Condition 12.1 (*Notices to Securityholders*)), the Trustee and the Principal Paying Agent of any deferral of Distribution not less than five Business Days prior to the relevant Distribution Payment Date (the “**Deferral Election Notice**”). Deferral of a Distribution pursuant to Condition 4.5(a) (*Optional Deferral of Distributions*) will not constitute a default by the Issuer or any other breach of its obligations under the Securities or the Trust Deed or for any other purpose.

“**Compulsory Distribution Payment Event**” means (a) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or (b) at the discretion of the Issuer, any Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer have been redeemed, repurchased or otherwise acquired by the Issuer or any of its Subsidiaries.

**Restrictions in the case of Deferral .....**

If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the Issuer deferring such Distributions in accordance with the terms of the Securities, the Issuer shall not, and shall procure that none of its Subsidiaries will:

- (a) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other payment is made on any class of Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or
- (b) at its discretion, redeem, reduce, cancel, buy-back or acquire for any consideration any of the Junior Securities or Parity Securities of the Issuer,

unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer is permitted to do so with the consent of the Securityholders of at least a majority in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in Condition 4.6 (*Restrictions in the case of Deferral*) shall restrict the ability of any Subsidiary of the Issuer to declare and pay dividends, advance loans or otherwise make payments to the Issuer.

**Payments of Arrears of Distribution** .....

The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of at least five Business Days' prior notice to Securityholders (in accordance with Condition 12.1 (*Notices to Securityholders*)), the Trustee and the Principal Paying Agent. If Arrears of Distribution have not been paid in full earlier, all outstanding Arrears of Distribution will become due and payable, and the Issuer must pay such outstanding Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a) (*Optional Deferral of Distributions*)), on the relevant Payment Reference Date (in accordance with Condition 6 (*Payments*)). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a pro rata basis between the Securityholders.

**Payment Reference Date** means the date which is the earliest of:

- (i) the date on which the Securities are redeemed in accordance with Condition 5 (*Redemption and Purchase*);
- (ii) the date on which an order is made for the Winding-Up of the Issuer;
- (iii) the date on which the Issuer is in violation of Condition 4.6 (*Restrictions in the case of Deferral*) or on the occurrence of a Compulsory Distribution Payment Event; and
- (iv) the date of any substitution or modification of the Securities pursuant to Condition 13 (*Substitution or Modification to Remedy Gross-Up Event or Accounting Event*).

**Expected Closing Date** ..... [●], 2021.

**Redemption**..... The Securities are perpetual securities in respect of which there is no fixed redemption date.

**Redemption at the Option of the Issuer** ..... Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on:

- (a) the Step Up Date; or
- (b) any Distribution Payment Date falling after the Step Up Date,

in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

**Early Redemption due to a Gross-up Event** .....

If a Gross-up Event occurs, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Securities.

Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Trustee:

- (a) a certificate signed by any two executive officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that a Gross-up Event has occurred and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and
- (b) an opinion of an independent legal or tax adviser of recognized standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event,

and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

“**Gross-up Event**” means that as a result of any change in, or amendment to, the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder, which change or amendment becomes effective on or after [●] 2021, the Issuer has or will become obliged to pay Additional Amounts; provided that the payment obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided further that where any Additional Amounts due in accordance with Condition 7 (*Taxation and Gross-Up*) are in consequence of any change in the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder after [●] 2021, a Gross-up Event shall have occurred only in the event that the rate of withholding or deduction required by such law, regulation or rulings promulgated thereunder, or such official interpretation or application thereof, is in excess of 25%.

**Early Redemption due to a  
Change of Control Event .....**

If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

A “**Change of Control Event**” means the occurrence of any Person or group of related Persons, other than the Permitted Holders, being or becoming the beneficial owner(s), directly or indirectly, of a greater percentage of the total voting power of the outstanding Voting Stock of the Issuer than the aggregate percentage of the total voting power of the outstanding Voting Stock of the Issuer beneficially owned, directly or indirectly, by the Permitted Holders.

“**Permitted Holders**” mean any or all of the following: (a) San Miguel Corporation, (b) San Miguel Corporation Retirement Plan or any similar or successor employee retirement plan of San Miguel Corporation, (c) Petron Corporation Employees Retirement Plan or any similar or successor employee retirement plan of Petron Corporation, (d) SEA Refinery Corporation and (e) any Person the Voting Stock of which at least a majority is beneficially owned, directly or indirectly, by a Person specified in clauses (a), (b), (c) or (d) above.

**Early Redemption due to a Reference Security Default Event .....**

If a Reference Security Default Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

“**Reference Security Default Event**” means an event of default occurs pursuant to (i) clause (b) of the Events of Default of the Issuer’s outstanding ₱6,800,000,000 8.0551% p.a. PHP-denominated bonds due 19 October 2025 (*Bloomberg identifier: AU8751177; ISIN: PHY6885FAG10*) (the “**Initial Referenced Senior Notes**”), or (ii) similar condition of any other foreign currency or PHP-denominated debt security with an international tranche issued under Regulation S of the U.S. Securities Act and outstanding after the Issue Date, which debt security has the latest occurring scheduled maturity date (the “**Superseding Referenced Senior Notes**”), as a result of the Issuer’s default in, non-compliance with or non-performance of the covenants of the Issuer under the Initial Referenced Senior Notes or similar covenants of the Superseding Referenced Senior Notes, as the case may be, as respectively amended from time to time.

**Early Redemption due to an Accounting Event.....**

If an Accounting Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

An “**Accounting Event**” means that an opinion of a recognized accountancy firm of international standing has been delivered to the Issuer and the Trustee, stating that the Securities may no longer be recorded as equity in the audited consolidated financial statements of the Issuer prepared in accordance with PFRS or other recognized accounting standards that the Issuer has adopted from time to time for the preparation of its audited consolidated financial statements and such event cannot be avoided by the Issuer taking reasonable measures available to it.

**Redemption of Securities in the case of Minimal Outstanding Amounts .....**

In the event that the Issuer and/or any of its Subsidiaries has, individually or in aggregate, purchased (and not resold) or redeemed Securities equal to or in excess of 75% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Company may redeem the remaining Securities (in whole but not in part):

- (a) at any time prior to the Step Up Date, at the Special Redemption Price; or
- (b) on or at any time after the Step Up Date, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

**Taxation and Additional Amounts .....**

All payments in respect of the Securities by or on behalf of the Company will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In the event where such withholding or deduction is made by the Issuer, the Issuer shall pay such additional amount ("**Additional Amounts**") as will result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required, except in certain circumstances. See Condition 7 (*Taxation and Gross-up*).

**Limited Rights to Institute Proceedings .....**

Notwithstanding any of the provisions in Condition 10 (*Non-Payment*), the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distributions, such Distributions will not be due if the Issuer has elected to defer Distributions in accordance with Condition 4.5 (*Optional Deferral of Distributions*). In addition, nothing in Condition 10 (*Non-Payment*), including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any actual, reasonable and documented costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.

**Proceedings for Winding-Up .....**

If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (b) the Issuer fails to make payment in respect of the Securities for a period of 10 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 10.4 (*Entitlement of Trustee*) and, subject to and to the extent permitted by applicable law, institute proceedings for the Winding-Up of the Issuer, and/or prove in the Winding-Up of the Issuer, and/or claim in the liquidation of the Issuer, for such payment.

- Substitution or Modification .....** The Trustee may, without the consent of the Securityholders, agree with the Issuer to:
- (a) the substitution in place of the Issuer (or of any previous substitute under Condition 13 (*Substitution or Modification to Remedy Gross-up Event or Accounting Event*)) as the principal debtor under the Securities and the Trust Deed of any other company being a wholly owned or indirect Subsidiary of the Issuer; or
  - (b) the modification of the Terms and Conditions of the Securities to the extent reasonably necessary, in order to remedy a pending or existing Gross-up Event or Accounting Event provided that:
    - (i) the Securities are unconditionally and irrevocably guaranteed by the Issuer in a manner which would give the Securityholders a status in a Winding-up of the Issuer which is akin to the status Securityholders would have at that time in respect of a Winding-up of the relevant issuer;
    - (ii) the Trustee is satisfied that the interests of the Securityholders will not be materially prejudiced by the substitution or modification; and
    - (iii) certain other conditions set out in the Trust Deed are complied with to the satisfaction of the Trustee.

**Further Issues.....** The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further Securities or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of Distributions thereon) and so that the same will be consolidated and form a single series with the Securities or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further Securities which are to form a single series with the Securities will be constituted by a deed supplemental to the Trust Deed.

**Listing and Trading .....** Approval in-principle has been obtained from the SGX-ST for the listing and quotation of the Securities on the SGX-ST.

For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Securities may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Certificates. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificates, including details of the paying agent in Singapore.

For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Securities, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

<b>Use of Proceeds</b> .....	The net proceeds from the issue of the Securities, which will be approximately US\$[●] (after the deduction of commissions and estimated offering expenses), will be applied by the Company for the repayment of indebtedness and for general corporate purposes.
<b>Selling Restrictions</b> .....	The Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Securities may be sold in other jurisdictions (including the United Kingdom, Singapore, Hong Kong, Japan and the Philippines) only in compliance with applicable laws and regulations. See “ <i>Subscription and Sale.</i> ”
<b>ISIN</b> .....	XS2330597738.
<b>Common Code</b> .....	233059773.
<b>Governing Law</b> .....	English law.
<b>Trustee</b> .....	The Hongkong and Shanghai Banking Corporation Limited.
<b>Principal Paying Agent, Calculation Agent and Transfer Agent</b> .....	The Hongkong and Shanghai Banking Corporation Limited.
<b>Registrar</b> .....	The Hongkong and Shanghai Banking Corporation Limited.
<b>Clearing Systems</b> .....	Euroclear and Clearstream, Luxembourg.
<b>LEI</b> .....	549300R3PFXOFQSZ7G25.

## RISK FACTORS

*Prospective investors should carefully consider the following, in addition to the other information contained in this Offering Circular, including the financial statements and related notes, before making any investment decision relating to the Securities. The occurrence of any of the following events, or other risks that are not presently known or are now deemed immaterial, could have a material adverse effect on the business, results of operations, financial condition and prospects of the Company, and prospective investors may lose all or part of their investment.*

### RISKS RELATING TO THE COMPANY'S BUSINESS AND OPERATIONS

#### **Volatility of the price of crude oil and petroleum products may have a material adverse effect on the Company's business, results of operations and financial condition.**

The Company's financial results are primarily affected by the relationship, or margin, between the prices for its refined petroleum products and the prices for the crude oil that is the main raw material for these refined petroleum products. Crude oil accounted for approximately 36% and 35% of the Company's total cost of goods sold in 2019 and 2020, respectively.

Many factors influence the price of crude oil, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation, price wars among oil producers and other factors over which the Company has no control. In the first quarter of 2020, Saudi Aramco increased production from around 9.7 mmbpd to 12 mmbpd when Russia refused to join the OPEC+ alliance in cutting production. The rise in supply, coupled with the drastic decline in demand due to the COVID-19 pandemic, resulted in Dubai price plunging to as low as \$13/bbl in April 2020 daily trading from \$67/bbl in end-December 2019. While the volatility was subsequently managed when OPEC+ agreed to cut production, demand risks continued due to the COVID-19 pandemic.

Historically, the Company holds approximately two months and approximately three weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect the Company, as it may require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices. The Company may not be able to pass crude oil price fluctuations along to its consumers in a timely manner, or at all, due to regulatory restrictions or social and competitive concerns. The Philippine government has historically intervened to restrict increases in the prices of petroleum products in the Philippines from time to time. Any inability to pass on fluctuations in the price of crude oil may have a material adverse effect on the Company's business, results of operations and financial condition. In addition, even if the Company were able to pass on increases in the price of crude oil to its customers, demand for its products may decrease as a result of such price increases. In addition, the Company's Malaysian operations are subject to government price controls. See "*– The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products.*"

Furthermore, a sharp rise in crude oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company. Any difficulties in securing short-term financing for working capital, or unfavorable pricing terms, may have a material adverse effect on the Company's financial condition and results of operations.

#### **The COVID-19 pandemic, or the future outbreak of any other highly infectious or contagious diseases, could materially and adversely affect the Company's business, results of operations and financial condition. Further, the continuing impacts of the COVID-19 pandemic are highly unpredictable and uncertain and have and will continue to cause disruptions in the Philippine and global economy and financial markets, and the Company's financial performance, among others.**

The COVID-19 pandemic has created significant public health concerns as well as economic disruption, uncertainty, and volatility, all of which have impacted and may continue to impact the Company's businesses. While the Company has implemented numerous initiatives to mitigate the adverse impact of the pandemic, the duration and extent of the impact of the pandemic are beyond the control of the Company. As of the date of this Offering Circular, quarantine restrictions are still in place in both the Philippines and Malaysia and may be made more stringent as COVID-19 cases continue to rise.

Due to numerous uncertainties and factors beyond the Company's control, it may be difficult to predict the pandemic's long-term impact on the Company, its businesses, results of operations, cash flows, and financial condition. These factors and uncertainties include, but are not limited to:

- the severity and duration of the pandemic, including whether there are subsequent waves or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in areas in which the Company operates;
- the extent and timeliness of the national and local government's response to the pandemic, including but not limited to quarantine restrictions as well as vaccination procurement and deployment programs;
- restrictions on business operations up to and including complete or partial closure of offices, plants and other facilities;
- economic measures, fiscal policy changes, or additional measures that have not yet been effected;
- the health of, and effect of the pandemic on, the Company's personnel and the Company's ability to maintain staffing needs to effectively sustain its operations;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- impacts – financial, operational or otherwise – on the Company's supply chain, including suppliers and third-party contractors;
- volatility in the credit and financial markets during and after the pandemic;
- the impact of any litigation or claims from customers, suppliers, regulators or other third parties relating to COVID-19 or the Company's actions in response thereto; and
- the pace of recovery considering the rebound in consumer confidence, driven by the economic response of the government and the private sector.

The above factors and uncertainties, or others of which the Company is not currently aware, may result in adverse impacts to the Company's businesses, results of operations, cash flows, and financial condition due to, among other factors:

- decline in consumer demand due to the general decline in business activity and more permanent behavioral and work policy changes, such as increased use of online channels for shopping, payments and social gatherings and wider acceptance of work-from-home arrangements;
- further destabilization of the markets and decline in business activity negatively impacting customers' ability to pay for the Company's products and services;
- government moratoriums or other regulatory or legislative actions that limit changes in pricing;
- delays or inability to access equipment or the availability of personnel to perform planned and unplanned maintenance, which can, in turn, lead to disruption in operations;
- delay or inability to receive the necessary permits for the Company's development projects due to delays or shutdowns of government operations;
- increased volatility in commodity markets and foreign exchange;
- deterioration of economic conditions, demand and other related factors resulting in impairments to goodwill or long-lived assets; and
- delay or inability in obtaining regulatory actions and outcomes that could be material to our business.

The extent to which the COVID-19 pandemic will continue to impact the Company will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19, in the Philippines, Malaysia and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted. To the extent the COVID-19 pandemic adversely affects the business and financial results of the Company, it may also have the effect of heightening many of the other risks described in this Offering Circular.

**The Company relies primarily on a number of suppliers for a significant portion of its crude oil requirements in each of the Philippines and Malaysia.**

The Company acquires crude oil for the Petron Bataan Refinery primarily through its arrangements with its wholly-owned subsidiary Petron Singapore Trading Pte. Ltd. (“PSTPL”), which in turn obtains crude oil from different sources, through a combination of term or spot purchase contracts. PSTPL has a term contract with Saudi Aramco for year 2021 to purchase various Saudi Arabian crude. The Monthly Official Selling Price is determined by Saudi Aramco through a formula that is linked to international industry benchmarks applicable to all its customers in the Far East. The contract is automatically renewed annually unless either the Company or Saudi Aramco decides to terminate the contract upon at least 60 days’ written notice prior to its expiration date. As of the date of this Offering Circular, neither the Company nor Saudi Aramco has terminated the contract.

The supply of crude oil by Saudi Aramco and several other suppliers on a spot basis is subject to a variety of factors beyond the Company’s control, including geopolitical developments in and the stability of Saudi Arabia and the rest of the oil-producing countries, government regulations with respect to the oil and energy industry in those regions, weather conditions and overall global economic conditions.

The Company acquires crude oil and condensate for the Port Dickson Refinery from various sources, through a combination of term purchase contracts and spot market purchases. The Company has a long-term supply contract for Tapis crude oil and Terengganu condensate with Exxon Mobil Exploration and Production Malaysia Inc. (“EMEPMI”) for a period of 10 years until March 2022 (to be renewed), supplemented by other short-term supply contracts and spot crude purchases. The Port Dickson Refinery is able to source suitable crude oil blend to meet monthly optimal crude run. Currently, about 70% of the crude and condensate volume is sourced from EMEPMI, while the balance from other term and spot purchases. Productions are supplemented by imports and local purchases of finished products to meet domestic sales demand for LPG, gasoline and diesel through term and spot arrangements.

A disruption in the operations of Saudi Aramco, EMEPMI and/or other suppliers or a decision by any of them to amend or terminate their respective contracts with the Company, could impact the Company’s crude oil supply. If the Company’s supply of crude oil were disrupted, the Company would be required to meet any consequent supply shortfall through other suppliers or spot market purchases. Depending on market conditions at the time and timing of the disruption, such purchases from other suppliers or the spot market could be at higher prices than the Company’s purchases from Saudi Aramco, EMEPMI or other suppliers, which would adversely affect the Company’s financial condition and results of operations.

The Petron Bataan Refinery is capable of processing various types of crude oil. The Company’s crude oil optimization strategy includes the utilization of various types of crude oil ranging from light and sweet crude to heavier, more sour alternative crude, to provide additional value to the Company. The completion of the second phase of the Company’s Refinery Master Plan project at the Petron Bataan Refinery (“RMP-2”) has given the Petron Bataan Refinery greater flexibility to use heavier, more sour alternative crude.

The Port Dickson Refinery is designed to process sweet crude oil. The Company’s crude oil optimization strategy for the Port Dickson Refinery includes diversification in processing different types of local as well as regional sweet crude oil. With the forthcoming operation of the diesel hydrotreater process unit at the Port Dickson Refinery, the Company will be able to process slightly higher sulfur crude oil.

If the Company is unable to obtain an adequate supply of crude oil or is only able to obtain such supply at unfavorable prices, its margins and results of operations could be materially and adversely affected.

**The Company's business, financial condition and results of operations may be adversely affected by intense competition and cyclicity in global and regional refining capacities.**

The Company faces intense competition from a number of multinational and local competitors in the sale of petroleum and other related products in the markets in which it operates. See "*Business – Competition*" for more information about the competition faced by the Company. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Participants in the reseller and LPG sectors in the Philippines continue to rely on aggressive pricing and discounting in order to expand their market share. On the other hand, the Company's Malaysian operations are mostly subject to government price controls and quotas. As a result, competition in these market sectors is based primarily on product quality, operational cost efficiency, supply chain reliability and customer value creation. See "*– The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products.*"

The Company's competitiveness will depend on its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, maximize utilization of its assets and operations and comply with and obtain additional quotas from the Malaysian government. If the Company is unable to compete effectively, its financial condition and results of operations, as well as its business prospects, could be materially and adversely affected.

In addition, the Philippine oil industry is affected by ongoing smuggling and illegal trading of petroleum products. These illegal activities have resulted in decreases in sales volume and sales price for legitimate oil market participants in the Philippines. The Company's ability to compete effectively will depend to a degree on the proper enforcement of Philippine regulations by the Philippine government, which is beyond its control.

Furthermore, the global and regional refining industry has historically experienced periods of tight supply, resulting in increased prices and margins, as well as periods of substantial capacity additions, resulting in oversupply and reduced prices and margins. Any downturn in prices or margins resulting from existing or future excess industry capacity could have a material adverse impact on the Company's business, financial condition and results of operations.

**Any significant disruption in operations or casualty loss at the Company's refineries could adversely affect its business and results of operations and result in potential liabilities.**

The Company's operation of its refineries and implementation of its expansion plans could be adversely affected by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, fires, explosions, release of toxic fumes, engineering and environmental problems, natural disasters and other unforeseen circumstances and problems. For example, on April 22, 2019, about a week before its scheduled total plant maintenance shutdown, the Petron Bataan Refinery had an emergency total plant shutdown due to loss of power and steam when an earthquake triggered the safety interlock system of its Refinery Solid Fuel-Fired Boilers and caused power loss from the Luzon power grid. After power from the grid was restored and the boilers were restarted, the Petron Bataan Refinery continued to conduct safe shutdown activities and process unit preservations and proceeded with scheduled maintenance activities. In September 2019, a leak was discovered in an underwater valve of the crude SBM pipeline manifold co-owned with Hengyuan Refinery in Malaysia. The leak was discovered through a thin layer of oil sheen observed around the SBM and required 35 days of temporary outage for inspection and repair work. Quick response by suspending the operation of the SBM pipeline, followed by immediate investigation, prevented any major oil spill through the leak. The SBM outage resulted in Refinery shutdown for 25 days given no supply of crude can be discharged into the Refinery. The incident required the activation of the Company's business continuity plan, managing incoming crude supply and continued supply of petroleum products to customers, to ensure the reliable and continuous supply of finished products. Although Port Dickson Refinery underwent a temporary shutdown to facilitate investigations and repair works, there was no significant impact on product supply due to the activation of the Company's business continuity plan. No injury was recorded and the incident left minimal impact on the environment. These types of disruptions could result in product run-outs, facility shutdowns, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company has insurance policies that cover property damage, marine cargo, third-party liability, personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption to mitigate the potential impact of these risks. However, these policies do not cover all potential losses, and insurance may not be available for all risks or on commercially reasonable terms. The Company self-insures some risks which have a low probability of occurring and for which insurance policies are not readily available or are priced unreasonably high. There can be no assurance that operational disruptions will not occur in the future or that insurance will adequately cover the entire scope or extent of the losses or other financial impact on the Company.

**The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products.**

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the automatic pricing mechanism (“APM”), pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. The Malaysian government may subsidize fuel prices so that increases in international crude oil and finished products prices are not borne fully by Malaysian consumers. Effective March 30, 2017, the Malaysian government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of RON 95 and RON 97 petroleum and diesel on a weekly basis based on the Mean of Platts Singapore (“MOPS”). If government-mandated prices are lower than the fuel products’ total built-up cost per the APM, the Company receives subsidies from the Malaysian government. Conversely, if government-mandated prices are higher than the fuel products’ total built-up cost per the APM, the Company pays duties to the Malaysian government. See “*Regulatory and Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products – Price Control and Anti Profiteering Act, 2011.*” A substantial portion of the Company’s revenue has been derived from sales of refined petroleum products in Malaysia that are subject to price controls.

In addition, the sale of retail diesel in Malaysia is subject to a quota system that applies to oil companies and eligible users and customers to ensure that subsidized diesel sold at service stations (meant strictly for road transport vehicles) is not sold illegally to industrial or commercial customers at unregulated prices. Diesel sales at service stations that exceed the volumes permitted under the Company’s or its customers’ quotas are not eligible for government subsidies. Accordingly, in instances when the government-mandated prices are lower than the Company’s total built-up costs, the Company endeavors to limit diesel sales to volumes covered by the quotas. See “*Regulatory and Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products – Price Control and Anti Profiteering Act, 2011.*” There can be no assurance that the Malaysian government will increase quotas, corresponding to fuel demand growth, grant applications or not decrease the Company’s quotas or those of any of its customers in the future. A substantial portion of the Company’s revenue is derived from sales of diesel in Malaysia that are subject to the quota system. Accordingly, if the Malaysian government decreases or does not increase the Company’s quotas or those of any of its selected transportation sector customers, the Company’s financial condition and results of operations may be materially and adversely affected.

**Continued compliance with safety, health, environmental and zoning laws and regulations may adversely affect the Company’s results of operations and financial condition.**

The Company has incurred, and expects to continue to incur, operating costs to comply with applicable safety, health, environmental and zoning laws and regulations. Programs were recently implemented to comply with government-mandated health and safety regulatory guidelines, such as: (a) Project TRACIE (*Tracking and Recognizing All COVID-19 Infection in the workplace Environment*), which was launched as part of compliance with DOLE and DTI Interim Guidelines on Workplace Prevention and Control of COVID-19; (b) compliance by the Petron Bataan Refinery, terminal operations, and the Company’s headquarters with Republic Act No. 11058 Occupational Safety and Health (“OSH”) Compliance Binder; and (c) compliance with mandatory 8-hour OSH seminars, among others. In addition, the Company has made, and expects to continue to make, capital expenditures on an ongoing basis to comply with safety, health, environmental and zoning laws and regulations. See “*Regulatory and Environmental Matters – Philippines.*” There are ongoing discussions, clarifications, and technical conferences between DENR-EMB and all stakeholders, including Petron Bataan Refinery, for reconsideration of removal/relaxation of specific effluent parameters initially covered under DAO 2016-08 (Water Quality Guidelines and General

Effluent Standards of 2016). See “*Regulatory and Environmental Matters – Philippines – Philippine Clean Water Act of 2004.*” If these discussions are successful, additional investment on the Petron Bataan Refinery’s waste water treatment plant may no longer be required at this time. There can be no assurance that the Company will be in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to safety, health, environmental and zoning matters, the costs of which could be material.

In addition, safety, health, environmental and zoning laws and regulations in the Philippines and Malaysia have become increasingly stringent. There can be no assurance that the adoption of new safety, health, environmental and zoning laws and regulations, new interpretations of existing laws, increased governmental enforcement of safety, health, environmental and zoning laws or other developments in the future will not result in the Company being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities.

For example, the mandatory compliance with Euro IV standards in the Philippines in 2016 and the implementation in Malaysia of various Euro 4M and Euro 5 compliant fuels in phases from 2015 through 2027 required the Company to incur additional capital expenditures in order to meet these standards. See “*Regulatory and Environmental Matters – Malaysia – Environmental Laws – Environmental Quality Act, 1974.*” The Company has complied with the Euro IV standards in the Philippines and is nearing completion of a new diesel hydrotreater process unit in the Port Dickson Refinery to comply with Euro 5 diesel regulations in 2021, as mandated by the Malaysian government. If the Company fails to complete its planned refinery upgrades or enhancements on time, it may have to import additional products in the spot market to blend with its own production to ensure compliance with the relevant standards, which could have a material adverse effect on the Company’s financial condition and results of operations.

In addition, if the measures implemented by the Company to comply with applicable laws, regulations and standards are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates, and expose the Company to potential liabilities, including administrative penalties. If the Company fails to meet safety, health and environmental requirements, it may be subject to administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the Company and damage to its reputation, as well as orders that could limit or affect its operations. There is no assurance that the Company will not become involved in future litigation or other proceedings relating to safety, health and environmental matters. Litigation or other proceedings are inherently unpredictable and may be time-consuming and disruptive to the Company’s business and operations, regardless of the merits of the claims. There is no assurance that the Company will not be held responsible in any such future litigation or other proceedings, the costs of which could be material. Environmental compliance and remediation costs at sites on which the Company’s facilities are located or other locations and related litigation and other proceedings could materially and adversely affect the Company’s financial condition and results of operations.

**Failure to respond quickly and effectively to product substitution or government-mandated product formulations may adversely affect the Company’s business and prospects.**

Any potential increase in oil prices and environmental concerns could make it more attractive for the Company’s customers to switch to alternative fuels such as compressed natural gas and electric vehicles for transport and liquefied natural gas for power. Additionally, increasing biofuels content in gasoline and diesel effectively displaces refinery-produced products.

For instance, the Philippine government pushed for the increase of coco methyl ester (“**CME**”) content of biodiesel from 2% to 5% by 2020. Implementation, however, was delayed due to the COVID-19 pandemic. In addition, the government targets to increase ethanol content in gasoline from the current 10% to 20% by 2040.

In Malaysia, palm oil methyl ester content in diesel will be increased from 10% to 20% beginning June 2021 for Sabah and December 2021 for the Peninsula.

If the Company does not respond quickly and effectively to product substitutions or government-mandated product formulations in the future, its business and prospects may be adversely affected.

**The Company's business strategies require significant capital expenditures and financing, are subject to a number of risks and uncertainties, and its financial condition and results of operations may be adversely affected by its debt levels.**

The Company's business is capital intensive. Specifically, the processing and refining of crude oil and the purchase, construction and maintenance of machinery and equipment require substantial capital expenditures. The Company's ability to maintain and increase its sales, net income and cash flows depends upon the timely and successful completion of its planned capital expenditure projects. Specifically, the Company intends to (i) continue investment in the Petron Bataan Refinery facilities to (a) ensure reliability and efficiency of critical refinery processes, and (b) reduce costs with the construction of a new power plant which would replace some of its old generators and generate incremental power and steam; (ii) continue to build service stations in high-growth or high-volume sites and expand its retail network for its LPG and lubes segment; (iii) expand and upgrade its logistics capacity, and (iv) expand Malaysia operations with new service stations and facilities improvements in the Port Dickson Refinery, in compliance with applicable regulations.

If the Company fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity, it may be unable to achieve the targeted growth in sales and profits, and its business, results of operations and financial condition could be adversely affected. Furthermore, there can be no assurance that the Petron Bataan Refinery will run at the expected capacity or achieve the expected production profile, or that there will be sufficient demand and logistical support for the Company's production. Any of the foregoing factors could adversely affect the Company's business, financial condition and results of operations.

In addition, the Company has incurred a substantial amount of indebtedness to finance its capital expenditure projects. The Company's ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. There can be no assurance that the Company will be able to generate sufficient cash flows from its operations or obtain adequate financing for its planned capital expenditure projects or to meet its debt servicing obligations, on acceptable terms or at all. Failure by the Company to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition and results of operations.

**Changes in applicable taxes, duties and tariffs could increase the Company's operating costs and adversely affect its business, results of operations and financial condition.**

The Company's operations are subject to various taxes, duties and tariffs.

The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years. For example, duties for the import of crude oil and petroleum products into the Philippines were increased on January 1, 2005 from 3% to 5%, and these duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). Furthermore, the Philippine government imposed an additional 12% value-added tax ("VAT") on the sale or importation of petroleum products in 2006.

On January 1, 2018, Republic Act No. 10963, also known as the Tax Reform for Acceleration and Inclusion Law, took effect (the "**TRAIN Law**"). The TRAIN Law is the first package under the comprehensive tax reform program of the Philippine government ("**CTRP**"). The TRAIN Law imposed a phased increase in excise taxes on petroleum products from 2018 to 2020. The schedule of increase for this three-year period was ~~₱2.65-₱2-₱1~~ per liter ("li") per year for premium unleaded gasoline, ~~₱2.50-₱2-₱1.50~~/li per year for diesel and fuel oil, ~~₱1-₱1-₱1~~/kg per year for LPG, and ~~₱0.33-₱0-₱0~~/li per year for jet fuel. The incremental excise tax is further subject to 12% VAT. Higher excise taxes can potentially constrain demand growth, especially for LPG given there are substitutes such as charcoal, kerosene and electric, and gasoline with public transportation as alternative means of transportation. The TRAIN Law also mandates the implementation of a fuel marking program for diesel, gasoline and kerosene to help curb illicit trading of fuel products. The cost for the fuel marker was subsidized by the government in the initial year of implementation and eventually be passed on to oil companies effective September 2020.

The second package of the tax reform package, also known as the Corporate Recovery and Tax Incentives for Enterprises Act (the “**CREATE Act**”), was passed by both the House of Representatives and Senate of the Philippines on February 3, 2021 and was signed into law by the President of the Philippines on March 26, 2021 as Republic Act No. 11534. The CREATE Act is expected to take effect on April 12, 2021. In approving the CREATE Act, the President of the Philippines vetoed certain provisions including, among others, provisions relating to entitlement of domestic market enterprises with an investment capital of ₱500 million and domestic market enterprises engaged in activities that are classified as “critical” to a special corporate income tax. The CREATE Act lowers the corporate income tax and provides for rationalization of fiscal incentives that may be granted by investment promotion agencies (such as the Authority of the Freeport Area of Bataan) to qualified registered business enterprises. Under the CREATE Act, the corporate income tax rate for domestic corporations and resident foreign corporations shall be reduced to 25% effective July 1, 2020 and effective on January 1, 2021 for non-resident foreign corporations; domestic corporations, resident foreign corporations no longer have an option to be taxed at 15% on gross income; and the rate of the MCIT is lowered to 1%.

As part of the rationalization of tax incentives, the CREATE Act provides that (i) any law to the contrary notwithstanding, the importation of petroleum products by any person shall be subject to the payment of applicable duties and taxes under the Customs Modernization and Tariff Act and the National Internal Revenue Code, respectively, upon importation into the Philippine customs territory and/or into free zones (as defined in the Customs Modernization and Tariff Act), subject to the right of the importer to file claims for refund of duties and taxes under applicable law; and (ii) the importation of crude oil that is intended to be refined at a local refinery, including the volumes that are lost and not converted to petroleum products when the crude oil actually undergoes the refining process, shall be exempt from payment of applicable duties and taxes, provided the applicable duties and taxes on the refined petroleum products shall be paid upon the lifting of the petroleum products produced from the imported crude oil in accordance with the rules and regulations that may be prescribed by the Bureau of Customs and the Bureau of Internal Revenue (“**BIR**”) to ensure that crude oil shall not be lifted from the refinery without payment of appropriate duties and taxes.

On September 9, 2019, the House of Representatives approved House Bill No. 304 (“**HB 304**”) entitled “Passive Income and Financial Intermediary Taxation Act”, representing the fourth package of the CTRP. HB 304 has been transmitted to the Senate of the Philippines for its concurrence, and remains pending with the Senate of the Philippines as of March 31, 2021. Based on the version of HB 304 approved by the House of Representatives, the proposed law includes the following tax reforms, among others: (a) revocation of tax exemption of long-term deposit or investment and (b) imposition of (i) a uniform final withholding tax rate of 15% on interest income on debt regardless of currency, maturity, issuer and other differentiating factors and (ii) a uniform rate of 15% on dividends and capital gains on sale of all types of securities.

The other tax reform packages that the government hopes to implement under the CTRP include tax amnesties (estate and general), as well as “sin” (e.g., alcohol, gaming), property, passive income and financial intermediaries, and luxury taxes. The fourth package under the CTRP proposes to remove the transaction tax on listed and traded debt instruments by 2026, and exempt non-monetary documents from DST.

On June 1, 2018, the Malaysian government withdrew the Goods and Services Tax (GST). The GST was replaced with a Sales and Services Tax (SST) on September 1, 2018.

There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on the Company’s business, financial condition and results of operations.

**The Company may be adversely impacted by the fluctuations in the value of the Philippine Peso and the Ringgit Malaysia against the U.S. dollar.**

The substantial majority of the Company's revenues are denominated in either Philippine Pesos or Ringgit Malaysia, while the substantial majority of its expenses, including crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. In the year ended December 31, 2019 and 2020, approximately 52% and 55%, respectively, of the Company's revenues were denominated in Philippine Pesos, approximately 33% and 32%, respectively, of its revenues were denominated in Ringgit Malaysia, while approximately 41% and 53%, respectively, of its cost of goods sold were denominated in U.S. dollars. In addition, as of December 31, 2020, 27% of the Company's outstanding debt was denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore depreciation of the Peso relative to the U.S. dollar would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar-denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable. From January 1, 2018 to December 31, 2020, the value of the Peso against the U.S. dollar fluctuated from a low of ₱48.03 to a high of ₱54.35. In the same period, the value of the Ringgit Malaysia against the U.S. dollar fluctuated from a low of RM4.0100 per U.S. dollar to a high of RM4.4410 per U.S. dollar. See "Exchange Rates." While the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition.

**The Company depends on experienced, skilled and qualified personnel and management team, and its business and growth prospects may be disrupted if it is unable to retain their services.**

The Company depends on experienced, skilled and qualified personnel for the management and operation of its business. Loss or shortage of such experienced, skilled or qualified personnel may lead to operating challenges and may incur additional costs in hiring and training new personnel given the high investment in technical trainings and long learning curve needed to train such personnel. Increasing competition in sourcing talents also poses an added challenge as companies vie to attract and employ people with the desired competencies. Inability to identify and train replacement employees (including the transfer of significant internal historical knowledge and expertise to new employees), the limited qualified talent in the labor market, and rising cost of contract labor may adversely affect the Company's ability to manage and operate its business. The loss of a significant number of qualified personnel, if not well-managed, may disrupt and affect the entire Company's operations, outputs, and financials.

In addition, the Company significantly relies on, and will likely continue to rely on, the continued individual expertise and collective contributions of its management team. The Company recognizes that these key personnel may separate from the Company at any point (e.g., by retirement or resignation, among others); thus, a sound management succession plan is in place. However, the inability to retain and engage members of its management team or failure of the succession plan to materialize could have a material adverse effect on the overall operation of its business.

**The Company's controlling shareholders may have interests that may not be the same as those of other shareholders.**

San Miguel Corporation ("SMC"), directly and indirectly, holds 68.26% of the Company's outstanding common equity as of December 31, 2020. See "Principal Shareholders." SMC is not obligated to provide the Company with financial support. The interests of SMC may differ from those of the Securityholders. SMC may direct the Company in a manner that is contrary to the interests of the Securityholders. There can be no assurance that conflicts of interest between the SMC, its shareholders and the Securityholders will be resolved in favor of the Company's shareholders or Securityholders. If the interests of SMC conflict with the interests of the Company, the Company could be disadvantaged by the actions that SMC chooses to pursue.

In addition, while the Company expects to benefit from its ongoing relationship with SMC and its subsidiaries and affiliates through their global reach and relationships, there can be no assurance that SMC will allow the Company to have access to such benefits.

**The Company may fail to integrate acquired businesses properly, which could adversely affect the Company's results of operations and financial condition.**

From time to time, the Company considers selective opportunities to expand both domestically and outside the Philippines through strategic acquisitions consistent with its focuses on increased production of diesel, gasoline, jet fuel, kerosene and LPG (“**White Products**”); expansion of its sales network and logistics capability, and the creation of operational synergies. However, there can be no assurance that the Company will be able to integrate its acquisitions fully in line with its strategy. Any failure to do so could have a material adverse effect on the business, results of operations and financial condition of the Company.

**If the number or severity of claims for which the Company is self-insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its recorded liabilities, the Company's financial condition and results of operations may be materially and adversely affected.**

The Company's refining of crude oil and marketing and distribution of refined petroleum products in the Philippines and Malaysia are subject to inherent risks, such as equipment defects, malfunctions, failures or misuse, which could cause environmental pollution, leaks or spills, personal injury or loss of life, as well as damage to, and destruction of the environment, which could result in liabilities that exceed the Company's insurance coverage and have a material adverse effect on its financial condition and results of operations. The Company could also be adversely affected by business interruptions caused by war, terrorist activities, mechanical failure, human error, political action, labor strikes, fire and other circumstances or events.

The Company uses a combination of self-insurance, reinsurance and purchased insurance to cover its properties and certain potential liabilities. The Company's insurance coverage includes property, marine cargo and third party liability, as well as personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption. One of the main insurance policies of the Company, the Industrial All Risk (the “**IAR**”) policy, covers the Petron Bataan Refinery for material damages and machinery breakdown. All insurance policies relating to the Company's Philippine operations are written by Petrogen Insurance Corporation (“**Petrogen**”), formerly a wholly-owned subsidiary. In January 2021, SMC made a ₱3.0 billion equity investment in Petrogen, enabling Petrogen to expand its insurance business. The majority of the risks insured by Petrogen are reinsured with Standard & Poor's A-rated foreign insurers through Overseas Ventures Insurance Corporation Ltd. (“**Ovincor**”), Petron's Bermuda-based captive insurance subsidiary. For its Malaysian operations, the Company purchases insurance from Malaysian insurance companies, consistent with Malaysian law. The Company estimates the liabilities associated with the risks retained by it, in part, by considering historical claims, experience and other actuarial assumptions which, by their nature, are subject to a degree of uncertainty and variability. Among the causes of this uncertainty and variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations and actual claim settlement patterns. If the number or severity of claims for which the Company is self-insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than the original assessments, the Company's financial condition, results of operations and cash flows may be materially and adversely affected.

**Existing or future claims against the Company, its subsidiaries, associates or joint ventures, or directors or key management may have an unfavorable impact on the Company.**

From time to time, the Company, its subsidiaries, associates or joint ventures, or directors or key management may be subject to litigation, investigations, claims and other legal proceedings. For a description of certain legal proceedings, see “*Business – Legal Proceedings*” of this Offering Circular. Legal proceedings could cause the Company to incur unforeseen expenses, occupy a significant amount of management's time and attention, and negatively affect the Company's business operations and financial position. Further, legal proceedings could continue for a prolonged period of time and be time-consuming with unpredictable outcomes and it is difficult for the Company to predict the possible losses, damages or expenses arising from such legal proceedings. An unfavorable outcome in these or other legal proceedings could have a material adverse effect on the Company's business, financial position, results of operations and cash flows.

**Changes in applicable accounting standards may impact the Company's businesses, financial condition and results of operations.**

The PFRS Council issues, from time to time, new standards and amendments to existing standards and interpretations. There can be no assurance that the Company's financial condition, results of operations or cash flows will not appear to be materially worse under the new standards. Furthermore, any failure to successfully adopt the new standards may adversely affect the Company's results of operations or financial condition.

**RISKS RELATING TO THE PHILIPPINES AND MALAYSIA**

**The Company's business and sales may be negatively affected by slow growth rates and economic instability in the Philippines and Malaysia, as well as globally.**

The Company derives substantially all of its revenues and operating profits from sales of its products in the Philippines and Malaysia. In 2020, the Company derived approximately 65% of its sales from its Philippine operations and approximately 35% of its sales from its Malaysian operations. The Company's product demand and results of operations have generally been influenced to a significant degree by the general state of the Philippine and Malaysian economies and the overall levels of business activity in the Philippines and Malaysia, and the Company expects that this will continue to be the case in the future. The Philippines and Malaysia have both experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso or the Ringgit Malaysia, as applicable, and the imposition of exchange controls. The Company cannot assure prospective investors that one or more of these factors will not negatively impact Philippine or Malaysian consumers' purchasing power, which could materially and adversely affect the Company's financial condition and results of operations.

In the past, the Philippine and Malaysian economies and the securities of Philippine companies have been influenced, to varying degrees, by economic and market conditions in other countries, particularly other countries in Southeast Asia, as well as investors' responses to those conditions. The uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines and/or Malaysia to deteriorate. Any downturn in the Philippine or Malaysian economies may negatively affect consumer sentiment and general business conditions in the Philippines or Malaysia, as applicable, which may lead to a reduction in demand for the Company's products and materially reduce the Company's revenues, profitability and cash flows. Moreover, there can be no assurance that current or future Philippine and Malaysian government policies will continue to be conducive to sustaining economic growth.

**Political instability, acts of terrorism or military conflict or changes in laws or government policies in the Philippines or Malaysia could have a destabilizing effect and may have a negative effect on the Company.**

The Philippines has from time to time experienced political and military instability. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations. There can be no assurance that acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy. An unstable political environment, whether due to the impeachment of government officials, imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Philippines has also been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with several terrorist and separatist organizations, including the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network, and, along with certain other organizations, has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. For example, since the beginning of September 2013, Philippine government troops have been involved in violent and deadly clashes with a faction of the Moro National Liberation Front ("MNLF") that has been accused of kidnappings and bombings in parts of Mindanao.

Furthermore, the Government of the Philippines and the Armed Forces of the Philippines (“AFP”) have clashed with members of several separatist groups seeking greater autonomy, including the Moro Islamic Liberation Front (“MILF”), the MNLF and the New People’s Army (“NPA”). In October 2011, 19 AFP troops were killed in a firefight with MILF members in the southern Philippines. In December 2011, five AFP soldiers were killed in a clash with NPA members. In August 2013, a series of bombings occurred in the cities of Cagayan de Oro and Cotabato City, as well as other areas in Maguindanao and North Cotabato provinces, all located in Mindanao, and in September 2013, armed clashes took place between the MNLF and the AFP in Zamboanga City in Mindanao, with a number of civilians being held hostage.

On May 23, 2017, after a joint operation of the AFP and the Philippine National Police (“PNP”) was launched in Marawi City to capture an alleged terrorist leader, prolonged fighting ensued between the AFP and PNP and a radical Islamist group called the Maute Group. The Maute Group is a group inspired by the bigger extremist militant group known as the Islamic State in Iraq and Syria (ISIS). President Rodrigo Duterte declared martial law in Mindanao. Hostilities have led to several casualties and substantial property damage. On October 17, 2017, the Government announced that the leaders of the Maute Group have been killed. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. Martial law in Mindanao was lifted on January 1, 2020. However, certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats.

These continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the AFP, which could destabilize parts of the country and adversely affect the country’s economy. There can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, which could have a material adverse effect on the Company’s business, financial condition, and results of operations.

In addition, the Company may be affected by political and social developments in the Philippines and changes in the political leadership and/or government policies in the Philippines. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact the Company’s business, such as the imposition of additional levies on the sale of new vehicles or vehicular volume reduction programs. There can be no assurance that any changes in such regulations or policies imposed by the Philippine government from time to time will not have an adverse effect on the Company’s business, financial condition, results of operations and prospects.

The Company may also be affected by political and social developments in Malaysia, as well as changes in the political leadership and/or government policies in Malaysia. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that impose and/or increase restrictions on imports, the conduct of business, the repatriation of profits, the imposition of capital controls, changes in interest rates and the taxation of goods and services. There can be no assurance that any changes in such regulations or policies imposed by the Malaysian government from time to time will not have an adverse effect on the Company’s business, financial condition, results of operations and prospects.

**The occurrence of natural or man-made catastrophes or electricity blackouts may materially disrupt the Company’s operations.**

The Philippines and Malaysia have experienced a range of major natural or man-made catastrophes, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. Natural catastrophes may disrupt the Company’s ability to produce or distribute its products and impair the economic conditions in affected areas, as well as the overall Philippine and Malaysian economies. The Philippines and Malaysia have both experienced electricity blackouts resulting from insufficient power generation, faulty transmission lines and other disruptions, such as typhoons or other tropical storms. These types of events may materially disrupt the Company’s business and operations and could have a material adverse effect on the Company’s financial condition and results of operations. The Company has insurance policies that cover business interruption and material damage to its facilities caused by natural catastrophes. There can be no assurance that the insurance coverage that the Company maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural or man-made catastrophes or electricity blackouts, including possible business interruptions.

### **Investors may face difficulties in enforcing judgments against the Company.**

The Company is organized under the laws of the Philippines and most of its assets are located in the Philippines and Malaysia. It may be difficult for investors to effect service of process outside the Philippines upon the Company with respect to claims pertaining to the Securities. Moreover, it may be difficult for investors to enforce in the Philippines or Malaysia judgments against the Company obtained outside the Philippines or Malaysia, as applicable, in any actions pertaining to the Securities, particularly with respect to actions for claims to which the Company has not consented to service of process outside the Philippines or Malaysia, as the case may be. In addition, substantially all of the directors and senior management of the Company are residents of the Philippines, and all or a substantial portion of the assets of these persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process outside the Philippines upon such persons or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines.

While the Philippines is a party to the United Nations Convention on the Enforcement and Recognition of Arbitral Awards, it is not a party to any international treaty relating to the recognition or enforcement of foreign judgments. Philippine law provides that a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) the other party had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of fact or law and (iv) such judgment was not contrary to public policy, public order, law, morals or good customs in the Philippines.

A judgment obtained for a fixed sum in a court of a reciprocating country (as listed in the First Schedule of the Reciprocal Enforcement of Foreign Judgments Act 1958 (“REJA”)) may be recognized and enforced by the courts of Malaysia upon registration of the judgment with the courts of Malaysia under the REJA within six years after the date of the judgment, or, where there have been proceedings by way of appeal against the judgment, after the date of the last judgment given in those proceedings, so long as the judgment: (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction and the judgment debtor being the defendant in the original court received notice of those proceedings in sufficient time to enable it to defend the proceedings; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; (vii) could be enforced by execution in the country of that original court; (viii) is for a fixed sum; (ix) is not preceded by a final and conclusive judgment by a court having jurisdiction in that matter; and (x) is vested in the person by whom the application for registration was made.

Under current Malaysian law, any judgment obtained for a fixed sum in a court of a foreign jurisdiction with which Malaysia has no arrangement for reciprocal enforcement of judgments, after due service of process, may, at the discretion of the courts of Malaysia, be actionable in the courts of Malaysia by way of a suit on a debt if such judgment is final and conclusive. However, such action may be met with defenses, including, but not limited to, defenses based on the conditions listed in the preceding paragraph. A money judgment by the courts of a non-reciprocating country may be recognized by Malaysian courts and be enforced by way of summary judgment without re-examination of the issues in dispute provided that the judgment: (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; and (vii) is for a fixed sum.

**If foreign exchange controls were to be imposed, the Company’s ability to access foreign currency to purchase raw materials and equipment and to service foreign currency denominated obligations, including its obligations under the Securities, could be adversely affected.**

Generally, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, in the imminence of or during a foreign exchange crisis or in times of national emergency, to: (i) suspend temporarily or restrict sales of foreign exchange; (ii) require licensing of foreign exchange transactions; or (iii) require delivery of foreign exchange to the BSP or its designee banks. The Philippine government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

There are foreign exchange policies in Malaysia that support the monitoring of capital flows into and out of the country in order to preserve its financial and economic stability. The foreign exchange policies in Malaysia are governed by the Financial Services Act 2013 (“FSA”) and the Islamic Financial Services Act 2013 (“IFSA”). These policies are administered by the Foreign Exchange Administration, an arm of Bank Negara Malaysia (“BNM”), which is the central bank of Malaysia. BNM has issued Rules and Notices that regulate foreign exchange dealings in Malaysia pursuant to the powers conferred by the FSA and IFSA. Under the Rules Applicable to Non-Residents issued by the BNM, there is no restriction for non-residents to invest in Malaysia in any form of Ringgit assets either as direct or portfolio investments, and non-residents are free to repatriate any amount of funds in Malaysia at any time, including capital, divestment proceeds, profits, dividends, rental, fees and interest arising from investment in Malaysia, subject to the applicable reporting requirements and any withholding tax. Repatriation, however, must be made in a foreign currency.

The Company purchases some critical raw materials, particularly crude oil, and some technically advanced equipment from abroad and needs foreign currency to make these purchases. In addition, the Company has incurred and may continue to incur foreign currency denominated obligations, including the Securities. There can be no assurance that the Philippine government or the Malaysian Foreign Exchange Administration will not impose economic or regulatory controls that may restrict free access to foreign currency in the future. Any such restrictions imposed in the future could severely curtail the Company’s ability to purchase crude oil, materials and equipment from outside the Philippines or Malaysia in U.S. dollars and its ability to make principal and interest payments in U.S. dollars on its foreign currency denominated obligations, including its obligations under the Securities, which could materially and adversely affect its financial condition and results of operations.

**Corporate governance and disclosure standards in the Philippines may be different from those in other countries.**

There may be less publicly available information about Philippine public companies than is regularly made available by public companies in the United States or certain other countries. Requirements of the Philippine SEC and the PSE with respect to corporate governance standards may also be different from those applicable in certain other jurisdictions. Further, rules against self-dealing and those protecting minority shareholders may be different from or less developed in the Philippines than in other countries. These standards in certain areas of disclosure and corporate governance may materially and adversely affect the interests of the Company’s shareholders, particularly those of minority shareholders.

**The Company may not be able to purchase U.S. dollars from the Philippine banking system to settle its obligations under the Securities.**

Under existing foreign exchange controls in the Philippines, foreign currency denominated loan obligations or foreign currency denominated guarantees duly approved by, and/or registered with, the BSP can be paid in foreign currency obtained through the Philippine banking system without further prior approval of the BSP (subject to any conditions contained in the BSP approval). BSP approval and registration will allow a borrower to access the Philippine banking system to obtain U.S. dollars to service its relevant debt obligations rather than from other sources of U.S. dollars such as the non-banking system or foreign currency revenue streams.

Since the Securities are not eligible for such BSP approval and registration, the Company may not be able to purchase U.S. dollars from the Philippine banking system to settle its obligations under the Securities. There is no assurance that the Company will be able to obtain sufficient U.S. dollars outside the Philippine banking system to settle its obligations under the Securities.

**Territorial and other disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.**

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea (“UNCLOS”). Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. Actions taken by both sides have threatened to

disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, a temporary suspension of tours to the Philippines by Chinese travel agencies and the rejection by China of the Philippines' request for arbitral proceedings administered in accordance with the UNCLOS to resolve the disputes.

On July 12, 2016, the Permanent Court of Arbitration ruled in favor of the Philippines against China over territorial disputes in the West Philippine Sea. The arbitral tribunal unanimously ruled, among others, that (a) China has "no historical rights" to the resources within the sea areas falling within the "nine-dash line;" (b) Chinese reclamation activity in the West Philippine Sea has caused irreparable damage to the environment, obligating the Chinese government to stop further activities in the West Philippine Sea; and (c) China had violated the Philippines' sovereign rights in its exclusive economic zone by interfering with Philippine fishing and petroleum exploration, constructing artificial islands, and failing to prevent Chinese fishermen from fishing in the zone. However, China has said it will not recognize the ruling. From 2013 to the beginning of 2018, China carried out land reclamation in the South China Sea. The construction of the islands has been completed. The three island airports of Meiji Reef, Zhubi Reef, and Yongshu Reef have been completed. With no formal enforcement mechanism in place, the territorial dispute in the West Philippine Sea remains contentious.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and materially and adversely affect the Company's financial condition and results of operations.

## **RISKS RELATING TO THE SECURITIES**

### **The Securities may not be a suitable investment for all investors.**

Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or distribution payments is different from the potential investor's currency;
- understand thoroughly the terms of the Securities and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

### **The Securities are perpetual securities and investors have no right to require redemption.**

The Securities are perpetual and have no fixed final maturity date. Securityholders have no right to require the Company to redeem the Securities at any time and they can only be disposed of by sale. Securityholders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities. Therefore, Securityholders should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

### **There may be insufficient Distributions upon liquidation.**

The obligations of the Company under the Securities and under the Trust Deed will constitute its direct, unconditional, unsecured and unsubordinated obligations. In the event of liquidation or winding-up, the claims of Securityholders in respect of the Securities, including in respect of any claim to Arrears in

Distribution, will (subject to and to the extent permitted by applicable law) be preferred over the subordinated obligations of the Company and will rank at least *pari passu* with each other and with all other unconditional, unsecured and unsubordinated obligations of the Company. In the event of such liquidation or winding-up, there is a risk that an investor will not receive full return of principal amount or any unpaid amounts or Distributions under the Securities.

**Securityholders may not receive Distribution payments if the Company elects to defer Distribution payments.**

The Company may, at its sole discretion and subject to certain conditions, elect to defer any scheduled Distributions on the Securities for any period of time. The Company is not subject to any limits as to the number of times Distributions can be deferred. Although, following a deferral, Arrears of Distributions are cumulative, subject to the Terms and Conditions of the Securities, the Company may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Securityholders. Any such deferral of Distributions shall not constitute a default for any purpose unless, in the case of a deferral, such payment is required in accordance with Condition 4.7 (*Payment of Arrears of Distribution*).

Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Company's financial condition.

**The Securities may be redeemed at the Company's option on the Step Up Date or any Distribution Payment Date falling after the Step Up Date or upon the occurrence of certain other events.**

The Securities are redeemable at the option of the Company, in whole but not in part, on the Step Up Date or any Distribution Payment Date falling after the Step Up Date at the redemption price specified in Condition 5 (*Redemption and Purchase*) of the Terms and Conditions.

The Company also has the right to redeem the Securities upon the occurrence of certain changes in Philippine tax law requiring the payment of Additional Amounts (as defined in the Terms and Conditions of the Securities). In addition, the Securities may be redeemed (in whole but not in part) at the option of the Company: (A) upon the occurrence of a Change of Control Event (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence and continuation of a Reference Security Default Event at any time at the Redemption Price, (C) upon the occurrence and continuation of an Accounting Event (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, or (D) in the event less than 25% of the aggregate principal amount of the Securities originally issued remain outstanding (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (Notices to the Securityholders).

The date on which the Company elects to redeem the Securities may not accord with the preference of individual Securityholders. This may be disadvantageous to the Securityholders in light of market conditions or the individual circumstances of the holder of the Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

**There are limited remedies for default under the Securities.**

Any scheduled Distribution will not be due if the Company elects to defer that Distribution pursuant to the Terms and Conditions of the Securities. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment has become due and the Company fails to make the payment when due. The only remedy against the Company available to the Trustee or (where the Trustee has failed to proceed against the Company, as provided in the Terms and Conditions of the Securities) any Securityholder for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of the Company's payment obligations arising from the Securities and the Trust Deed.

**The adoption of new accounting policies of PFRS may have a significant impact on the Company's financial condition and results of operations and/or may result in a change to the accounting treatment of the Securities, which could give the Company the right to elect to redeem the Securities.**

The Financial Reporting Standard Council (“FRSC”) is continuing its policy of issuing PFRS and interpretations which are substantially based on International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”). FRSC has issued and may in the future issue more new and revised standards and interpretations, including those required to conform with standards and interpretations issued from time to time by the IASB. Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new PFRS will not have a significant impact on the Company's financial condition and results of operations. In addition, any change or amendment to, or any change or amendment to any interpretation of, PFRS may result in the reclassification of the Securities such that the Securities must not or must no longer be recorded as “equity” of the Company, and will give the Company the right to elect to redeem the Securities. See “– *The Securities may be redeemed at the Company's option on the Step Up Date or any Distribution Payment Date falling after the Step Up Date or upon the occurrence of certain other events.*”

**The applicable Distribution Rate may fluctuate on any Reset Date.**

The Distribution Rate will be reset on each Reset Date by reference to the then Treasury Rate (as defined elsewhere in this Offering Circular). Accordingly, a Securityholder is exposed to the risk of a fluctuating Distribution Rate and uncertain distribution income. A fluctuating Distribution Rate makes it impossible to determine the yield of the Securities with respect to any Reset Period in advance.

**The Company and its subsidiaries may raise other capital and incur substantial indebtedness in the future and may not be able to generate sufficient cash flows to meet its obligations.**

The Company may from time to time and without prior consultation of the holders of the Securities create and issue further Securities (see “*Terms and Conditions of the Securities – Further Issues*”). Furthermore, the Company and its subsidiaries may from time to time incur substantial additional indebtedness and contingent liabilities. Under the terms of the Securities, there is no restriction, contractual or otherwise, on the amount of Securities which the Company may further issue or securities or other liabilities which the Company and the Company may issue or incur and which rank senior to, or *pari passu* with, the Securities. If the Company or its subsidiaries incur additional debt, that could have important consequences to investors. For example, it could: (i) limit the Company's ability to satisfy its obligations under the Securities and other debt; (ii) increase the Company's vulnerability to adverse general economic and industry conditions; (iii) require the Company to dedicate a substantial portion of its cash flow from operations to servicing and repaying its indebtedness, thereby reducing the availability of its cash flow to fund working capital, planned capital expenditures and other general corporate purposes; (iv) limit the Company's flexibility in planning for or reacting to changes in its businesses and the industries in which it operates; (v) increase the cost of additional financing; and (vi) place the Company at a competitive disadvantage compared to its competitors that have less debt. If the Company's subsidiaries incur additional indebtedness, such incurrence could also have adverse effects similar to those described above on the subsidiaries, and therefore on the Company. The issue of any further Securities or such other securities, or the incurrence of any such other liabilities, may reduce the amount (if any) recoverable by holders of the Securities on a winding-up of the Company and may also have an adverse impact on the trading price of the Securities and/or the ability of Securityholders to sell them.

**Debt evidenced by a public instrument have priority in the event of liquidation.**

Under Philippine law, in the event of liquidation of a company, unsecured debt of such company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. Some of the Company's financial indebtedness are covered by agreements which are embodied in public instruments.

**There has been no prior market for the Securities, an active trading market for the Securities may not develop, and the trading price of the Securities could be materially and adversely affected.**

The Securities are a new issue of securities for which there is currently no trading market. The Company has been advised that the Joint Lead Managers intend to make a market in the Securities, but that they are not obligated to do so and may discontinue such market making activity at any time without notice. The Company cannot predict whether an active trading market for the Securities will develop or be sustained. If an active trading market were to develop, the Securities could trade at prices that may be lower than the initial offering price. The price at which the Securities trade depends on many factors, including, but not limited to:

- prevailing interest rates and the markets for similar securities;
- general economic conditions; and
- the Company's financial condition, historical financial performance and future prospects.

Approval in-principle has been obtained from the SGX-ST for the listing of the Securities on the SGX-ST. However, no assurance can be given that if the Securities are listed, the Company will be able to maintain such listing or that a liquid trading market will develop or continue. If an active market for the Securities fails to develop or be sustained, the trading price of the Securities could be materially and adversely affected. Lack of a liquid or active trading market for the Securities may adversely affect the price of the Securities or may otherwise impede a holder's ability to dispose of the Securities.

**The Company will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to debt or hybrid securities in certain other countries.**

The Company will be subject to reporting obligations in respect of the Securities to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST are different from those imposed by securities exchanges in other countries or regions, such as the United States. As a result, the level of information that is available may not correspond to what investors in the Securities are accustomed to.

**Rights of the Securityholders may be altered without their consent.**

The Trust Deed contains provisions for calling meetings of Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders, including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority. The Trust Deed also provides that the Trustee may, without consent of the Securityholders, agree to any modification of any provision of the Securities which is not materially prejudicial to the interests of the Securityholders or which is of a formal, minor or technical nature or is made to correct a manifest error or an error which is, in the opinion of the Trustee, proven or to comply with mandatory provisions of law, in the circumstances described in "*Terms and Conditions of the Securities – Meetings of Securityholders, Modification, Waiver, Authorization and Determination – Modification, Waiver, Authorization and Determination.*"

**The Trustee may decline to take actions requested by the Securityholders.**

Under the Trust Deed, in certain circumstances, the Trustee may, at its sole discretion, request the Securityholders to provide an indemnity and/or security and/or pre-funding to its satisfaction against all liabilities to which it may render itself liable or which it may incur as a result before it takes actions on behalf of the Securityholders. The Trustee shall not be obliged to take any such actions if no such indemnity or security or pre-funding is provided to its satisfaction against all liabilities to which it may render itself liable or which it may incur as a result. Even if the Securityholders agree to indemnify and/or provide security to and/or pre-fund the Trustee, the time taken to agree to the indemnity and/or security and/or pre-funding may have an impact as to when such action is taken. In addition, notwithstanding the provision of an indemnity or security or pre-funding to the Trustee, the Trustee may decline to take actions requested by the Securityholders if it determines that such actions are not permitted under the terms of the Trust Deed or applicable law.

**The Securities are subject to market conditions and exposed to market risk.**

A Securityholder of fixed rate securities such as the Securities is particularly exposed to the risk that the price of such securities falls as a result of changes in the market interest rate. While the initial Distribution rate of the Securities is fixed until the Initial Reset Date (with a recalculation of the Distribution rate on every Reset Date as set out in Condition 4.1 (*Rate of Distribution*)), market interest rates typically change on a daily basis. As the market interest rate changes, the price of the Securities also changes, but in the opposite direction. If the market interest rate increases, the price of the Securities would typically fall. If the market interest rate falls, the price of the Securities would typically increase. Securityholders should be aware that movements in these market interest rates can adversely affect the price of the Securities and can lead to losses for the Securityholders if they sell the Securities.

**Distribution rate reset may result in an uncertain income.**

A holder of securities with a fixed Distribution rate that will be reset during the term of the securities (as will be the case for the Securities on each Reset Date (as defined in Condition 4.1 (*Rate of Distribution*))) if not previously redeemed, is exposed to the risk of fluctuating interest rate levels and uncertain interest income.

**No events of default allowing acceleration.**

There are no events of default under the Securities allowing Securityholders to accelerate payments under the Securities.

**There are limited remedies for non-payment under the Securities.**

Any scheduled Distribution payment will not become due and payable if the Company elects to defer that Distribution payment pursuant to the Conditions. The only remedy against the Company available to the Trustee on behalf of Securityholders for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of any of the Company's payment obligations arising from the Securities.

**Neither the Company nor the Securities are rated.**

Investors should not assume or infer that any rating ascribed to the Company or any of its indebtedness or credit would apply to the Securities. The Company does not currently benefit from, and has not applied to any ratings agency, for either a corporate rating or a rating of the Securities, and does not currently intend to apply for any such rating.

**RISKS ASSOCIATED WITH THE PRESENTATION OF CERTAIN INFORMATION IN THIS OFFERING CIRCULAR**

**Certain information contained herein is derived from unofficial publications.**

Certain information in this Offering Circular relating to the Philippines, Malaysia and the industry in which the Company's business operates, including statistics relating to market size and market share, is derived from various internal surveys, market research, government data, private publications and/or the Company's internal assumptions and estimates. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable. However, there is no assurance that such information is accurate, complete, up-to-date or consistent with information compiled within or outside the Philippines or Malaysia. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Company nor the Joint Lead Managers make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

## TERMS AND CONDITIONS OF THE SECURITIES

*The following (other than any paragraph in italics), subject to alteration, are the terms and conditions of the Securities, which will be endorsed on the Certificates issued in respect of the Securities.*

The issue of the US\$[●] Senior Perpetual Capital Securities (the “**Securities**,” which expression, unless the context otherwise requires, includes any further Securities issued pursuant to Condition 9 and forming a single series with the Securities) of Petron Corporation (the “**Issuer**”) are constituted by a Trust Deed to be dated the Issue Date (the “**Trust Deed**”) made between the Issuer and The Hongkong and Shanghai Banking Corporation Limited (the “**Trustee**”, which expression includes its successor(s)) as trustee for the holders of the Securities (the “**Securityholders**”).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the agency agreement to be dated the Issue Date (the “**Agency Agreement**”) made between the Issuer, the Trustee, The Hongkong and Shanghai Banking Corporation Limited as principal paying agent (the “**Principal Paying Agent**”), as calculation agent (the “**Calculation Agent**”), as the registrar (the “**Registrar**”) and as transfer agent (the “**Transfer Agent**” and together with the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent, the “**Agents**”). Copies of the Trust Deed and the Agency Agreement are available for inspection with reasonable prior notification and satisfactory proof of holding during normal business hours by the Securityholders at the specified office of the Trustee and the Agents. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Agency Agreement applicable to them.

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and denomination

The Securities are issued in registered form in amounts of US\$200,000 and integral multiples of US\$1,000 in excess thereof (referred to as the “**Principal Amount**” of a Security). A certificate (each a “**Certificate**”) will be issued to each Securityholder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders (the “**Register**”) which the Issuer will procure to be kept by the Registrar.

*The Securities are not issuable in bearer form.*

#### 1.2 Title

Title to the Securities passes only by registration in the Register. The person in whose name a Security is registered in the Register will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as the absolute owner of that Security for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder. In these Conditions, “**Securityholder**” and (in relation to a Security) “**Holder**” mean the person in whose name a Security is registered in the Register.

*For a description of the procedures for transferring title to book-entry interests in the Securities, see “Clearance and Settlement of the Securities.”*

### 2. TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

#### 2.1 Transfers

Subject to Condition 2.4, a Security may be transferred by depositing the Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the other Agents (other than the Calculation Agent). In the case of a transfer of part only of a holding of Securities represented by one Certificate, a new Certificate will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor. No transfer of a Security will be valid until and unless entered on the Register.

*For a description of certain restrictions on transfers of interests in the Securities, see “Subscription and Sale”.*

## **2.2 Delivery of new Certificates**

Each new Certificate to be issued upon transfer of Securities will, within five business days of receipt by the Registrar or the Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the Holder entitled to the transferred Securities to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent (as applicable) with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Securities not so transferred will, within five business days of receipt by the Registrar or the Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the Holder of the Securities not so transferred to the address of such Holder appearing on the Register or as specified in the form of transfer.

*Except in the limited circumstances described herein (see “The Global Certificate”), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Securities are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.*

## **2.3 Formalities free of charge**

Registration of transfer of Securities will be effected without charge by or on behalf of the Issuer, the Registrar or any other Agent (other than the Calculation Agent) but upon payment (or the giving of such indemnity as the Issuer, the Registrar or any other Agent (other than the Calculation Agent) may reasonably require) by the relevant Holder in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

## **2.4 Closed Periods**

No Securityholder may require the transfer of a Security to be registered during the period of 15 calendar days ending on the due date for any payment of principal, premium (if any) or Distributions on that Security.

## **2.5 Regulations**

All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available for inspection by the Registrar to any Securityholder upon prior written request and satisfactory proof of holding.

## **3. STATUS**

### **3.1 Status of the Securities**

The Securities constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

The claims of the Holders, in respect of the Securities, including in respect of any claim to Arrears in Distribution, will, in the event of the Winding-Up of the Issuer (subject to and to the extent permitted by applicable law), rank at least *pari passu* with each other and with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer.

### 3.2 No set-off

To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

### 3.3 No Voting Rights

The Securities do not confer any voting rights on Securityholders with respect to the common shares or any other class of share capital of the Issuer.

## 4. DISTRIBUTIONS

### 4.1 Rate of Distribution

Subject to Condition 4.4 and Condition 4.5, the Securities will confer a right to receive distributions (“Distributions”):

- (a) from the period commencing on (and including) the Issue Date to (but excluding) [●] (the “Step Up Date”), at the Initial Rate of Distribution; and
- (b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Holders, the Principal Paying Agent and the Registrar),

payable semi-annually in arrear on [●] and [●] of each year (each a “Distribution Payment Date”) commencing on [●] 2021.

“Reset Date” means the Step Up Date and any subsequent date which is the [fifth] anniversary of any Reset Date.

### 4.2 Distribution Accrual

Each Security will cease to accrue Distributions from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event Distributions shall continue to accrue as provided in the Trust Deed.

### 4.3 Calculation of Broken Amounts

When any Distribution is required to be calculated in respect of a period of less than a full six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

### 4.4 Increase in Rate of Distribution

Following the earlier to occur of:

- (a) the date on which a Reference Security Default Event occurs, or
- (b) the date which is the 61st day, or if such day is not a Business Day, the first Business Day thereafter, following a Change of Control Event,

unless an irrevocable notice to redeem the Securities pursuant to Condition 5.4 has been given to Securityholders, the Rate of Distribution will increase by 2.50% per annum with effect from the next Distribution Payment Date (or, if the relevant event occurs on or after the date that is five Business Days prior to the next Distribution Payment Date, the next following Distribution Payment Date). For the avoidance of doubt, an increase (if any) in the Rate of Distribution pursuant to this Condition 4.4 shall not occur more than once.

“**Change of Control Event**” means the occurrence of any Person or group of related Persons, other than the Permitted Holders, being or becoming the beneficial owner(s), directly or indirectly, of a greater percentage of the total voting power of the outstanding Voting Stock of the Issuer than the aggregate percentage of the total voting power of the outstanding Voting Stock of the Issuer beneficially owned, directly or indirectly, by the Permitted Holders.

“**Permitted Holders**” mean any or all of the following: (a) San Miguel Corporation, (b) San Miguel Corporation Retirement Plan or any similar or successor employee retirement plan of San Miguel Corporation, (c) Petron Corporation Employees Retirement Plan or any similar or successor employee retirement plan of Petron Corporation, (d) SEA Refinery Corporation and (e) any Person the Voting Stock of which at least a majority is beneficially owned, directly or indirectly, by a Person specified in clauses (a), (b), (c) or (d) above.

“**Reference Security Default Event**” means an event of default occurs pursuant to (i) clause (b) of the Events of Default of the Issuer’s outstanding ₱6,800,000,000 8.0551% p.a. PHP-denominated bonds due 19 October 2025 (*Bloomberg identifier: AU8751177; ISIN: PHY6885FAG10*) (the “**Initial Referenced Senior Notes**”), or (ii) similar condition of any other foreign currency or PHP-denominated debt security with an international tranche issued under Regulation S of the U.S. Securities Act and outstanding after the Issue Date, which debt security has the latest occurring scheduled maturity date (the “**Superseding Referenced Senior Notes**”), as a result of the Issuer’s default in, non-compliance with or non-performance of the covenants of the Issuer under the Initial Referenced Senior Notes or similar covenants of the Superseding Referenced Senior Notes, as the case may be, as respectively amended from time to time.

#### 4.5 Optional Deferral of Distributions

- (a) The Issuer may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the 6 months ending on that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred (the “**Deferral Election Event**”). Any such deferred Distribution will constitute “**Arrears of Distribution**” and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.
- (b) The Issuer will notify the Securityholders (in accordance with Condition 12.1), the Trustee and the Principal Paying Agent of any deferral of Distribution not less than five Business Days prior to the relevant Distribution Payment Date (the “**Deferral Election Notice**”).

Deferral of a Distribution pursuant to Condition 4.5(a) will not constitute a default by the Issuer (including, without limitation, pursuant to Condition 10) or any other breach of its obligations under the Securities or the Trust Deed or for any other purpose.

- (c) Each Deferral Election Notice shall be accompanied, in the case of the notice to the Trustee and the Principal Paying Agent, by a certificate in the form scheduled to the Trust Deed signed by two duly Authorised Signatories of the Issuer confirming that no Compulsory Distribution Payment Event has occurred.

The Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence of a Deferral Election Event in which event it shall be conclusive and binding on the Securityholders.

- (d) The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distributions may be deferred pursuant to the provisions of Condition 4.5(a).

**“Compulsory Distribution Payment Event”** means (a) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or (b) at the discretion of the Issuer, any Junior Securities or Parity Securities of the Issuer have been redeemed, repurchased or otherwise acquired by the Issuer or any of its Subsidiaries.

#### **4.6 Restrictions in the case of Deferral**

If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the Issuer deferring such Distributions in accordance with the terms of the Securities, the Issuer shall not, and shall procure that none of its Subsidiaries will:

- (a) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other payment is made on any class of Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or
- (b) at its discretion, redeem, reduce, cancel, buy-back or acquire for any consideration any of the Junior Securities or Parity Securities of the Issuer,

unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer is permitted to do so with the consent of the Securityholders of at least a majority in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in Condition 4.6 shall restrict the ability of any Subsidiary of the Issuer to declare and pay dividends, advance loans or otherwise make payments to the Issuer.

#### **4.7 Payment of Arrears of Distribution**

- (a) The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of at least five Business Days’ prior notice to Securityholders (in accordance with Condition 12.1), the Trustee and the Principal Paying Agent. If Arrears of Distribution have not been paid in full earlier, all outstanding Arrears of Distribution will become due and payable, and the Issuer must pay such outstanding Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a)), on the relevant Payment Reference Date (in accordance with Condition 6). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a pro rata basis between the Securityholders.
- (b) **Payment Reference Date** means the date which is the earliest of:
  - (i) the date on which the Securities are redeemed in accordance with Condition 5;
  - (ii) the date on which an order is made for the Winding-Up of the Issuer;
  - (iii) the date on which the Issuer is in violation of Condition 4.6 or on the occurrence of a Compulsory Distribution Payment Event; and
  - (iv) the date of any substitution or modification of the Securities pursuant to Condition 13.

## 5. REDEMPTION AND PURCHASE

### 5.1 Redemption

The Securities are perpetual securities in respect of which there is no fixed redemption date.

### 5.2 Redemption at the option of the Issuer

Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on:

- (a) the Step Up Date; or
- (b) any Distribution Payment Date falling after the Step Up Date,

in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

### 5.3 Early redemption due to a Gross-up Event

- (a) If a Gross-up Event occurs, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.
- (b) No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Securities.
- (c) Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Trustee:
  - (i) a certificate signed by any two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that a Gross-up Event has occurred and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and
  - (ii) an opinion of an independent legal or tax adviser of recognized standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event,

and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

**“Gross-up Event”** means that as a result of any change in, or amendment to, the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder, which change or amendment becomes effective on or after [●] 2021 the Issuer has or will become obliged to pay Additional Amounts; *provided* that the payment obligation cannot be avoided by the Issuer taking reasonable measures available to it; *provided further* that where any Additional Amounts due in accordance with Condition 7 are in consequence of any change in the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder after [●] 2021, a Gross-Up Event shall have occurred only in the event that the rate of withholding or deduction required by such law, regulation or rulings promulgated thereunder, or such official interpretation or application thereof, is in excess of 25%.

#### **5.4 Early redemption due to a Change of Control Event, Reference Security Default Event or Accounting Event**

- (a) If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.
- (b) If a Reference Security Default Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to Securityholders in accordance with Condition 12.1.
- (c) If an Accounting Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.
- (d) Such notice of redemption as provided in Conditions 5.4(a), 5.4(b) and 5.4(c) may only be given simultaneously with or after a notification by the Issuer in accordance with Condition 12.1 that a Change of Control Event, a Reference Security Default Event or an Accounting Event (as the case may be) has occurred.

An “**Accounting Event**” means that an opinion of a recognized accountancy firm of international standing has been delivered to the Issuer and the Trustee, stating that the Securities may no longer be recorded as equity in the audited consolidated financial statements of the Issuer prepared in accordance with PFRS or other recognized accounting standards that the Issuer has adopted from time to time for the preparation of its audited consolidated financial statements and such event cannot be avoided by the Issuer taking reasonable measures available to it.

#### **5.5 Purchase of Securities**

The Issuer or any of its Subsidiaries may, in compliance with applicable laws, purchase Securities in any manner and at any price. Such acquired Securities may be surrendered for cancellation or held or resold.

#### **5.6 Redemption of Securities in the case of minimal outstanding amounts**

In the event that the Issuer and/or any of its Subsidiaries has, individually or in aggregate, purchased (and not resold) or redeemed Securities equal to or in excess of 75% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Issuer may redeem the remaining Securities (in whole but not in part):

- (a) at any time prior to the Step Up Date, at the Special Redemption Price; or
- (b) on or at any time after the Step Up Date, at the Redemption Price,

on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

#### **5.7 Responsibility of Trustee and Agents**

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Gross Up Event, Change of Control Event, Reference Security Default Event or Accounting Event has occurred and shall not be responsible or liable to the Securityholders, the Issuer or any other person for any loss arising from any failure to do so.

## 6. PAYMENTS

### 6.1 Payments in respect of Securities

Payment of principal, premium (if any) and Distributions will be made by transfer to the registered account of the Securityholder. Payments of principal and premium (if any) and payments of Distribution due otherwise than on a Distribution Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents (other than the Calculation Agent). Distributions on Securities due on a Distribution Payment Date will be paid to the holder shown on the Register at the close of business on the date being the 15th day before the relevant Distribution Payment Date (the “**Record Date**”).

For the purposes of this Condition, a Securityholder’s **registered account** means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business, on the relevant Record Date, and a Securityholder’s **registered address** means its address appearing on the Register at that time.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the securityholder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

### 6.2 Payments subject to Applicable Laws

Payments in respect of principal, premium (if any) and Distributions on Securities are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

### 6.3 No commissions

No commissions or expenses shall be charged to the Securityholders in respect of any payments made in accordance with this Condition.

### 6.4 Payment on Business Days

Payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated on the Payment Business Day preceding the due date for payment or, in the case of a payment of principal and premium (if any) or a payment of Distributions due otherwise than on a Distribution Payment Date, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent (other than the Calculation Agent).

Securityholders will not be entitled to any Distributions or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Securityholder is late in surrendering its Certificate (if required to do so).

In this Condition, “**Payment Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City, Hong Kong, Singapore and Mandaluyong City and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

### 6.5 Partial Payments

If the amount of principal, premium (if any) or Distributions which is due on the Securities is not paid in full, the Registrar will annotate the Register with a record of the amount of principal, premium (if any) or Distributions in fact paid.

## 6.6 Agents

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) so long as the Securities are listed on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for individual certificates, and unless the Issuer obtains an exemption from the SGX-ST, the Issuer will appoint and maintain a paying agent in Singapore where the individual certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for individual certificates, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual certificates, including details of the paying agent in Singapore;
- (c) there will at all times be a Registrar; and
- (d) there will at all times be a Transfer Agent.

Notice of any termination or appointment and of any changes in specified offices will be given to the Securityholders promptly by the Issuer in accordance with Condition 12.1.

## 7. TAXATION AND GROSS-UP

### 7.1 Payment without withholding

All payments in respect of the Securities by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In the event where such withholding or deduction is made by the Issuer, the Issuer shall pay such additional amount (“**Additional Amounts**”) as will result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required; except that no Additional Amounts will be payable in relation to any payment in respect of any Security:

- (a) presented for payment (if applicable) by or on behalf of a Securityholder who is liable to the Taxes in respect of such Security by reason of their having some connection with any Relevant Jurisdiction other than the mere holding of the Security;
- (b) presented for payment (if applicable) more than 30 days after the Relevant Date (as defined in Condition 7.2) except to the extent that a Holder of such Security would have been entitled to such Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day (as defined in Condition 6.4);
- (c) where such withholding or deduction would not have been so imposed but for the failure by the Holder of such Security, after written request made to that Holder at least 30 days before any such withholding or deduction would be payable, by the Issuer, the Trustee or the Paying Agent, as applicable, to comply with any identification, information, documentation or other similar reporting requirement concerning its nationality, residence or connection with the Relevant Jurisdiction, which is required or imposed by a statute, regulation or published administrative interpretation of general application of the Relevant Jurisdiction as a precondition to reduction or exemption from such withholding or deduction; or
- (d) presented for payment (if applicable) by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union.

## 7.2 Interpretation

In these Conditions:

- (a) The “**Relevant Date**” means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 12.1.
- (b) The “**Relevant Jurisdiction**” means the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, or in the event of any substitution or other corporate action resulting in the Issuer being incorporated in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax.

## 7.3 Additional Amounts, principal and Distributions

Any reference in these Conditions to any amounts in respect of the Securities will be deemed also to refer to any Additional Amounts which may be payable under this Condition 7 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed. Unless the context otherwise requires, any reference in these Conditions to **principal** includes any installment amount or redemption amount and any other amounts in the nature of principal payable pursuant to these Conditions and Distributions includes all amounts payable pursuant to Condition 4 and any other amounts in the nature of distributions payable pursuant to these Conditions.

## 7.4 Responsibility of Trustee and Agents for Payment of Taxes

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Securityholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), Distributions or other amount under or in respect of the Securities without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

## 8. PRESCRIPTION

Securities will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of Distributions) from the Relevant Date in respect of the Securities subject to the provisions of Condition 6.

## 9. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further Securities or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of Distributions thereon) and so that the same will be consolidated and form a single series with the Securities (which shall be constituted by a deed supplemental to the Trust Deed) or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Issuer may determine at the time of the issue.

## **10. NON-PAYMENT**

### **10.1 Non-payment when due**

Notwithstanding any of the provisions below in this Condition 10, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distributions, such Distributions will not be due if the Issuer has elected to defer Distributions in accordance with Condition 4.5. In addition, nothing in this Condition 10, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any actual, reasonable and documented costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.

### **10.2 Proceedings for Winding-Up**

If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (b) the Issuer fails to make payment in respect of the Securities for a period of 10 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 10.4 and subject to and to the extent permitted by applicable law, institute proceedings for the Winding-Up of the Issuer, and/or prove in the Winding-Up of the Issuer, and/or claim in the liquidation of the Issuer, for such payment.

### **10.3 Enforcement**

Without prejudice to Condition 10.2 but subject to the provisions of Condition 10.4 the Trustee may without further notice to the Issuer institute such proceedings or take such steps against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Securities (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution) in respect of the Securities, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

### **10.4 Entitlement of Trustee**

The Trustee shall not and shall not be obliged to take any of the actions referred to in Condition 10.2 or 10.3 above against the Issuer to enforce the terms of the Trust Deed or the Securities unless (a) it shall have been so requested by an Extraordinary Resolution of the Securityholders or in writing by the Securityholders of at least one-quarter in principal amount of the Securities then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may render itself liable or which it may incur by so doing.

### **10.5 Right of Securityholders**

Securityholders are not entitled to proceed directly against the Issuer or to institute proceedings for the Winding-Up or claim in the liquidation of the Issuer or to prove in such Winding-Up unless the Trustee, having become so bound to proceed or being able to prove in such Winding-Up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Securityholders shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

### **10.6 Extent of Securityholders' remedy**

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Securityholders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities or under the Trust Deed.

## **11. REPLACEMENT OF CERTIFICATES**

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## **12. NOTICES**

### **12.1 Notices to Securityholders**

All notices to the Securityholders will be valid if mailed to them by first class mail (or its equivalent) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the seventh day after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed.

*So long as the Global Certificate is held on behalf of Euroclear and Clearstream any notice to the Securityholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.*

### **12.2 Notices from Securityholders**

Notices to be given by any Securityholder must be in writing and given by lodging the same, together with any Certificate in respect of such Security or Securities, with the Registrar or, if the Securities are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

## **13. SUBSTITUTION OR MODIFICATION TO REMEDY GROSS-UP EVENT OR ACCOUNTING EVENT**

The Trustee may, without the consent of the Securityholders, agree with the Issuer to:

- (a) the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Securities and the Trust Deed of any other company being a wholly owned or indirect Subsidiary of the Issuer; or
- (b) the modification of these Conditions to the extent reasonably necessary,

in order to remedy a pending or existing Gross-Up Event or Accounting Event provided that:

- (i) the Securities are unconditionally and irrevocably guaranteed by the Issuer in a manner which would give the Securityholders a status in a Winding-Up of the Issuer which is akin to the status Securityholders would have at that time in respect of a Winding-Up of the relevant issuer;
- (ii) the Trustee is satisfied that the interests of the Securityholders will not be materially prejudiced by the substitution or modification; and
- (iii) certain other conditions set out in the Trust Deed are complied with to the satisfaction of the Trustee.

## 14. MEETINGS OF SECURITYHOLDERS, MODIFICATION, WAIVER, AUTHORIZATION AND DETERMINATION

### 14.1 Meetings of Securityholders

The Trust Deed contains provisions for convening meetings of Securityholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer and shall be convened by it upon the request of Securityholders holding not less than 50.0% in principal amount of the Securities for the time being outstanding. Except where the business of such a meeting includes consideration of a Reserved Matter (as defined below), the quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing over 50.0% in principal amount of the Securities for the time being outstanding, or at any adjourned meeting, two or more persons being or representing Securityholders whatever the principal amount of the Securities held or represented, unless the business of such meeting includes consideration of proposals:

- (a) to modify the dates on which the Distribution is payable in respect of any Securities;
- (b) to reduce or cancel the principal amount of, any premium payable on redemption of, or amount of Distributions on or to vary the method of calculating the Rate of Distribution on, any Securities;
- (c) to change the currency of payment of any Securities; or
- (d) to amend this provision or to modify the provisions concerning the quorum required at any meeting of the Securityholders or the majority required to pass an Extraordinary Resolution

(each of (a), (b), (c) and (d) above, a “**Reserved Matter**”),

in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 75.0%, or at any adjourned such meeting not less than 25.0%, in principal amount of the Securities for the time being outstanding. An Extraordinary Resolution duly passed at any meeting of Securityholders or passed by way of electronic consent given by the Securityholders through the relevant clearing systems in accordance with the Trust Deed will be binding on all Securityholders, whether or not they are present at any meeting at which such resolution was passed. The vote required to pass an Extraordinary Resolution at any meeting of Securityholders duly convened and held in accordance with the Trust Deed is not less than two-thirds of the votes cast. The Trust Deed provides that a written resolution signed by or on behalf of the Holders of not less than 75.0% of the aggregate principal amount of Securities outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

The provisions of this Condition 14.1 are subject to the further provisions of the Trust Deed.

### 14.2 Modification, Waiver, Authorization and Determination

The Trustee may, without the consent of the Securityholders, agree to (a) any modification of these Conditions or any of the provisions of the Trust Deed (in each case, other than in respect of a Reserved Matter) if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Securityholders and, (b) any modification which is of a formal, minor or technical nature or is to correct a manifest error or is made to comply with mandatory provisions of law. In addition, the Trustee may, without the consent of the Securityholders, authorize or waive any breach or proposed breach of these Conditions or any of the provisions of the Trust Deed if, in the opinion of the Trustee, the interests of the Securityholders will not be materially prejudiced thereby.

### **14.3 Trustee to have Regard to Interests of Securityholders as a Class**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorization, determination or substitution), the Trustee must have regard to the general interests of the Securityholders as a class but must not have regard to any interests arising from circumstances particular to individual Securityholders (whatever their number) and, in particular but without limitation, must not have regard to the consequences of any such exercise for individual Securityholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee will not be entitled to require from the Issuer, nor will any Securityholder be entitled to claim from the Issuer, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Securityholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

### **14.4 Notification to the Securityholders**

Any modification, waiver, authorization, determination or substitution agreed to by the Trustee will be binding on the Securityholders and, unless the Trustee agrees otherwise, any modification or substitution will be notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 12.1.

## **15. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER**

### **15.1 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may render itself liable or which it may incur by so doing.

### **15.2 Right to obtain instructions from Securityholders**

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking or refraining from any such action, making any such decision or giving any such direction, to seek directions or clarification of directions from the Securityholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Securityholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Securityholders or in the event that no direction is given to the Trustee by the Securityholders. None of the Trustee or any Agent shall be liable to any Securityholder, the Issuer or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Securityholders. The Trustee shall be entitled to rely on any direction, request or resolution of Securityholders given by Securityholders holding the requisite principal amount of Securities outstanding or passed at a meeting of Securityholders convened and held in accordance with the Trust Deed.

### **15.3 Trustee Contracting with the Issuer**

The Trust Deed also contains provisions pursuant to which the Trustee and its affiliates, directors and officers are entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Securityholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## 16. GOVERNING LAW AND SUBMISSION TO JURISDICTION

### 16.1 Governing law

The Trust Deed, the Agency Agreement, the Securities and any non-contractual obligations arising out or in connection with the Trust Deed, the Agency Agreement and the Securities, are governed by, and shall be construed in accordance with, English law.

### 16.2 Jurisdiction of English courts

- (a) The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Securityholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Securities (including any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) and has accordingly submitted to the exclusive jurisdiction of the English courts.
- (b) The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee or the Securityholders may take any suit, action or proceeding (referred to as “**Proceedings**”) arising out of, or in connection with the Trust Deed or the Securities (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### 16.3 Appointment of process agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at the latter’s registered office for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

## 17. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Security, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 18. DEFINITIONS

Unless the context otherwise requires, the following terms will have the following meanings in these Conditions:

**Accounting Event** has the meaning specified in Condition 5.4.

**Additional Amounts** has the meaning specified in Condition 7.1.

**Agency Agreement** has the meaning specified in the preamble to these Conditions.

**Agent and Agents** have the meaning specified in the preamble to these Conditions.

**Arrears of Distribution** has the meaning specified in Condition 4.5(a).

**Authorised Signatory** has the meaning given to it in the Trust Deed.

**Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong, Singapore, New York and Mandaluyong City.

**Calculation Agent** has the meaning specified in the preamble to these Conditions.

**Certificate** has the meaning specified in Condition 1.1.

**Change of Control Event** has the meaning given to it in Condition 4.4.

**Compulsory Distribution Payment Event** has the meaning specified in Condition 4.5.

**Conditions** means these terms and conditions of the Securities.

**Deferral Election Event** has the meaning specified in Condition 4.5(a).

**Deferral Election Notice** has the meaning specified in Condition 4.5(b).

**Distribution Payment Date** has the meaning specified in Condition 4.1.

**Distributions** has the meaning specified in Condition 4.1.

**Extraordinary Resolution** has the meaning given to it in the Trust Deed.

**Gross-up Event** has the meaning specified in Condition 5.3.

**Holder** has the meaning specified in Condition 1.2.

**Initial Credit Spread** means [●] %.

**Initial Rate of Distribution** means [●] % per annum plus any increase pursuant to Condition 4.4.

**Initial Referenced Senior Notes** has the meaning specified in Condition 4.4.

**Issue Date** means [●] 2021.

**Issuer** means Petron Corporation.

**Junior Securities** means (i) any class of the Issuer's share capital (including, without limitation, preferred shares) and (ii) any Subordinated Indebtedness issued by the Issuer issued and outstanding as of the Issue Date.

**Parity Securities** means: (i) any instrument or security issued or entered into by the Issuer which ranks, or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities; and (ii) any security guaranteed by, or subject to the benefit of an indemnity entered into by, the Issuer where the Issuer's obligations under the relevant guarantee or indemnity rank, or are expressed to rank, *pari passu* with all other present and future unsecured, unconditional and unsubordinated obligations of the Issuer.

**Paying Agent** has the meaning specified in the preamble to these Conditions.

**Payment Business Day** has the meaning specified in Condition 6.4.

**Payment Reference Date** has the meaning specified in Condition 4.7(b).

**Permitted Holders** has the meaning specified in Condition 4.4.

**Person** means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

**PFRS** means Philippine Financial Reporting Standards and includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC) as in effect from time to time.

**PHP** or ₱ means the lawful currency of the Republic of the Philippines.

**Principal Amount** has the meaning specified in Condition 1.1.

**Principal Paying Agent** has the meaning specified in the preamble to these Conditions.

**Proceedings** has the meaning specified in Condition 16.2(b).

**Rate of Distribution** means the Initial Rate of Distribution or the Reset Rate of Distribution, as applicable.

**Record Date** has the meaning specified in Condition 6.1.

**Redemption Price** means the Principal Amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)), as applicable.

**Reference Security Default Event** has the meaning specified in Condition 4.4.

**Register** has the meaning specified in Condition 1.1.

**Registrar** has the meaning given to it in the preamble to these Conditions.

**Relevant Date** has the meaning specified in Condition 7.2.

**Relevant Jurisdiction** has the meaning specified in Condition 7.2.

**Reserved Matter** has the meaning specified in Condition 14.1.

**Reset Date** has the meaning specified in Condition 4.1.

**Reset Determination Date** means, in relation to the calculation of a Reset Rate of Distribution, the second Business Day before the commencement of the relevant Reset Period.

**Reset Period** means the period from and including the Step Up Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

**Reset Rate of Distribution** in respect of any Reset Period means the Treasury Rate calculated on the Reset Determination Date in respect of that Reset Period plus the Initial Credit Spread and the Step Up Margin.

**SGX-ST** has the meaning specified in Condition 6.6.

**Securities** has the meaning specified in the preamble to these Conditions.

**Securityholders** has the meaning specified in the preamble to these Conditions.

**Special Redemption Price** means 101% of the Principal Amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)).

**Step Up Date** has the meaning given to it in Condition 4.1(a).

**Step Up Margin** means 2.50% per annum.

**Subordinated Indebtedness** means all indebtedness for money borrowed or raised which, in the event of Winding-Up of the issuer thereof, ranks or is expressed to rank, by its terms or by operation of law, in right of payment behind the claims of unsecured and unsubordinated creditors of such issuer, and for this purposes indebtedness shall include all liabilities, whether actual or contingent.

**Subsidiary** or **Subsidiaries** means, with respect to any Person, any corporation, association or other business entity, more than 50.0% of the voting power of the outstanding Voting Stock of which is owned or controlled, directly or indirectly, by such Person and one or more other Subsidiaries of such Person. To be **controlled** by another means that the other (whether, directly or indirectly, and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has a power to control the affairs and policies of that company and **control** shall be construed accordingly.

**Superseding Referenced Senior Notes** has the meaning specified in Condition 4.4.

**Taxes** has the meaning specified in Condition 7.1.

**Transfer Agent** has the meaning specified in the preamble to these Conditions.

**Treasury Rate** means the rate in percent per annum equal to the yield, under the heading that represents the average for the week immediately prior to the Reset Determination Date, appearing in the most recently published statistical release designated “H.15(519)” (currently set out on the website <https://www.federalreserve.gov/releases/h15/>) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded non-inflation indexed U.S. Treasury securities adjusted to constant maturity under the caption “Treasury constant maturities,” for the maturity corresponding to five years. If such release (or any successor release) is not published during the week preceding the Reset Determination Date or does not contain such yields, “Treasury Rate” shall be obtained from an internationally recognized investment bank selected by the Issuer and the Issuer shall notify the applicable Treasury Rate to the Calculation Agent and the Trustee.

**Trust Deed** has the meaning specified in the preamble to these Conditions.

**Trustee** has the meaning specified in the preamble to these Conditions.

**Voting Stock** means, with respect to any Person, share capital of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

**Winding-Up** means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership, insolvency or similar proceedings in respect of the Issuer.

## THE GLOBAL CERTIFICATE

*The Global Certificate contains provisions which apply to the Securities in respect of which the Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the Securities set out in this Offering Circular. Terms defined in the Terms and Conditions of the Securities have the same meaning in the paragraphs below. The following is a summary of certain of those provisions:*

### ACCOUNTHOLDERS

For so long as all of the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Securities (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Securities standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Securities (and the expression “**Securityholders**” and references to “**holding of Securities**” and to a “**holder of Securities**” shall be construed accordingly) for all purposes other than with respect to payments on such Securities, the right to which shall be vested, as against the Company and the Trustee, solely in the nominee for the relevant clearing system (the “**Relevant Nominee**”) in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

### CANCELLATION

Cancellation of any Security following its redemption or purchase by the Company or any of its subsidiaries will be effected by reduction in the aggregate principal amount of the Securities in the register of Securityholders and by the annotation of the appropriate schedule to the Global Certificate.

### PAYMENTS

Payments of principal and Distributions in respect of Securities represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Securities, against presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Each payment will be made to or to the order of the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means a day on which Euroclear and Clearstream, Luxembourg are both open for business.

Distributions of amounts with respect to book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system’s rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Registrar and shall be prima facie evidence that such payment has been made.

### NOTICES

So long as all the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Securityholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the Terms and Conditions of the Securities. For so long as the Securities are listed on the SGX-ST, notices shall also be published in the manner required by the rules and regulations of the SGX-ST.

## **REGISTRATION OF TITLE**

Registration of title to Securities in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Company that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each case a successor clearing system approved by the Trustee is not appointed by the Company within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances, title to a Security may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Terms and Conditions of the Securities, except that Definitive Certificates in respect of Securities so transferred may not be available until 21 days after the request for transfer is duly made.

## **TRANSFERS**

Transfers of book-entry interests in the Securities will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under “*Clearance and Settlement of the Securities.*”

## **RECORD DATE**

Distributions on Securities due on a Distribution Payment Date and Arrears of Distribution (and distributions accrued thereon) will be paid to the holder shown on the register of Securityholders at the close of business on the date being the 15th day before the relevant Distribution Payment Date.

## EXCHANGE RATES

The following table sets forth certain information concerning the exchange rate (based on the BSP's Reference Exchange Rate Bulletin) between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Pesos per US\$1.00. No representation is made that the Peso or U.S. dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars or Pesos, as the case may be, at any particular rate or at all.

Year	Philippine Peso/U.S. dollar exchange rate			
	Period end	Average <sup>(1)</sup>	High <sup>(2)</sup>	Low <sup>(3)</sup>
2016	49.81	47.49	49.98	45.92
2017	49.92	50.40	51.80	49.40
2018	52.72	52.66	54.35	49.77
2019	50.74	51.80	52.89	50.49
2020	48.04	49.62	51.32	48.03
2021				
January	48.12	48.06	48.12	48.02
February	48.64	48.20	48.70	47.95
March	48.47	48.57	48.68	48.44

*Notes:*

- (1) Average exchange rate quoted on BSP's Reference Exchange Rate Bulletin for the period
- (2) Highest daily exchange rate quoted on BSP's Reference Exchange Rate Bulletin for the period
- (3) Lowest daily exchange rate quoted on BSP's Reference Exchange Rate Bulletin for the period

On April 7, 2021, the BSP reference rate quoted on the BSP Reference Exchange Rate Bulletin was US\$1.00 = ₱48.574.

The following table sets forth certain information concerning the foreign exchange rate between the Ringgit Malaysia and the U.S. dollar for the periods and dates indicated, expressed in RM per US\$1.00:

Year	RM/U.S. dollar exchange rate			
	Period end	Average <sup>(1)</sup>	High <sup>(2)</sup>	Low <sup>(3)</sup>
2016	4.4845	4.1410	4.4845	3.8430
2017	4.0440	4.2980	4.4980	4.0440
2018	4.1300	4.0334	4.2000	3.8510
2019	4.0890	4.1409	4.2270	4.0530
2020	4.0200	4.1994	4.4410	4.0100
November	4.0730	4.1093	4.1720	4.0620
December	4.0200	4.0547	4.0880	4.0100
2021				
January	4.0440	4.0360	4.0720	3.9930
February	4.0520	4.0438	4.0740	4.0250
March	4.1450	4.1083	4.1570	4.0400

*Notes:*

- (1) Simple average daily closing exchange rates for the period.
- (2) Highest closing exchange rate for the period.
- (3) Lowest closing exchange rate for the period.

*Source: Bank Negara Malaysia, rate from the Interbank Foreign Exchange Market in Kuala Lumpur.*

## **USE OF PROCEEDS**

The net proceeds from the issue of the Securities, which will be approximately US\$[●] million (after the deduction of commissions and estimated offering expenses), will be applied by the Company for the repayment of indebtedness and for general corporate purposes.

## CAPITALIZATION OF THE COMPANY

The following table sets out, in accordance with PFRS, the Company's total capitalization<sup>(1)</sup> as of December 31, 2020 and as adjusted to give effect to the issue of the Securities. This table should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2020 and the notes thereto, included elsewhere in this Offering Circular.

	<u>As of December 31, 2020</u>		<u>As of December 31, 2020</u>	
	<u>Actual</u>	<u>Actual</u>	<u>As Adjusted</u>	<u>As Adjusted</u>
	<u>(in millions of ₱)</u>	<u>(in millions of US\$)<sup>(2)</sup></u>	<u>(in millions of ₱)</u>	<u>(in millions of US\$)<sup>(2)</sup></u>
Total long-term indebtedness . . . . .	119,454	2,487	119,454	2,487
Equity:				
Common stock . . . . .	9,375	195	9,375	195
Preferred stock <sup>(3)</sup> . . . . .	110	2	110	2
Additional paid-in capital . . . . .	37,500	781	37,500	781
Capital securities				
Issued and outstanding <sup>(4)</sup> . . . . .	36,481	759	36,481	759
To be issued . . . . .	–	–	[●]	[●]
Retained earnings . . . . .	29,799	620	29,799	620
Reserve for retirement plan . . . . .	(5,148)	(107)	(5,148)	(107)
Other reserves <sup>(5)</sup> . . . . .	(13,223)	(275)	(13,223)	(275)
Treasury shares . . . . .	(15,122)	(315)	(15,122)	(315)
Total Equity Attributable to Equity Holders of the Parent Company <sup>(6)</sup> . . . . .	79,772	1,660	[●]	[●]
Non-controlling interest . . . . .	6,423	134	6,423	134
Total Equity . . . . .	86,195	1,794	[●]	[●]
Total Capitalization . . . . .	<u>205,649</u>	<u>4,281</u>	<u>[●]</u>	<u>[●]</u>

- (1) Total capitalization constitutes long-term indebtedness (net of current portion of long-term debt) and equity.
- (2) For the reader's convenience, all translations from Philippine Pesos to U.S. dollars have been made at a rate of ₱48.036 = US\$1.00, being the rate quoted on the BSP Reference Exchange Rate Bulletin for the purchase of U.S. dollars with Philippine Pesos on December 29, 2020.
- (3) Preferred stock represents the 10,000,000 cumulative, non-voting, non-participating and non-convertible perpetual series 2 preferred shares on November 3, 2014 at an issue price of ₱1,000.00 (the "Series 2 Preferred Shares"). The Company may, at its option, redeem the series 2 preferred shares sub-series A ("Series 2A Preferred Shares") on the fifth anniversary of the issue date or on any dividend payment date thereafter in whole but not in part at a prescribed redemption price, and the sub-series B ("Series 2B Preferred Shares") on the seventh anniversary of the issue date or on any dividend payment date thereafter in whole but not in part at a prescribed redemption price. On June 25, 2019, the Parent Company issued and listed on the PSE 20,000,000 Series 3 Preferred Shares at an issue price of ₱1,000.00 per share (the "Series 3 Preferred Shares"). The Series 3 Preferred Shares were issued in two sub-series: (i) 13,403,000 Series 3A Preferred Shares with first optional redemption date on the 5.5th anniversary from the issuance date; and (ii) 6,597,000 Series 3B Preferred Shares with first optional redemption date on the 7th anniversary from the issuance date. On November 4, 2019, the Parent Company redeemed the 7,122,320 Series 2A Preferred Shares at a redemption price of ₱1,000.00 per share.
- (4) Includes the Company's US\$500,000,000 senior perpetual capital securities issued in January 2018 and a cumulative total of US\$236,000,000 redeemable perpetual securities issued in November 2019, June 2020, and August 2020.
- (5) Other reserves pertain to losses on redemption of USCS, exchange differences on translation of foreign operation, changes in fair value of investment in debt instruments, net loss on cash flow hedges and others.
- (6) Under the Company's financial statements, the "Parent Company" refers to Petron Corporation.

Other than as described above, there has been no material change in the capitalization of the Company since December 31, 2020.

## SELECTED FINANCIAL INFORMATION

The following tables present summary consolidated financial information for the Company and should be read in conjunction with the auditors' reports and with the Company's consolidated financial statements and notes thereto and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Offering Circular. The summary financial information presented below as of December 31, 2019 and 2020 and for the years ended December 31, 2018, 2019 and 2020 have been derived from the audited consolidated financial statements, including the notes thereto, included elsewhere in this Offering Circular, audited by R.G. Manabat & Co., a member firm of KPMG. The Company's financial information included in this Offering Circular has been prepared in accordance with PFRS. The information below is not necessarily indicative of the results of future operations. Each of the Joint Lead Managers and any of their respective affiliates, directors, officers and advisers disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of any financial information of the Company.

### SELECTED CONSOLIDATED STATEMENT OF INCOME

	(Audited)			
	For the years ended December 31,			
	2018	2019	2020	2020
	(in millions of ₱)		(in millions of US\$)	
Sales . . . . .	557,386	514,362	286,033	5,954
Cost of goods sold . . . . .	522,824	483,855	277,320	5,773
Gross profit . . . . .	34,562	30,507	8,713	181
Selling and administrative expenses . . . . .	(16,981)	(15,815)	(14,389)	(300)
Other Operating Income . . . . .	1,340	1,507	1,047	22
Interest expense and other financing charges . . . . .	(9,689)	(13,490)	(11,313)	(235)
Interest income . . . . .	706	1,340	780	16
Other income (expenses) – net . . . . .	517	(312)	(1,049)	(22)
	(24,107)	(26,770)	(24,924)	(519)
Income (loss) before income tax . . . . .	10,455	3,737	(16,211)	(338)
Income tax expense (benefit) . . . . .	3,386	1,434	(4,798)	(100)
Net income (loss) . . . . .	7,069	2,303	(11,413) <sup>(1)</sup>	(238)
<b>Attributable to:</b>				
Equity holders of the Parent Company . . . . .	6,218	1,701	(11,380)	(237)
Non-controlling interests . . . . .	851	602	(33)	(1)
Basic/Diluted Earnings (Loss) per Common Share attributable to equity holders of the Parent Company . . . . .	₱0.28	₱(0.17)	₱(1.58)	US\$(0.03)

(1) In the first half of 2020, net loss was ₱14,236 million, and in the second half of 2020, net income was ₱2,823 million.

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	(Audited)		
	As of December 31,		
	2019	2020	2020
	(in millions of ₱)		(in millions of US\$)
<b>Current assets:</b>			
Cash and cash equivalents . . . . .	34,218	27,053	563
Financial assets at fair value . . . . .	864	603	13
Investments in debt instruments . . . . .	109	184	4
Trade and other receivables – net . . . . .	44,657	27,195	566
Inventories . . . . .	72,210	44,922	935
Other current assets . . . . .	27,430	32,337	673
<b>Total current assets</b> . . . . .	<u>179,488</u>	<u>132,294</u>	<u>2,754</u>
<b>Non-current assets:</b>			
Investments in debt instruments . . . . .	311	197	4
Property, plant and equipment – net . . . . .	168,267	168,831	3,515
Right-of-use assets – net . . . . .	5,509	6,045	126
Investment property – net . . . . .	29,935	30,049	625
Deferred tax assets – net . . . . .	262	2,190	46
Goodwill – net . . . . .	8,319	8,031	167
Other non-current assets – net . . . . .	2,744	2,088	43
<b>Total non-current assets</b> . . . . .	<u>215,347</u>	<u>217,431</u>	<u>4,526</u>
<b>Total assets</b> . . . . .	<u>394,835</u>	<u>349,725</u>	<u>7,280</u>
<b>Current liabilities:</b>			
Short-term loans . . . . .	71,090	77,704	1,617
Liabilities for crude oil and petroleum products . . . . .	39,362	22,320	465
Trade and other payables . . . . .	28,741	15,402	321
Lease liabilities – current portion . . . . .	1,295	1,243	26
Derivative liabilities . . . . .	738	1,124	23
Income tax payable . . . . .	267	162	3
Current portion of long-term debt – net . . . . .	16,881	31,114	648
<b>Total current liabilities</b> . . . . .	<u>158,374</u>	<u>149,069</u>	<u>3,103</u>
<b>Non-current liabilities</b>			
Long-term debt – net of current portion . . . . .	116,196	88,340	1,839
Retirement benefits liability – net . . . . .	3,565	3,705	77
Deferred tax liabilities – net . . . . .	6,348	3,084	64
Lease liabilities – net of current portion . . . . .	14,454	14,561	303
Asset retirement obligation . . . . .	1,720	2,867	60
Other non-current liabilities . . . . .	1,748	1,904	40
<b>Total non-current liabilities</b> . . . . .	<u>144,031</u>	<u>114,461</u>	<u>2,383</u>
<b>Total liabilities</b> . . . . .	<u>302,405</u>	<u>263,530</u>	<u>5,486</u>
<b>Equity Attributable to Equity Holders of the Parent Company*</b>			
Capital stock . . . . .	9,485	9,485	197
Additional paid-in capital . . . . .	37,500	37,500	781
Capital securities . . . . .	25,183	36,481	759
Retained earnings . . . . .	45,510	29,799	620
Equity reserves . . . . .	(16,899)	(18,371)	(382)
Treasury stock . . . . .	(15,122)	(15,122)	(315)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b> . . . . .	<u>85,657</u>	<u>79,772</u>	<u>1,660</u>
Non-controlling interests . . . . .	6,773	6,423	134
<b>Total equity</b> . . . . .	<u>92,430</u>	<u>86,195</u>	<u>1,794</u>
<b>Total liabilities and equity</b> . . . . .	<u>394,835</u>	<u>349,725</u>	<u>7,280</u>

\* Under the Company's financial statements, the "Parent Company" refers to Petron Corporation.

## SELECTED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Audited)			
	For the years ended December 31,			
	2018	2019	2020	2020
	(in millions of ₱)			(in millions of US\$)
Net cash flows provided by operating activities . . . . .	5,047	25,362	2,533	53
Net cash flows used in investing activities . . . . .	(11,141)	(20,467)	(8,437)	(176)
Net cash flows provided by financing activities . . . . .	5,949	13,116	318	7
Effect of exchange rate changes on cash and cash equivalents . . . . .	536	(1,198)	(1,579)	(33)
Net increase (decrease) in cash and cash equivalents . . . . .	391	16,813	(7,165)	(149)
Cash and cash equivalents at beginning of year . . . . .	17,014	17,405	34,218	712
Cash and cash equivalents at end of year . . . . .	<u>17,405</u>	<u>34,218</u>	<u>27,053</u>	<u>563</u>

## OTHER FINANCIAL AND OPERATING DATA

	For the years ended December 31,			
	2018	2019	2020	2020
	(in millions of ₱ except sales volume and ratios)			(in millions of US\$)
Sales volume ('000 barrels per day) . . . . .	297	293	215	N/A
Net debt <sup>(1)</sup> . . . . .	183,592	169,949	170,105	3,541
Ratio of total debt to equity . . . . .	2.33	2.21	2.29	N/A
EBITDA <sup>(2)</sup> . . . . .	36,009	30,533	17,248 <sup>(5)</sup>	359
Capital expenditures <sup>(3)</sup> . . . . .	10,416	19,808	8,480	177
Total debt <sup>(4)</sup> . . . . .	200,997	204,167	197,158	4,104

(1) Net debt represents the sum of short-term loans, current portion of long-term debts – net and long-term debts – net of current portion, less cash and cash equivalents.

(2) The Company defines EBITDA as income from operations plus depreciation & amortization plus/minus inventory loss/gain and realized commodity hedging loss/gain for a 12-month period. Income from operations is computed as gross profit less selling and administrative expenses plus other operating income.

The table below provides a computation for EBITDA.

	For the years ended December 31,			
	2018	2019	2020	2020
	(in millions of ₱)		(in millions of US\$)	
Gross profit . . . . .	34,562	30,507	8,713	181
<b>Deduct:</b>				
Selling and administrative expenses (net of other operating income). . . . .	15,641	14,308	13,342	278
Net operating income (loss). . . . .	18,921	16,199	(4,629) <sup>(6)</sup>	(97)
<b>Add/deduct:</b>				
Depreciation and amortization . . . . .	11,543	13,245	9,490 <sup>(7)</sup>	198
Inventory Gain/Loss and Realized Commodity Hedging Gain/Loss – net . . . . .	5,545	1,089	12,387	258
<b>EBITDA . . . . .</b>	<b>36,009</b>	<b>30,533</b>	<b>17,248</b>	<b>359</b>

- (3) Capital expenditures represent the sum of additions to property, plant and equipment for the period.
- (4) Total debt consists of the sum of short-term loans, current portion of long-term debts-net and long-term debts-net of current portion.
- (5) In the first half of 2020, EBITDA was ₱7,921 million, and in the second half of 2020, EBITDA was ₱9,327 million.
- (6) In the first half of 2020, net operating loss was ₱14,543 million, and in the second half of 2020, net operating income was ₱9,914 million.
- (7) In the first half of 2020, depreciation and amortization was ₱4,851 million, and in the second half of 2020, depreciation and amortization was ₱4,639 million.

## MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Prospective investors should read the following discussion and analysis of the Company’s financial condition and results of operations together with the audited consolidated financial statements of the Company and the notes thereto, included elsewhere in this Offering Circular.*

### OVERVIEW

Petron Corporation (“**Petron**” or the “**Company**”) operates the only integrated oil refinery in the Philippines and is a leading oil marketing company. The Company had an overall market share of approximately 24.0%\* of the Philippine oil market in the first half of 2020 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the Philippine Department of Energy (“**DOE**”). Petron is also a leading player in the Malaysian market. The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil’s downstream oil business in Malaysia. For the year ended December 31, 2020, the Company ranked third in the Malaysian retail market with more than 21% market share, based on Company estimates using its internal assumptions and calculations and industry data from a third-party market research consultant appointed by Malaysian retail market participants to compile industry data. Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia with a combined refining capacity of 268,000 barrels per day (“**bpd**”).

The Company’s Freeport Area of Bataan (“**FAB**”)-registered Petron Bataan Refinery in Limay, Bataan in the Philippines, a full conversion refinery with a crude oil distillation capacity of 180,000 bpd, processes crude oil into a range of white petroleum products such as naphtha, gasoline, diesel, LPG, jet fuel, kerosene, and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene.

From the Petron Bataan Refinery, the Company moves its products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 13 terminals in Luzon, seven in Visayas and eight in Mindanao, as well as four airport installations in Luzon, five in Visayas and three in Mindanao. Through this nationwide network, the Company supplies its various petroleum products such as gasoline, diesel, and LPG to its customers as well as jet fuel to international and domestic carriers.

Through its network of approximately 2,435 retail service stations in the Philippines as of December 31, 2020, the Company sells gasoline, diesel, and kerosene to motorists and to the public transport sector. Approximately 34% of the Company’s service stations are Company-owned-dealer-operated (“**CODO**”) while the remaining 66% are dealer-owned-dealer-operated (“**DODO**”). As of December 31, 2020, the Company’s LPG distribution network includes about 1,117 branch stores as well as 44 car care centers. Petron also sells its LPG brands “*Gasul*” and “*Fiesta Gas*” to households and other consumers through its extensive dealership network.

In Malaysia, the Company owns and operates the Port Dickson Refinery located in the state of Negeri Sembilan, which has a crude oil distillation capacity of 88,000 bpd, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and low-sulfur waxy residue (“**LSWR**”). As of December 31, 2020, the Company had 10 product terminals, a Palm Oil Methyl Ester (“**PME**”) production facility and a network of more than 720 retail service stations in Malaysia, of which about 60% are CODO and 40% are DODO.

While the Company’s products are primarily sold to customers in the Philippines and Malaysia, the Company also exports various petroleum products and petrochemical feedstock, including LSWR, gasoline, diesel, LPG, molten sulfur, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region such as South Korea, Taiwan, China, Vietnam, Singapore, Hong Kong, Thailand and Indonesia. The Company’s revenues from these export sales amounted to ₱15.5 billion, or 5% of total sales for the year ended December 31, 2020.

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\* Market share is derived from Company estimates based on Company information and data from the Philippine Department of Energy for the first half of 2020. Company estimates exclude all direct imports of end users.

For the years ended December 31, 2018, 2019 and 2020, the Company's sales were ₱557,386 million, ₱514,362 million and ₱286,033 million (US\$5,954.6 million), respectively, and net income was ₱7,069 million, ₱2,303 million and net loss of ₱11,413 million (US\$237.6 million), respectively.

Petron is a subsidiary of San Miguel Corporation ("SMC"), one of the largest and most diversified conglomerates in the Philippines, which has market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure and property, and investments in car distributorship and banking services. The Company's common shares are listed on the Philippine Stock Exchange under the symbol "PCOR" and the common shares of its subsidiary, Petron Malaysia Refining & Marketing BHD are listed on the Bursa Malaysia under the symbol "PETRONM."

## **FACTORS AFFECTING RESULTS OF OPERATIONS**

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

### **Crude Oil Prices**

Crude oil generally accounts for a large portion of the Company's total cost of goods sold. In the year ended December 31, 2020, crude oil accounted for approximately 35% of the Company's total cost of goods sold. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price, as adjusted to account for differences in product specifications and transportation and distribution costs. Therefore, the prices of the Company's principal products are highly dependent on international crude oil prices.

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

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

### **Governmental Regulation of Fuel Prices**

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the APM, pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. Effective March 30, 2017, the government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of RON 95 and RON 97 petroleum and diesel on a weekly basis based on MOPS. See "*Regulatory and Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products – Price Control and Anti Profiteering Act, 2011.*" The Malaysian government may subsidize fuel prices in selected sectors so that increases in international crude oil and petroleum product

prices are not borne fully by Malaysian consumers. In such instances, the Company's working capital requirements depends to a certain degree on the Malaysian government's prompt payment of these fuel subsidies. The Malaysian government has publicly stated in the past that the country's fuel prices will eventually be deregulated and set on a free market basis, as the current subsidy system is unsustainable. However, no firm timeline has been provided for this deregulation. There can be no assurance that the Malaysian government will not decide to decrease or eliminate its subsidies or narrow their scope in the future without a corresponding commensurate increase in or elimination of the price ceiling. A substantial portion of the Company's revenue is derived from sales of refined petroleum products in Malaysia that are subject to price controls. Accordingly, if international crude oil prices are high and the Malaysian government decreases or eliminates the refined petroleum product subsidies without increasing or eliminating the mandated refined petroleum product price ceilings, the Company's financial condition and results of operations would be materially and adversely affected.

With respect to the Philippines, the Philippine government passed Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998, to liberalize and deregulate the downstream oil industry in order to ensure a truly competitive market. See "*Regulatory and Environmental Matters – Philippines – Downstream Oil Industry Deregulation Law.*" However, the Philippine government has historically intervened from time to time to restrict increases in the prices of petroleum products. There can be no assurance that the Philippine government will not invoke price control measures or reinstate price regulation in the future, which may adversely affect the Company's results of operations.

### **Competition**

Despite the regulated retail market, the Company faces intense competition from a number of multinational and local competitors in the sale of petroleum and other related products in the markets in which it operates. In the oil industry, competitive factors generally include price, product quality, customer service, operational efficiency and distribution network. The Company's sales and results of operations will be affected by its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, maximize utilization of its assets and operations and comply with and obtain additional quotas from the Malaysian government.

### **Foreign Exchange Rates**

Substantial portions of the Company's revenues are denominated in either Philippine Pesos or Ringgit Malaysia, while a substantial portion of its expenses, including crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. In 2020, approximately 55% of the Company's revenues were denominated in Philippine Pesos, approximately 33% of its revenues were denominated in Ringgit Malaysia, while approximately 53% of its cost of goods sold were denominated in U.S. dollars. In addition, as of December 31, 2020, approximately 27% of the Company's outstanding debt was denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore, depreciation of the Peso relative to the U.S. dollar would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar-denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable.

From January 1, 2018 to December 31, 2020, the value of the Peso against the U.S. dollar fluctuated from a low of ₱48.03 to a high of ₱54.35. In the same period, the value of the Ringgit Malaysia against the U.S. dollar fluctuated from a low of RM3.8645 per U.S. dollar to a high of RM4.4480 per U.S. dollar. See "*Exchange Rates.*" Although the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition.

## Regulatory Environment

The Company's operations are subject to various taxes, duties and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years. For example, import duties for crude oil and petroleum products were increased on January 1, 2005 from 3% to 5%, and these duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). Furthermore, the Philippine government imposed an additional 12% VAT on the sale or importation of petroleum products in 2006. In 2012, in an effort to eradicate the problem of smuggling and illegal trading of petroleum products, the Philippine government issued a regulation stating that VAT and excise taxes due on imported petroleum products, including from entities in the free port and economic zones, must be paid by the importer through the Bureau of Customs which was eventually declared unconstitutional by the Philippine Supreme Court in 2016. On January 1, 2018, Republic Act No. 10963, also known as the Tax Reform for Acceleration and Inclusion Law, took effect (the "**TRAIN Law**"). The TRAIN Law imposed a phased increase in excise taxes on petroleum products from 2018 to 2020. The schedule of increase for this three (3)-year period was ~~₱2.65-₱2-₱1~~ per liter ("li") per year for premium unleaded gasoline, ~~₱2.50-₱2-₱1.50~~/li per year for diesel and fuel oil, ~~₱1-₱1-₱1~~/kg per year for LPG, and ~~₱0.33-₱0-₱0~~/li per year for jet fuel. The incremental excise tax is further subject to 12% VAT. Higher excise taxes can potentially constrain demand growth, especially for LPG given there are substitutes such as charcoal, kerosene and electric, and gasoline with public transportation as alternative means of transportation. The TRAIN Law also mandates the implementation of a fuel marking program for diesel, gasoline and kerosene to help curb illicit trading of fuel products. The cost for the fuel marker was subsidized by the government in the initial year of implementation and eventually passed on to oil companies effective September 2020.

On June 1, 2018, the Malaysian government withdrew the Goods and Services Tax (GST). The GST was replaced with a Sales and Services Tax (SST) on September 1, 2018.

On December 28, 2020, the Authority of the Freeport Area of Bataan ("**AFAB**") and the Company entered into a Registration Agreement pursuant to which the Company's Petron Bataan Refinery complex was approved as a FAB-registered enterprise. The Company believes that the AFAB registration would result in a more level playing field among fuel and oil marketing and distribution companies. The Company's competitiveness has suffered vis-à-vis other players in the market which are not refiners because value-added tax ("**VAT**") is imposed on the Company's importation of crude oil while non-refiners pay VAT and excise tax upon importation of finished products and those located in special economic zones pay VAT and excise tax upon withdrawal of finished products. There are generally 60 days between importation of crude and lifting of the finished products produced therefrom at the Petron Bataan Refinery, and another 15 days to sell at retail, so the Company is unable to pass on the VAT for a longer time compared to its non-refining competitors. Also, not all of the crude imported by the Company, for which VAT is imposed and paid, is refined into finished petroleum products and sold to consumers, again resulting to higher input VAT absorbed by the Company and adding to the disparity versus its non-refining competitors. As a FAB-registered enterprise, the Company will be entitled to: (i) tax- and duty-free importation of merchandise which include raw materials, capital equipment machineries and spare parts; (ii) exemption from export wharfage dues, export taxes, imposts, and fees; and (iii) VAT zero-rating of local purchases, subject to compliance with BIR and Bureau of Customs requirements.

There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on the Company's financial condition and results of operations.

In addition, the Company is subject to a number of national and local laws and regulations, including safety, health, environmental and zoning laws and regulations. Compliance with, and changes in, laws and regulations, including interpretations thereto, could result in substantial compliance costs and have other significant effects on the Company's business and operations. For example, in 2020, the Company spent approximately ₱28.42 million and RM1.8 million for treatment of wastes, monitoring and compliance, permits and personnel training at the Petron Bataan Refinery and Port Dickson Refinery, respectively. In addition, the Company spent RM174 million in 2020 on the ongoing construction of a diesel hydrotreater process unit to comply with Malaysian government legislation on the Euro 5 ADO specification.

## **Economic and Political Conditions in the Philippines and Malaysia**

The Company derives substantially all of its revenues and operating profits from sales of its products in the Philippines and Malaysia. As a result, the Company's business, financial condition, results of operations and prospects are substantially influenced by the economic and political conditions in those countries. Although the Philippine and Malaysian economies have both experienced stable growth in recent years, both economies have in the past experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso or the Ringgit Malaysia, as applicable, and the imposition of exchange controls. Sales of the Company's products are directly related to the strength of the Philippine and Malaysian economies (including overall growth levels and interest rates) and tend to decline during economic downturns. Any downturn in the Philippine or Malaysian economies may negatively affect consumer sentiment and general business conditions in the Philippines or Malaysia, as applicable, which may lead to a reduction in demand for the Company's products.

## **Capital Expenditure Projects and Financing**

The Company's business is capital intensive. Specifically, the processing and refining of crude oil and the purchase, construction and maintenance of machinery and equipment require substantial capital expenditures. The Company has upgraded the Petron Bataan Refinery and expanded its retail service station network in the Philippines over the past several years and intends to continue to increase investments in these areas to optimize operational efficiency, reduce costs and widen market reach. The Company will also continue to invest in its Malaysian operations to support retail expansion and improve operational efficiency. Specifically, the Company intends to: (i) continue investments in the Petron Bataan Refinery facilities to (a) ensure reliability and efficiency of critical refinery processes, and (b) reduce costs with the construction of a new power plant which would replace some of its old generators and generate incremental power and steam; (ii) continue to build service stations in high-growth or high-volume sites and expand its retail network for its LPG and lubes segment; (iii) expand and upgrade its logistics capacity; and (iv) expand Malaysia operations with new service stations and facilities improvements to the Port Dickson Refinery, in compliance with applicable regulations.

See "*Business – Liquidity and Capital Resources – Capital Expenditures*" for more information about the Company's capital expenditure plans. If the Company fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity, it may be unable to increase its sales and profits or to capture additional market share as planned, and its business, results of operations and financial condition could be adversely affected.

In addition, the Company has incurred a substantial amount of indebtedness to finance its capital expenditure projects, a significant portion of which is due in five years or less. As of December 31, 2020, the Company had outstanding long-term debt (net of current portion of long-term debt) of ₱88,340 million. The Company's ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. Failure by the Company to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition and results of operations.

## SELECTED CONSOLIDATED FINANCIAL DATA

The table below sets out selected results of operations from the Company's consolidated financial statements for the periods indicated:

	(Audited)					
	For the years ended December 31,					
	2018	% of Sales	2019	% of Sales	2020	% of Sales
	(in millions of ₱ except %)					
Sales . . . . .	557,386	100.0	514,362	100.0	286,033	100.0
Cost of goods sold . . . . .	522,824	93.8	483,855	94.1	277,320	97.0
Gross profit (loss) . . . . .	34,562	6.2	30,507	5.9	8,713	3.0
Selling and administrative expenses . .	(16,981)	3.0	(15,815)	3.1	(14,389)	5.0
Other operating income . . . . .	1,340	0.2	1,507	0.3	1,047	0.4
Interest expense and other financing charges . . . . .	(9,689)	1.7	(13,490)	2.6	(11,313)	4.0
Interest income . . . . .	706	0.1	1,340	0.3	780	0.3
Other income (expenses) – net . . . . .	517	0.1	(312)	0.1	(1,049)	0.4
Income (loss) before income tax . . . .	10,455	1.9	3,737	0.7	(16,211)	5.7
Income tax expense (benefit) . . . . .	3,386	0.6	1,434	0.3	(4,798)	1.7
Net income (loss) . . . . .	7,069	1.3	2,303	0.4	(11,413)	4.0

## DESCRIPTION OF REVENUE AND COST ITEMS

### Sales

The Company generates its sales primarily from the domestic and international sales of petroleum and other related products and the operation of service stations and retail outlets. The Company also receives income from the collections of insurance premiums from its operation of insurance and reinsurance, and leasing of acquired real estate properties for petroleum, refining, storage and distribution facilities.

The Company derives the majority of its sales from the Philippines. The following table sets forth the Company's sales by geographic region for the periods indicated:

	For the years ended December 31,			
	2018	2019	2020	2020
	(in millions of ₱ except %)			(in millions of US\$)
Philippines . . . . .	313,742	301,445	166,820	3,473
Export/International . . . . .	243,644	212,917	119,213	2,482

### Cost of Goods Sold

Cost of goods sold consists of:

- inventory costs, which are accounted for under the first-in first-out method, and include the cost of crude oil and other products that the Company uses in the production of its products, including LPG, gasoline, diesel, jet fuel, kerosene, fuel oil, mixed xylene, propylene, benzene and toluene, and related inventory impairment charges;
- costs of distributing and transporting products;
- refinery operating expenses, which include repair and maintenance costs, purchased services and utilities, rent, taxes, insurance, depreciation costs relating to the Company's refinery facilities and employee costs for employees involved in the production process;

- costs of imported finished petroleum products; and
- other cost of sales, including specific taxes and wharfage.

### **Selling and Administrative Expenses**

Selling and administrative expenses consist of:

- employee costs, which include salary and wages, employee benefits and retirement costs for employees except those involved in production;
- costs for purchased services and utilities, which include professional fees, manpower services and communication expenses;
- depreciation and amortization costs that relate to the depreciation of service stations and depot facilities;
- advertising and promotion expenses, which include the cost of media advertisements, event sponsorships, billboards and other marketing and promotional activities; and
- impairment losses on trade and other receivables.

Selling and administrative expenses also consist of repairs and maintenance expenses for the Company's service stations and terminal facilities, information technology systems and other office equipment, rental expenses, materials and office supplies, taxes and licenses and research and development costs.

### **Other Operating 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.

### **Interest Expense and Other Financing Charges**

Interest expense and other financing charges primarily include interest on short-term loans and long-term debt and other bank charges. Interest income primarily includes interest income from money market placements, government securities and trade receivables.

### **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.

### **Other Income (Expense) – Net**

Other income (expense) – net primarily includes foreign currency gains (net of foreign currency losses), commodity hedging gains (net of commodity hedging losses), marked-to-market gains (net of marked-to-market losses), changes in fair value of financial assets, insurance claims and gains/losses on sale or retirement of assets.

### **Income Tax Expense (Benefit)**

Income tax expense primarily consists of income taxes payable by the Company and its operating subsidiaries in the jurisdictions in which they conduct their operations.

### **Segment Data**

The Company's management identifies reporting segments based on business and geographical locations. The major sources of revenues are recognized from the following business segments: (i) sales of petroleum and other related products; (ii) insurance; (iii) lease of acquired real estate properties and other related structures; and (iv) sales on wholesale or retail and operation of service stations, retail outlets, restaurants

and convenience stores; (v) export sales of various petroleum and non-fuel products to other countries; (vi) sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products; (vii) provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and machinery and equipment necessary or appropriate for the customers' needs.

For a further description of the Company's segment results, including revenue and income information and certain asset and liability information, see note 37 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2020, included elsewhere in this Offering Circular.

## SIGNIFICANT ACCOUNTING POLICIES

The preparation of the Company's consolidated financial statements in accordance with PFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in the Company's consolidated financial statements and the related notes. Actual results may differ from those estimates and assumptions. For a description of the Company's significant accounting policies, see note 3 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2020 included elsewhere in this Offering Circular.

The Company uses the first-in, first-out method of inventory valuation in costing petroleum products (except lubes and greases and solvents), crude oil and other products in its financial statements as this method more likely approximates the physical movement of cost and inventories in the Company's operations. In respect of lubes and greases, solvents, polypropylene materials and supplies inventories, cost is determined using the moving-average method. Given the volatile nature of the oil industry, however, cost of all inventories is determined using the moving-average method for income tax reporting purposes to mitigate the potential volatility of the Company's taxable income and tax payments.

The Company uses the straight-line method of depreciating its property, plant and equipment other than those assets used in production such as refinery and plant equipment, and for investment property as the utilization of assets remains relatively constant over the economic useful life of such assets. Effective January 1, 2020, depreciation of refinery and plant equipment used in production is computed based on the unit of production method (UPM) which considers the expected capacity over the estimated useful lives of these assets since it closely reflects the expected pattern of consumption of the future economic benefits embodied in these assets. For income tax purposes, depreciation and amortization are computed using the double declining balance method permitted under Philippine tax laws.

## RESULTS OF OPERATIONS

### Year ended December 31, 2020 compared to the year ended December 31, 2019

	(Audited)			
	For the years ended December 31,			
	2019	2020	2020	% Change
	(in millions of ₱)		(US\$ in millions)	
Sales . . . . .	514,362	286,033	5,954	(44)
Cost of goods sold . . . . .	483,855	277,320	5,773	(43)
Gross profit (loss) . . . . .	30,507	8,713	181	(71)
Selling and administrative expenses . . . . .	(15,815)	(14,389)	(300)	9
Other operating income . . . . .	1,507	1,047	22	(31)
Interest expense and other financing charges . . . . .	(13,490)	(11,313)	(235)	16
Interest income . . . . .	1,340	780	16	(42)
Other income (expenses) – net . . . . .	(312)	(1,049)	(22)	(236)
Income (loss) before income tax . . . . .	3,737	(16,211)	(338)	(534)
Income tax expense (benefit) . . . . .	1,434	(4,798)	(100)	(435)
Net income (loss) . . . . .	2,303	(11,413)	(238)	(596)

## **Sales**

Sales decreased by 44% to ₱286,033 million in 2020 (US\$5,955 million) from ₱514,362 million in 2019. The 27% decrease in sales volume from 107.0 million barrels in 2019 to 78.6 million barrels in 2020 was primarily due to the impact of the COVID-19 pandemic, which resulted in reduced economic activities and travel restrictions following worldwide lockdowns. The benchmark Dubai crude averaged US\$42.2/barrel in 2020, 34% lower than full year 2019 average of US\$63.5/barrel. Drop in prices was further affected by the ₱2.18 average appreciation of the Peso vis-a-vis the U.S. dollar.

## **Cost of Goods Sold**

Cost of goods sold decreased by 43% to ₱277,320 million in 2020 (US\$5,773 million) from ₱483,855 million in 2019. This decrease was primarily the result of decrease in sales volume and average cost per liter, partly offset by higher excise taxes.

## **Gross Profit**

As a result of the foregoing, gross profit decreased 71% to ₱8,713 million in 2020 (US\$181 million) from ₱30,507 million in 2019. Gross profit margin decreased from 5.93% to 3.05%.

## **Selling and Administrative Expenses**

Selling and administrative expenses decreased by 9% to ₱14,389 million in 2020 (US\$300 million) from ₱15,815 million in 2019, primarily due to continuous efforts to manage and reduce costs, particularly outsourced services, advertising and promotional expenses, service station and depot maintenance and repairs and employee costs, however, partly offset by reduced rent income.

## **Interest Expense and Other Financing Charges**

Interest expense and other financing charges decreased by 16% to ₱11,313 million in 2020 (US\$236 million) from ₱13,490 million in 2019. The decrease was primarily due to lower average borrowing rates despite increase in borrowing level.

## **Interest Income**

Interest income decreased by 42% to ₱780 million in 2020 (US\$16 million) from ₱1,340 million in 2019, primarily due to lower average interest rates (1.78% in 2020 vs. 4.25% in 2019).

## **Other income (expenses) – net**

Other expenses – net was ₱1,049 million in 2020 compared to ₱312 million in 2019 due to higher unrealized commodity hedging losses.

## **Income Tax Expense**

Tax benefit of ₱4,798 million in 2020 (US\$238 million) owing to the loss before tax position, in contrast to ₱1,434 million tax expense in 2019.

## **Net Income**

As a result of the foregoing, the Company incurred a net loss of ₱11,413 million in 2020 (US\$238 million) from ₱2,303 million net income in 2019.

**Year ended December 31, 2019 compared to year ended December 31, 2018**

	(Audited)		
	For the years ended December 31,		
	2018	2019	% Change
	(in millions of ₱)		
Sales . . . . .	557,386	514,362	(8)
Cost of goods sold . . . . .	522,824	483,855	(7)
Gross profit (loss) . . . . .	34,562	30,507	(12)
Selling and administrative expenses . . . . .	(16,981)	(15,815)	7
Other operating income . . . . .	1,340	1,507	12
Interest expense and other financing charges . . . . .	(9,689)	(13,490)	39
Interest income . . . . .	706	1,340	90
Other income (expenses) – net . . . . .	517	(312)	(160)
Income (loss) before income tax . . . . .	10,455	3,737	(64)
Income tax expense (benefit) . . . . .	3,386	1,434	(58)
Net income (loss) . . . . .	<u>7,069</u>	<u>2,303</u>	<u>(67)</u>

**Sales**

Sales decreased by 8% to ₱514,362 million in 2019 (US\$10,708 million) from ₱557,386 million in 2018. The decrease was primarily a result of lower average selling price and slight decline in volume by 1% to 106.96 million barrels in 2019 from 108.50 million barrels in 2018. During the year, reference crude Dubai averaged US\$63.5/bbl compared to US\$69.4/bbl in 2018. This was further reduced by the impact of ₱0.88 average appreciation of the Philippine peso against the U.S. dollar, partly offset by the increase in excise tax per liter.

**Cost of Goods Sold**

Cost of goods sold decreased by 7% to ₱483,855 million in 2019 (US\$10,073 million) from ₱522,824 million in 2018 due to the combined effect of lower cost per liter and sales volume.

**Gross Profit**

As a result of the foregoing, gross profit decreased by 12% to ₱30,507 million in 2019 (US\$635 million) from ₱34,562 million in 2018.

**Selling and Administrative Expenses**

Selling and administrative expenses decreased by 7% to ₱15,815 million in 2019 (US\$329 million) from ₱16,981 million in 2018, primarily due to lower advertising expenses, employee costs, donation and provision for bad debts as well as reduced LPG cylinder purchases, partly offset by higher terminal operation expenses.

**Interest Expense and Other Financing Charges**

Interest expense and other financing charges increased from increased by 39% to ₱13,490 million in 2019 (US\$281 million) from ₱9,689 million in 2018.

**Interest Income**

Interest income increased by 90% to ₱1,340 million in 2019 (US\$28 million) from ₱706 million in 2018 mainly due to higher average placement and rate.

**Other Income (Expense) – Net**

Other expense – net was ₱312 million in 2019, compared with other income – net of ₱517 million in 2018 due to the recognition of unrealized commodity hedging loss versus gain in 2018.

## Income Tax Expense

Income tax expense decreased significantly to ₱1,434 million in 2019 compared with ₱3,386 million in 2018 primarily on account of lower pre-tax income,

## Net Income

As a result of the foregoing, net income dropped from ₱7,069 million in 2018 to ₱2,303 million in 2019.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds have historically been net cash flows from operating activities and debt and equity financing. The Company's principal use of funds has historically been to fund its working capital and capital expenditure requirements. The Company expects to meet its working capital, capital expenditure, dividend payment and investment requirements for the remainder of 2021 primarily from a combination of net cash flows provided by operating activities and external financing sources. The Company may from time to time seek external sources of funding, which may include debt or equity financing, depending on its financing needs and market conditions. The incurrence of additional debt would divert cash from working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict the Company's operations. If the Company is unable to obtain additional financing as required, its business, results of operations, financial condition and prospects may be adversely affected.

The following table sets forth the Company's cash flows for the periods indicated:

	<b>For the years ended December 31,</b>			
	<b>(Audited)</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2020</b>
	<b>(in millions of ₱)</b>		<b>(in millions of US\$)</b>	
Net cash flows provided by operating activities . . . . .	5,047	25,362	2,533	53
Net cash flows used in investing activities . . . . .	(20,467)	(11,141)	(8,437)	(176)
Net cash flows provided by financing activities . . . . .	5,949	13,116	318	7
Effect of exchange rate changes on cash and cash equivalents . . . . .	536	(1,198)	(1,579)	(33)
Net increase (decrease) in cash and cash equivalents . . . . .	391	16,813	(7,165)	(149)
Cash and cash equivalents at beginning of year . . . . .	17,014	17,405	34,218	712
Cash and cash equivalents at end of year . . . . .	<u>17,405</u>	<u>34,218</u>	<u>27,053</u>	<u>563</u>

### Net Cash Flows Provided by Operating Activities

Net cash flows provided by operating activities for the year ended December 31, 2020 was ₱2,533 million. The Company's loss before income tax was ₱16,211 million. Cash generated by operating income (after adding back non-cash items and before working capital changes) was ₱799 million. The Company paid interest of ₱10,758 million and income taxes of ₱110 million for the period.

Net cash flows provided by operating activities for the year ended December 31, 2019 was ₱25,362 million. The Company's income before income tax was ₱3,737 million. Cash generated by operating income (after adding back non-cash items and before working capital changes) was ₱26,768 million. The Company paid interest of ₱12,722 million and income taxes of ₱949 million for the period.

Net cash flows provided by operating activities for the year ended December 31, 2018 was ₱5,047 million. The Company's income before income tax was ₱10,455 million. Cash generated by operating income (after adding back non-cash items and before working capital changes) was ₱32,250 million. The Company paid interest of ₱9,035 million and income taxes of ₱1,980 million for the period.

#### **Net Cash Flows Used in Investing Activities**

Net cash flows used in investing activities was ₱8,437 million in 2020. This is primarily reflected in additions to property, plant and equipment.

Net cash flows used in investing activities was ₱20,467 million in 2019. This is primarily reflected in additions to property, plant and equipment and investment property.

Net cash flows used in investing activities was ₱11,141 million in 2018. This is primarily reflected in additions to property, plant and equipment.

#### **Net Cash Flows Provided by Financing Activities**

Net cash flows provided by financing activities was ₱318 million in 2020. The main component of this were proceeds from loans and issuance of capital securities of ₱162,706 million. This was offset in part by payment of loans and lease liabilities of ₱157,965 million and payment of cash dividends and distribution of ₱4,423 million.

Net cash flows provided by financing activities was ₱13,116 million in 2019. The main component of this were proceeds from loans and issuance of preferred shares of ₱406,722 million. This was offset in part by payment of loans and lease liabilities of ₱382,686 million, redemption of preferred shares of ₱7,122 million, and payment of cash dividends and distribution of ₱4,100 million.

Net cash flows provided by financing activities were ₱5,949 million in 2018. The main component of this were proceeds from loans and issuance of capital securities of ₱362,462 million. This was offset in part by payment of loans of ₱312,564 million, redemption of capital securities of ₱39,769 million, and payment of cash dividends and distribution of ₱6,160 million.

#### **Capital Resources**

As of December 31, 2020, the Company had cash and cash equivalents of ₱27,053 million. As of the same date, the Company had total outstanding short-term debt of ₱77,704 million in the form of unsecured Peso and Dollar loans.

As of December 31, 2020, the Company had total outstanding long-term debt (excluding current portion of long-term debt) of ₱88,340 million. The Company obtained these loans from various financial institutions under several credit facilities. All of the Company's long-term borrowings are unsecured. As of the date of this Offering Circular, the Company's long-term debt agreements include requirements to maintain certain specified financial ratios, including a ratio of consolidated gross debt to consolidated net worth and an incurrence-based ratio of consolidated net adjusted debt to consolidated EBITDA.

As of the date of this Offering Circular, the Company is in compliance with the covenants in its long-term debt agreements.

The following table sets forth a summary of the maturity profile of the outstanding long-term borrowings of the Company for the years 2020 to 2025 and beyond as of December 31, 2020:

<b>Payments Due by Period</b>	<b>Amount</b>
	<b>(in millions of ₱)</b>
2021 .....	31,562
2022 .....	26,726
2023 .....	30,569
2024 .....	23,542
2025 and beyond .....	8,423
	<hr/>
Total .....	120,822
	<hr/> <hr/>

The following table sets forth the Company's outstanding long-term debt (net of debt issue cost) by the currency in which they are denominated as of December 31, 2020.

<b>Currency</b>	<b>as of December 31, 2020</b>
	<b>(in millions of ₱)</b>
Peso .....	59,742
USD .....	52,867
Yen .....	6,845
	<hr/>
Total outstanding long-term debt .....	119,454
	<hr/> <hr/>

The following table sets forth the Company's outstanding long-term debt (net of debt issue cost) by fixed floating interest rate terms as of December 31, 2020.

	<b>as of December 31, 2020</b>
	<b>(in millions of ₱)</b>
Fixed rate .....	59,742
Floating rate .....	59,712
	<hr/>
Total outstanding long-term debt .....	119,454
	<hr/> <hr/>

### **Capital Expenditures**

Over the past several years, the Company has made significant capital expenditures to maintain and upgrade the Petron Bataan Refinery, to expand its retail service station network in the Philippines, and to upgrade its service stations in Malaysia. In 2018, 2019 and 2020, the Company's capital expenditures were ₱10,416 million, ₱19,808 million and ₱8,480 million, respectively, which primarily related to expenditures for refinery, depot and service stations. The Company has historically funded its capital expenditures with net cash flows provided by operating activities and debt or equity financing.

The Company's estimated consolidated capital expenditures for 2021 are about ₱11,048 million (US\$230 million), primarily to fund ongoing capex projects. These capital expenditures are expected to be funded by a combination of internal cash generation and external financing sources. The Company's anticipated capital expenditures are based on management's estimates and have not been appraised by an independent organization. In addition, the Company's capital expenditures may change as projects are reviewed or contracts entered into and are subject to various factors, including market conditions, the general state of the Philippine and Malaysian economies, the Company's operating performance and cash flow and the Company's ability to obtain financing on terms satisfactory to management.

### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements. The Company has, however, entered into derivative transactions to manage its exposures to currency exchange rates and fluctuating commodity prices. See "– *Derivative Financial Instruments.*"

## **Derivative Financial Instruments**

The Company has entered into derivative financial instrument transactions, including swaps, options and forwards, to manage its exposures to exchange rates and fluctuating commodity prices. A more detailed description of the Company's derivative financial instruments is set forth in note 34 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2020, included elsewhere in this Offering Circular.

## **Quantitative and Qualitative Disclosures about Market Risk**

The Company is exposed to various types of market risks in the ordinary course of business, including interest rate risk, foreign currency exchange rate risk, credit risk, liquidity risk, commodity price risk and market price risk.

### **Interest Rate Risk**

The Company's exposure to interest rate risk relates mainly to long-term borrowings and investment securities. Increases in interest rates will increase the Company's expenses on outstanding variable rate borrowings and the cost of new borrowings, and therefore could have a material adverse effect on the Company's financial results. The Company manages its interest rate risk exposure by using a combination of fixed and variable rate instruments and interest rate hedging transactions. For more information regarding the Company's interest rate risk exposure, see note 34 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2020 included elsewhere in this Offering Circular.

### **Foreign Currency Exchange Rate Risk**

The substantial majority of the Company's revenues are denominated in either Philippine Pesos or Ringgit Malaysia, while the substantial majority of its expenses, including crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. In the year ended December 31, 2019 and 2020, 52% and 55%, respectively, of the Company's revenues were denominated in Philippine Pesos. During the same periods, 34% and 33%, respectively, of the Company's revenues were denominated in Ringgit Malaysia, and 14% and 12%, respectively, were denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore depreciation of the Peso relative to the U.S. dollar would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar-denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition.

In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable. Although the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition. For a discussion regarding the Company's sensitivity to exchange rate fluctuations and related derivative instruments, see notes 34 and 35 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2020 included elsewhere in this Offering Circular.

The following table sets forth the Company's foreign currency denominated financial assets and liabilities as of December 31, 2020:

	<b>As of December 31, 2020 (Audited) (in millions of US\$)*</b>
Financial assets . . . . .	610
Financial liabilities . . . . .	1,958
Net foreign currency – denominated monetary liabilities . . . . .	(1,348)

\* Based on the exchange rate used by the Company in the preparation of its financial statements for the year ended December 31, 2020 of US\$1=₱48.023.

### **Credit Risk**

The Company's exposure to credit risk primarily relates to its trade and other receivables. Generally, the Company's maximum credit risk exposure in the event of customers' and counterparties' failure to perform their obligations is the total carrying amount of the financial assets as shown on the statement of financial position. The Company has no significant concentration of credit risk since it deals with a large number of homogenous trade customers. In order to minimize the credit risk, the Company measures, monitors and manages the risk for each customer and counterparty based on established credit policies, guidelines and credit verification procedures. For more information regarding the Company's credit risk exposure, see note 34 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2020, included elsewhere in this Offering Circular.

### **Liquidity Risk**

The Company is exposed to the possibility that adverse changes in the business environment or its operations could result in substantially higher working capital requirements and, consequently, a difficulty in financing additional working capital. The Company manages its liquidity risk by monitoring its cash position and maintaining credit lines from financial institutions that exceed projected financing requirements for working capital. In addition, the Company regularly evaluates other financing instruments and arrangements to broaden its sources of financing. For more information regarding the maturity of the Company's financial liabilities, see note 34 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2020, included elsewhere in this Offering Circular.

### **Commodity Price Risk**

Historically, crude typically accounts for about 35% to 55% of the Company's total cost of goods sold. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price, as adjusted to account for differences in product specifications and transportation and distribution costs. Therefore, the prices of the Company's principal products are highly dependent on international crude oil prices. In addition, the Company's Malaysian operations are mostly subject to government price controls and quotas. As a result, competition in these market sectors is based primarily on product quality, operational cost efficiency, supply chain reliability and customer value creation. See "*Regulatory and Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products – Price Control and Anti Profiteering Act, 2011.*"

The Company is exposed to fluctuations in the price of crude oil, which is subject to volatile price movement caused by a number of factors beyond the Company's control, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation, and price wars among oil producers. Historically, the Company holds crude oil finished products inventory of approximately two months in the Philippines and approximately three weeks in Malaysia. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices would adversely affect the

Company as it would require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices. Furthermore, a sharp rise in oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company. The Company enters into commodity swaps and options to manage the price risks of crude oil and products. The Company also been implementing measures to shorten the pricing cycle gap between its crude oil purchases and finished petroleum product sales. However, volatile crude oil prices could still adversely affect the Company, as the Company may not be able to fully pass on the effects of crude oil price changes to consumers in a timely manner. For a discussion regarding the Company's commodity price risk exposure and related derivative instruments, see note 34 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2020, included elsewhere in this Offering Circular.

### **Market Price Risk**

The Company's market price risk arises from its investments carried at fair value. The Company manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

## INDUSTRY OVERVIEW

The information and data contained in this section has been taken from publicly available sources, including the BP Statistical Review of World Energy, International Energy Agency, Economist Intelligence Unit, Malaysia Energy Information Hub and the Philippine Department of Energy, unless indicated otherwise. The Company does not have any knowledge that the information provided herein is inaccurate in any material respect. Neither the Company, the Joint Lead Managers nor any of their respective affiliates or advisors has independently verified the information included in this section.

### GLOBAL AND REGIONAL OIL MARKET

According to the International Energy Agency (“IEA”), global oil demand contracted by 8.7 mb/d from 99.7 mb/d in 2019 to 91.0 mb/d in 2020 due to the impact of the COVID-19 pandemic. Virus containment measures on transport demand, uptake of teleworking and economic crisis weighed on oil demand in 2020. This is the largest drop in comparison to the average historical global oil demand growth of 1.2 mb/d between 2017-2019.

In 2021, global oil demand is expected to recover by 5.5 mb/d to 96.5 mb/d, recovering around 60% of the volume lost in 2020. Global oil demand was stronger than expected in the first quarter of 2021, driven by colder weather and improved industrial activities globally. Demand is seen to further improve in the next three quarters as more vaccines are deployed, containment measures ease and economies continue to recover. Although oil demand for most sectors is expected to recover earlier to 2019 levels, overall global oil demand is projected to recover to 2019 levels only by 2023, dampened by slower recovery of the aviation sector.

Oil demand from OECD nations contracted by 5.6 mb/d in 2020 and is expected to rebound by 2.6 mb/d in 2021 to 44.7 mb/d. Similarly, oil demand from non-OECD nations declined by 3.1 mb/d in 2020 and is expected to grow by 2.8 mb/d in 2021. Recovery will mainly be driven by easing of lockdown restrictions, continuous vaccine deployment and revival of economic activities.

While Asian oil demand also declined by 1.1 mb/d in 2020, the level of its contraction of about 4% was lower compared to other regions, mainly due to China’s 0.2 mb/d oil demand growth in 2020. China announced fiscal measures representing 4.5% of its GDP to support the recovery, including tax relief and public investment. As such, China’s economy returned to growth in the second quarter of 2020. Its GDP grew 3.2% y-o-y, as supported by strong industrial output. For 2021, Asian oil demand is expected to rebound by 1.8 mb/d to 28.4 mb/d.

Table 1: Global oil demand (2019A to 2023E)

	2019	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21	2021	2022	2023
<b>Demand (mb/d)</b>													
Americas	25.65	24.3	20	22.7	23.2	22.6	23.3	23.7	24.7	25.1	24.2	24.9	25.1
Europe	14.25	13.3	11	12.9	12.6	12.4	12.2	13.2	13.7	13.6	13.2	13.3	13.5
Asia Oceania	7.79	7.8	6.5	6.7	7.3	7.1	7.7	6.9	7.1	7.7	7.4	7.6	7.6
<b>Total OECD</b>	<b>47.70</b>	<b>45.4</b>	<b>37.6</b>	<b>42.3</b>	<b>43.1</b>	<b>42.1</b>	<b>43.3</b>	<b>43.8</b>	<b>45.4</b>	<b>46.5</b>	<b>44.7</b>	<b>45.8</b>	<b>46.2</b>
Asia	27.66	25.3	25.5	27.1	28.4	26.6	28.0	28.4	28.2	29.1	28.4	29.5	30.3
Middle East	8.32	7.8	7.0	8.1	7.7	7.6	7.6	7.7	8.4	7.8	7.9	8.2	8.4
Latin America	6.23	5.8	4.9	5.8	5.9	5.6	5.8	5.8	6.1	6.0	5.9	6.2	6.3
FSU	4.78	4.6	4.0	4.8	4.8	4.6	4.5	4.5	4.9	4.9	4.7	4.8	4.9
Africa	4.24	4.2	3.3	3.8	4.0	3.8	4.0	4.0	4.0	4.1	4.0	4.2	4.4
Europe	0.77	0.7	0.6	0.8	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8
<b>Total Non-OECD</b>	<b>52.01</b>	<b>48.3</b>	<b>45.3</b>	<b>50.4</b>	<b>51.7</b>	<b>48.9</b>	<b>50.7</b>	<b>51.1</b>	<b>52.3</b>	<b>52.7</b>	<b>51.7</b>	<b>53.7</b>	<b>55.0</b>
<b>World</b>	<b>99.70</b>	<b>93.8</b>	<b>82.9</b>	<b>92.7</b>	<b>94.7</b>	<b>91.0</b>	<b>93.9</b>	<b>94.9</b>	<b>97.7</b>	<b>99.2</b>	<b>96.5</b>	<b>99.4</b>	<b>101.2</b>
<b>of which:</b>													
USA	20.86	19.7	16.4	18.7	19.0	18.4	19.0	19.3	20.0	20.4	19.7	20.3	20.5
Euro5*	8.15	7.6	6.0	7.1	7.0	6.9	6.7	7.5	7.7	7.8	7.4	7.5	7.6
China	13.68	11.8	14.2	14.7	14.9	13.9	14.3	14.7	14.9	15.1	14.8	15.2	15.5
Japan	3.65	3.7	2.9	3.0	3.5	3.3	3.8	3.1	3.2	3.7	3.5	3.5	3.5
India	4.99	4.9	3.9	4.3	5.0	4.5	5.1	5.1	4.7	5.1	5.0	5.1	5.3
Russia	3.58	3.5	3.1	3.6	3.6	3.5	3.4	3.4	3.7	3.6	3.5	3.6	3.6
Brazil	3.08	2.9	2.6	3.0	3.1	2.9	2.9	2.9	3.0	3.1	3.0	3.1	3.1
Saudi Arabia	3.08	2.9	2.7	3.3	3.0	3.0	2.8	3.0	3.3	2.9	3.0	3.1	3.2
Korea	2.55	2.5	2.4	2.3	2.4	2.4	2.5	2.4	2.4	2.5	2.5	2.5	2.6
Canada	2.37	2.3	1.9	2.2	2.0	2.1	2.1	2.1	2.4	2.4	2.3	2.3	2.3
Mexico	2.05	2.0	1.5	1.6	1.7	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Iran	1.98	1.9	1.7	1.8	1.8	1.8	1.8	1.8	1.9	1.9	1.8	1.9	1.9
<b>Total</b>	<b>70.02</b>	<b>65.8</b>	<b>59.3</b>	<b>65.5</b>	<b>67.1</b>	<b>64.4</b>	<b>66.4</b>	<b>67.3</b>	<b>69.1</b>	<b>70.3</b>	<b>68.3</b>	<b>70.1</b>	<b>71.0</b>
<b>% of World</b>	<b>70.23</b>	<b>70.2</b>	<b>71.5</b>	<b>70.7</b>	<b>70.9</b>	<b>70.8</b>	<b>70.7</b>	<b>70.8</b>	<b>70.7</b>	<b>70.9</b>	<b>70.8</b>	<b>70.5</b>	<b>70.2</b>

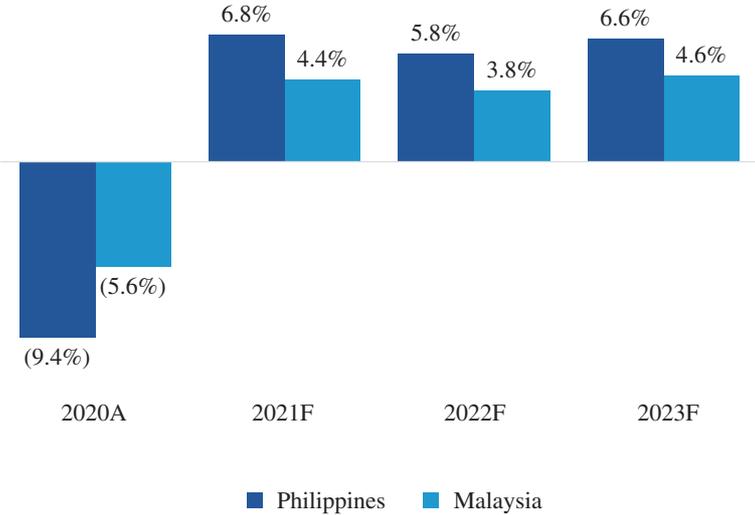
Source: International Energy Agency March 2021 Oil Market Report

**OVERVIEW OF THE PHILIPPINE AND MALAYSIAN OIL MARKETS**

**Real GDP Growth**

The Philippine and Malaysian economies contracted in 2020, by 9.4% and 5.6%, respectively, due to the COVID-19 pandemic. Both economies are expected to recover beginning 2021. According to the Economist Intelligence Unit (“EIU”), the Philippine and Malaysian economies will grow by 6.8% and 4.4%, respectively in 2021 and will sustain this growth momentum thereafter.

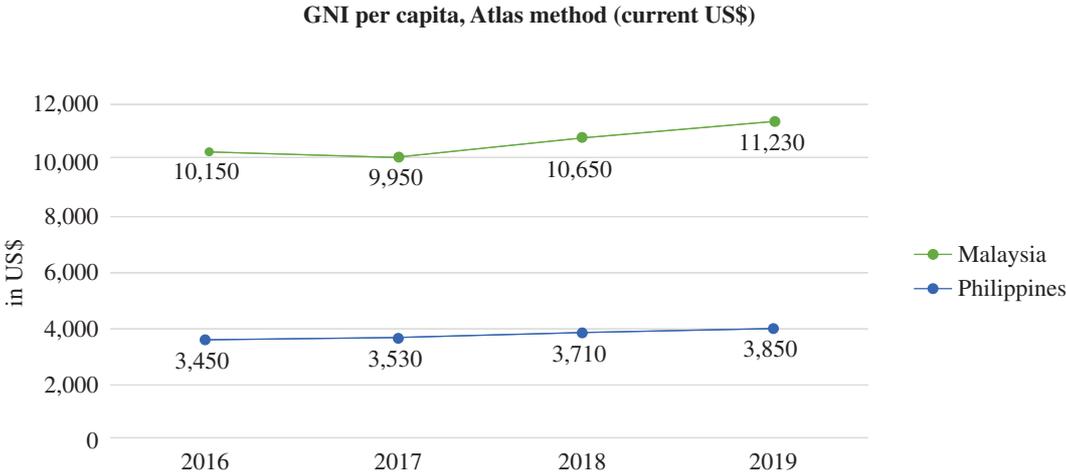
Figure 1: Real GDP Growth (2020A to 2023F)



Source: Economist Intelligence Unit

**Key Drivers of Fuel Demand**

Figure 2. 2016-2019 GNI per capita



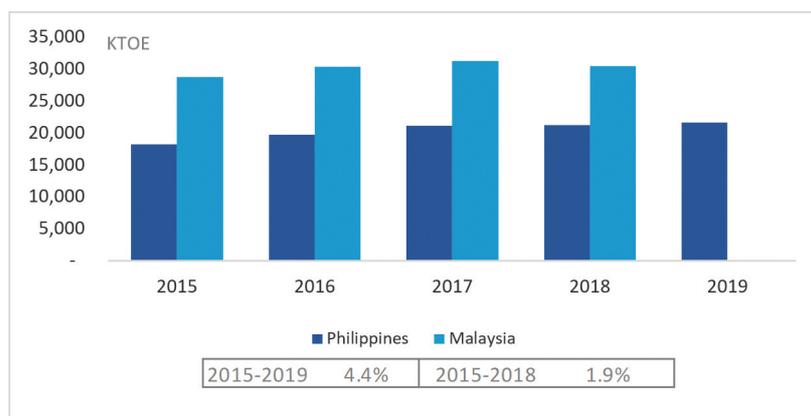
Source: Worldbank

The market’s demand for oil is mainly driven by the nation’s economic activities, population and per capita income growth. Infrastructure developments also support demand as it leads to expansion of economic activities.

On the other hand, government policies promoting clean energy investments may slow down petroleum demand growth in the long term. These policies include increasing renewables in the power sector, incentivizing electric vehicles and increasing vehicle engine efficiencies.

## Consumption of Petroleum Products and Import Ratio

Figure 3. Consumption of Total Petroleum Products

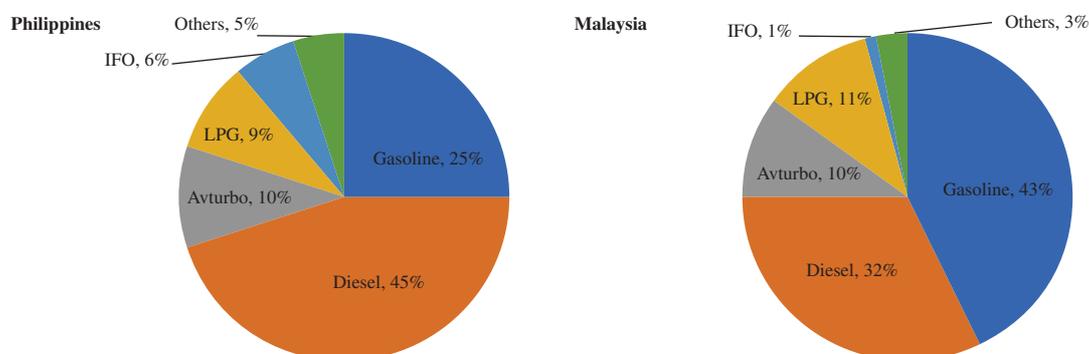


Sources: Philippine Department of Energy, Malaysia Energy Information

Over the last four to five years, oil consumption in the Philippines and Malaysia have shown steady growth, averaging about 4% annually from 2015-2019 for the Philippines and close to 2% for 2015-2018 for Malaysia.

The COVID-19 pandemic, however, which led to both countries implementing travel restrictions, resulted in a disruption in demand growth. Both the Philippines and Malaysia exhibited a contraction in petroleum product demand in 2020. For the Philippines, demand declined by about 22.8% as of 1H 2020.

Figure 4. Demand Mix



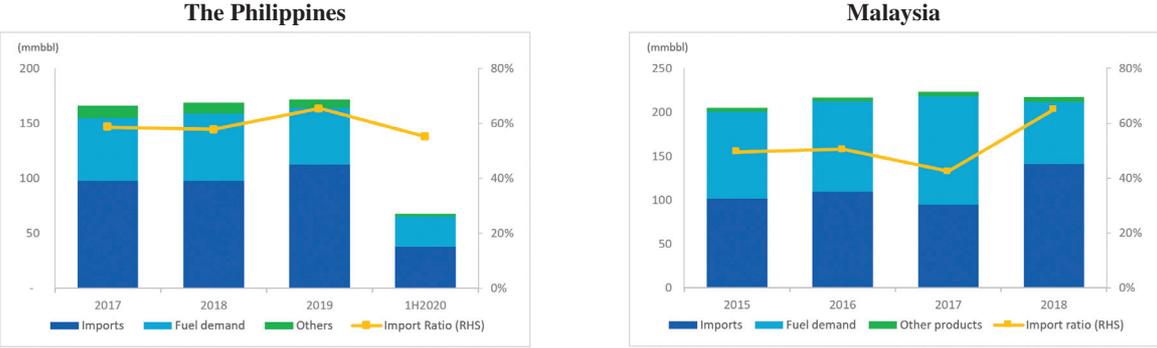
Sources: Philippine Department of Energy, Malaysia Energy Information

Philippine demand is dominated by diesel while gasoline dominates in Malaysia.

The Philippines and Malaysia are major importers of finished petroleum products, importing more than 40% of their total consumption. The charts below show demand, imports and imports as a percentage of demand, for the periods indicated.

Imports, as a percentage of demand, will increase further in the Philippines with the closure of the Shell Refinery in Tabangao. In August 2020, Shell decided to convert its refinery into a full import terminal to optimize its asset portfolio and enhance cost and supply-chain competitiveness. This leaves Petron as the only refinery in the Philippines, with a total country refining capacity at 180 thousand barrels per day.

**Figure 5: Gross imports as a Percentage of Total Petroleum Products Consumption in the Philippines and Malaysia**



Sources: Philippine Department of Energy, Malaysia Energy Information Hub

The per capita fuel consumption in the Philippines averaged 1.5 barrels per year between 2015-2019 and declined to 0.6 barrels for the first half of 2020, while the per capita fuel consumption in Malaysia averaged 7.0 barrels per year between 2015-2018.

**Figure 6: Per Capita Fuel Consumption in the Philippines and Malaysia (bbl)**



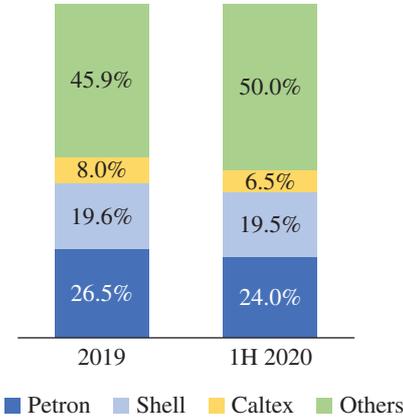
Sources: Philippine Department of Energy, Malaysia Energy Information Hub, Economist Intelligence Unit

**OIL MARKET PLAYERS**

**Philippines.** The Company has historically maintained a leading market share in terms of demand for total petroleum products in the Philippines, with an overall market share of about 24.0% as of the first half of 2020 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the Philippine Department of Energy.

The chart below provides market share data for the Philippine oil industry for the periods indicated.

**Figure 7: 2019 and 1H 2020 Philippine Petroleum Product Demand Market Share of Oil Players**



Source: Company estimates using its internal calculations and industry data from the Philippine Department of Energy

## PRODUCT PRICING

**Philippines.** Product pricing in the Philippines has been market-based since 1998 after government controls were abolished as part of its budget cuts. Amidst the increases in oil prices and consistent with its statutory mandate to protect the public, the DOE has been closely monitoring actual oil price movements, both in the international and domestic market, to prevent unreasonable adjustments and abuses. Consistent with the regime of deregulation, the Oil Deregulation Law does not prescribe a specific formula and the market is expected to set the prices on a weekly basis considering the movements in the international market.

Up until January 2018, the Philippines had one of the lowest excise rates on refined oil products in Southeast Asia, with relatively minimal taxes applied to gasoline, naphtha, jet fuel and aviation gasoline. In addition to excise duties, a VAT of 12% is imposed on most refined products sold in the market. In a bid to improve tax revenues, the Tax Reform for Acceleration and Inclusion (TRAIN) law was implemented with fuel excise hikes staggered across three years with each round taking effect every January from 2018 to 2020.

**Malaysia.** Malaysia's downstream segment remains highly regulated across the majority of the value chain, with the government continuing to exert influence over pricing and margins. The Ministry of Domestic Trade and Consumer Affairs has regulated the pump prices of retail fuels and household LPG in Malaysia through the use of the Automatic Pricing Mechanism since 1983. The mechanism is comprised of fixed elements, such as operating expenses, dealers' commissions, and company profits, in addition to variable costs and does not factor in other ancillary costs like advertising and merchandising. Following the recent 2019 change in administration, the new government reintroduced a price ceiling for RON95 gasoline and diesel following concerns over inflationary pressures amidst a flagging economy and the rising cost of living.

## NON FUEL-RELATED BUSINESS

In tandem with the growing fuel demand, changing retail trends for the non-fuel related business in service stations and networks are set to revolutionize the industry. In both the Philippines and Malaysia, there is an increasing consumer demand for additional services and options in convenience store shopping. As such, oil marketing companies are expected to dedicate more funds into convenience stores and associated services such as maintenance, F&B, package pickup and drop-off collaboration. In addition, as consumers prefer faster, contact-free purchase experiences, this provides room for innovations, including self-service kiosks, electronic labeling and drive-thru purchasing. By employing smart retail technology driven by artificial intelligence and machine learning to increase supply chain efficiency, retailers are able to generate greater margins and returns.

## OTHER DEVELOPMENTS

### The Philippines

**Fuel marking.** The Philippine government implemented a fuel marking program, where oil products are injected with a chemical marker indicating payment of correct tax and duties as a form of regulation. The government claims that the increase in tax revenues was due to the fuel marking program which curbed oil smuggling.

**Taxation.** The President of the Philippines signed the proposed Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Act) into law last March 26, 2021. Key provisions of Republic Act No. 11534 or the CREATE Act include the reduction of regular corporate income tax rates from 30% to 25% for large corporations and 20% for small and medium corporations (with net taxable income not exceeding ₱5 million and total assets excluding land not exceeding ₱100 million), reduction of minimum corporate income tax rate from 2% to 1% of gross income and exemption from paying income taxes on dividends received from foreign subsidiaries which are at least 20% directly-owned by a domestic corporation. In addition, local petroleum refineries shall be exempted from paying taxes and duties upon crude importation, but will be subject to applicable taxes and duties on finished petroleum products upon lifting of refined petroleum products from the refinery. This provision will level the playing field as domestic petroleum refineries are now taxed on finished products, similar to importers of refined fuel who only pay after sales tax.

### Malaysia

**Euro 5 for Diesel in Malaysia.** The Malaysian government will implement a Euro 5 emission standard for Diesel (10ppm sulfur) effective April 1, 2021. To comply with this requirement, the Company is nearing completion of the construction of its diesel hydrotreater process unit in the Port Dickson Refinery.

**B20 Biodiesel program for the transport sector.** The Malaysian government will implement the B20 Biodiesel program to support the palm oil industry. The palm oil methyl ester content in diesel in the transport sector will be increased from 10% to 20% beginning June 2021 for Sabah and December 2021 for the Peninsula.

## BUSINESS

### OVERVIEW

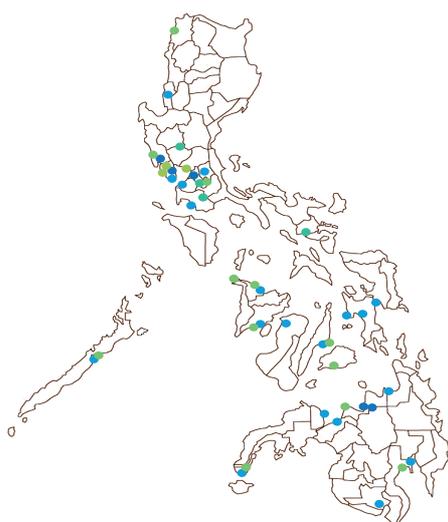
Petron Corporation (“**Petron**” or the “**Company**”) operates the only integrated oil refinery in the Philippines and is a leading oil marketing company. The Company had an overall market share of approximately 24.0%\* of the Philippine oil market in the first half of 2020 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the Philippine Department of Energy (“**DOE**”). Petron is also a leading player in the Malaysian market. The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil’s downstream oil business in Malaysia. For the year ended December 31, 2020, the Company ranked third in the Malaysian retail market with more than 21% market share, based on Company estimates using its internal assumptions and calculations and industry data from a third-party market research consultant appointed by Malaysian retail market participants to compile industry data. Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia with a combined refining capacity of 268,000 barrels per day (“**bpd**”).

The Company’s Freeport Area of Bataan (“**FAB**”)-registered Petron Bataan Refinery in Limay, Bataan in the Philippines, a full conversion refinery with a crude oil distillation capacity of 180,000 bpd, processes crude oil into a range of white petroleum products such as naphtha, gasoline, diesel, LPG, jet fuel, kerosene, and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene.

From the Petron Bataan Refinery, the Company moves its products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 13 terminals in Luzon, seven in Visayas and eight in Mindanao, as well as four airport installations in Luzon, five in Visayas and three in Mindanao. Through this nationwide network, the Company supplies its various petroleum products such as gasoline, diesel, and LPG to its customers as well as jet fuel to international and domestic carriers.

The map below presents the geographic reach of the Company’s terminals, airport installations, and manufacturing plants in the Philippines as of December 31, 2020.

### LOGISTICS NETWORK



5	<b>Third Party/Import Facilities</b> SLHBTC, SL PanAsia, SL PHIVIDEC, Subic, Tagoloan LPG Import
19	<b>Bulk Terminals</b> Navotas, Rosario, Poro, Limay, Batangas, Palawan, Mandaue, Ormoc, Isabel, Iloilo, Bacolod, Tacloban, Roxas, Nasipit, Iligan, Jimenez, Zamboanga, Bawing, Davao
4	<b>Dedicated LPG Facilities</b> Pasig, San Fernando, Legazpi, San Pablo, and 12 Allied Refilling Plants
12	<b>Into-Plane Operations</b> Laosig, NAIA, Clark, Puerto Princesa, Caticlan, Kalibo, Mactan, Iloilo, Panglao, Zamboanga, Davao, Laguindingan
3	<b>Manufacturing Plants</b> Harbor Center Lube Oil Blending Plant, Subic Additive Plant, Polypropylene Plant in Mariveles, Bataan

\* Market share is derived from Company estimates based on Company information and data from the Philippine Department of Energy for the first half of 2020. Company estimates exclude all direct imports of end users.

Through its network of approximately 2,435 retail service stations in the Philippines as of December 31, 2020, the Company sells gasoline, diesel, and kerosene to motorists and to the public transport sector. Approximately 34% of the Company's service stations are Company-owned-dealer-operated ("CODO") while the remaining 66% are dealer-owned-dealer-operated ("DODO"). As of December 31, 2020, the Company's LPG distribution network includes about 1,117 branch stores as well as 44 car care centers. Petron also sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through its extensive dealership network.

In Malaysia, the Company owns and operates the Port Dickson Refinery located in the state of Negeri Sembilan, which has a crude oil distillation capacity of 88,000 bpd, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and low-sulfur waxy residue ("LSWR"). As of December 31, 2020, the Company had 10 product terminals, a Palm Oil Methyl Ester ("PME") production facility and a network of more than 720 retail service stations in Malaysia, of which about 60% are CODO and 40% are DODO.

While the Company's products are primarily sold to customers in the Philippines and Malaysia, the Company also exports various petroleum products and petrochemical feedstock, including LSWR, gasoline, diesel, LPG, molten sulfur, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region such as South Korea, Taiwan, China, Vietnam, Singapore, Hong Kong, Thailand and Indonesia. The Company's revenues from these export sales amounted to ₱15.5 billion, or 5% of total sales for the year ended December 31, 2020.

For the years ended December 31, 2018, 2019 and 2020, the Company's sales were ₱557,386 million, ₱514,362 million and ₱286,033 million (US\$5,954.6 million), respectively, and net income was ₱7,069 million, ₱2,303 million and net loss of ₱11,413 million (US\$237.6 million), respectively.

Petron is a subsidiary of San Miguel Corporation ("SMC"), one of the largest and most diversified conglomerates in the Philippines, which has market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure and property, and investments in car distributorship and banking services. The Company's common shares are listed on the Philippine Stock Exchange under the symbol "PCOR" and the common shares of its subsidiary, Petron Malaysia Refining & Marketing BHD are listed on the Bursa Malaysia under the symbol "PETRONM."

## **STRENGTHS**

The Company believes that its principal competitive strengths include the following:

### **Market leadership in the Philippine downstream oil sector**

With an overall market share of approximately 24.0% of the Philippine oil market in the first half of 2020 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the DOE, the Company believes it is the leader in the Philippine oil industry, ahead of the other two major oil companies and other smaller players operating in the Philippines.

The Company has more than 2,000 retail service stations in the country as of December 31, 2020, retailing gasoline, diesel, and kerosene to motorists and the public transport sector. Its wide range of world-class fuels includes *Blaze 100 Euro 6*, *XCS*, *Xtra Advance*, *Turbo Diesel* and *Diesel Max*. The Company also sells its LPG brands, *Gasul* and *Fiesta Gas*, to households and other consumers through its extensive dealership network, numbering approximately 1,117 branch stores as of December 31, 2020. The Company also manufactures lubricants and greases through its blending plant in Manila and sells these products through its service stations and various lubes outlets.

The Company's service station count has grown from approximately 2,283 as of December 31, 2016 to about 2,435 as of December 31, 2020.

In particular, the Company believes that it is the market leader based on domestic sales volume in the retail trade as well as in the industrial and LPG market segments.

**Logistically-advantaged supply position in the Philippines**

In the Philippines, the Company transports its products from the Petron Bataan Refinery to fuel import terminal facilities and airport installations situated throughout the Philippines. Since the closure of the only other operating petroleum refinery in the second half of 2020, the Petron Bataan Refinery remains as the only petroleum refinery in the country. The Petron Bataan Refinery has a total crude oil distillation capacity of 180,000 barrels per day.

The Company’s extensive logistics network (see “*Logistics Network*” map on page 85) includes 28 terminals and 12 airport installations and reaches most key points in the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in securing the Company’s leading position in the Philippines. From Bataan, products are moved mainly by sea to terminals located across the archipelago. Through its robust distribution network, the Company fuels strategic industries such as power generation, manufacturing, mining, agribusiness, among others. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

The President of the Philippines recently signed the Corporate Recovery and Tax Incentives for Enterprises Act (“**CREATE**”) into law last March 26, 2021. As part of Republic Act 11534 or the CREATE Act, local petroleum refineries shall be exempted from paying taxes and duties upon crude importation, but will be subject to applicable taxes and duties on finished petroleum products upon lifting of refined petroleum products from the refinery. The Company believes that the CREATE Act allows it to be more competitive as domestic petroleum refineries are now taxed on finished products, similar to importers of refined fuel which only pay after sales tax.

**Operations in markets with favorable industry dynamics**

The Company operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which the Company believes have favorable oil industry dynamics. The EIU projects GDP growth of 6.8% for the Philippines in 2021, 5.8% in 2022 and 6.6% in 2023, which provides a favorable economic environment to support energy and petroleum products demand growth in the country. In addition, the Philippines has one of the lowest per capita car ownership in the region, and consequently, among the lowest fuel consumption in the region, at 1.6 bbl and 0.6 bbl per capita in 2019 and the first half of 2020, respectively. The Company believes this presents potential room for growth that Philippines fuel retailers can capitalize upon.

Figure 1: Per Capita Fuel Consumption in the Philippines and Malaysia (bbl)

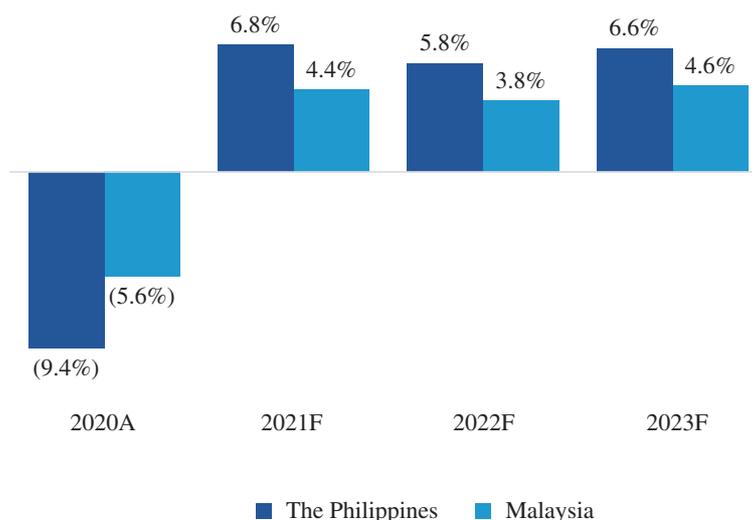


Sources: Philippine Department of Energy, Malaysia Energy Information Hub, Economist Intelligence Unit

For Malaysia, the EIU projects GDP growth of 4.4% in 2021, 3.8% in 2022 and 4.6% in 2023. Malaysia has a significantly higher per capita car ownership than the Philippines and has per capita fuel consumption of 6.9 bbl in 2018.

The Philippines operates under a free market scheme, with movements in regional prices and foreign exchange reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an automatic pricing mechanism (“**APM**”) that provides stable returns to fuel retailers.

Figure 2: Real GDP Growth (2020A to 2023F)



Source: Economist Intelligence Unit

### Expanded product offering driving non-fuel retail volumes

The Company’s network of service stations in the Philippines and Malaysia offers differentiated and comprehensive services to customers. Beyond just a petroleum station, the Company’s service station provides a one-stop service experience to travelers on the road, offering amenities such as *Treats* convenience stores, restaurants, and specialty shops. These convenience stores, restaurants and specialty shops help generate non-fuel revenues and improve traffic in the service stations.

Currently, San Miguel Corporation is also utilizing selected Petron *Treats* convenience stores around the city for the company’s new online ordering system. Customers may simply order San Miguel products through the website and pick them up at the selected service stations.

In Malaysia, the Company’s retail business markets fuel, LPG and Lubes through a dealer network comprising more than 720 retail service stations located throughout Peninsular and East Malaysia as of December 31, 2020. The Company has approximately 290 *Treats* convenience stores, generating non-fuel income and improving traffic in the service stations.

Since 2013, the Company has partnered with the Royal Malaysia Police to set up Go-To Safety Points (“GTSPs”) at selected Petron stations in Malaysia. The GTSPs are set up at strategically located service stations to allow the public to seek temporary shelter, increasing safety and security awareness among Petron customers. Motorists can enjoy Petron products and services in a safer and more secure environment.

### Capitalizing on its large customer loyalty card programs in the Philippines and successful rollout of the Petron App

The Company also offers loyalty programs that complement its retail business, such as the Petron Value Card in the Philippines and the Petron Miles Privilege Card (“PMILES”) in Malaysia. The Company continues to upgrade existing loyalty programs and offer new and diverse programs to cater to the unique needs of customers. Some of the benefits of the Petron Value Card program include 24-hour free towing and roadside assistance, reward points for every purchase and complimentary annual personal accident insurance coverage. PMILES is a loyalty card aimed at ensuring customers enjoy better value, privileges and benefits. PMILES goes beyond fuel, as customers are able to use promocodes and achieve rewards and discounts across a wide range of products and services. Some of Petron’s partner merchants include BookDoc, Bungkusit, Bawiq, Zalora, The Kuala Lumpur Journal, Escape Parks and AXA among others.

As of December 31, 2020, approximately 5.6 million Petron Value Cards (including Petron Super Driver Cards) have been issued in the Philippines and approximately 12 million PMILES have been issued in Malaysia.

In 2016, the Company launched the Petron mobile application (the “**Petron App**”) as a companion for the everyday Filipino motorist. In addition to monitoring Petron loyalty card points earned from transactions at Petron stations, the Petron App also allows customers to track details of fuel spend, locate Petron service stations and car care centers and stay updated on the latest Petron news and promotions. The Petron App also sends customers reminders of the details of services that are available to Petron loyalty cardholders, such as free towing and roadside assistance and personal accident insurance.

With the extensive network of its loyalty card program and the Petron App, the Company believes that it has been able to foster brand loyalty to strengthen its position in both markets in the Philippines and Malaysia. Furthermore, the Company has made informed marketing decisions to cater to the needs of its customers.

Using transactional data, post campaign analyses were conducted to categorize cardholders into segments based on their purchase behaviors to launch strategic promotional activities, product offerings, and targeted loyalty programs with the objective of increasing throughput, up-selling higher value products, and reactivating dormant accounts. Historical carded volume is used in projecting baseline numbers to implement customer programs, forecast incremental sales and gain insights on actual campaign results.

### **Focus on higher yield products at the integrated Petron Bataan Refinery**

Over the years, the Company has developed and maintained a strong core base of petroleum products and has managed to consistently make significant investments in upgrading its facilities. The Company has also focused on increasing production of higher margin White Products and petrochemicals while minimizing production of low margin fuel products. In the Philippines, the investment in RMP-2 allowed the Company to produce Euro IV-standard fuels and convert black products into white products.

The Company is also currently constructing a new power plant to replace some of its old generators and generate incremental power and steam. With the new power plant, products previously used as Refinery fuel will be converted to high-value products. The power plant is expected to be completed by the second half of 2022. In addition, the Company invested in the expansion of its polypropylene plant to capitalize on petrochemical margins. The expansion at the polypropylene plant is expected to be completed by the end of 2021 and will increase its production capacity from 160,000 MT to 225,000 MT annually.

### **Established position in the Malaysian downstream oil sector**

The Company has an established position in the Malaysian downstream oil sector that provides geographic diversification to its portfolio, an additional platform to expand its business and stability to its operations.

The Company’s network of service stations and distribution infrastructure in Malaysia facilitate the capture of a growing share of the market. It includes more than 720 service stations, approximately 290 convenience stores, and 10 product terminals as of December 31, 2020. The Company also has a presence in the aviation segment with a 20% ownership of a multi-product pipeline (“**MPP**”) to Kuala Lumpur International Airport (“**KLIA**”). The joint venture through which the Company owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal (“**KVDT**”).

The Company’s fuel supply in Malaysia comes from its Port Dickson Refinery and domestic and import purchases. The Port Dickson Refinery processes crude oil acquired from various sources. The Company is nearing completion of the construction of its diesel hydrotreater process unit, which will allow it to comply with the Euro 5 specification for diesel (10 ppm sulfur) mandated by the Malaysian government by April 2021. Furthermore, the construction of two additional product tanks and jetty facilities is almost complete and is expected to generate savings on freight costs.

The Malaysian government regulates the pricing structure through the APM, pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. Effective March 30, 2017, the Malaysian government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of RON 95 and RON 97 petroleum and diesel on a weekly basis based on the Mean of Platts Singapore. If government-mandated prices are lower than the fuel products’ total built-up cost per the APM, the Company receives subsidies from the Malaysian government. Conversely, if government-mandated prices are higher than the fuel products’ total built-up

cost per the APM, the Company pays duties to the Malaysian government. See “*Regulatory and Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products.*” This regulated environment provides stability to the Company’s Malaysian operations in such sectors.

### **Experienced management team and employees and strong principal shareholder in San Miguel Corporation**

The Company has an experienced team of managers with substantial relevant experience in refining operations and development of service stations. In addition, the Company has a team of employees skilled in managing the various aspects of its business, including a highly experienced management team at the Petron Bataan Refinery, a focused sales and marketing team, which includes a group that has years of experience in service station engineering and construction, and a research and development team that has overseen years of product development and production process improvement. The Company is also committed to the development of its employees by adopting on-going training and development programs to ensure that operations will be run by well-equipped and capable employees. The average tenure of employees in the Company is approximately 9.56 years for the Philippines and 9 years for Malaysia.

SMC, directly and indirectly, holds an effective 68.26% of the Company’s outstanding common equity. See “– *Ownership and Corporate Structure.*” SMC is among the largest and most diversified Philippine conglomerates, which has market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure and property, and investments in car distributorship and banking services.

The Company believes that it benefits from its relationship as a key material subsidiary of SMC, primarily by realizing synergies, including the provision of fuels for SMC’s expanding power generation business, SMC’s infrastructure business and its various production facilities as well as cross-marketing opportunities with SMC’s consumer and energy-related businesses. The Company also believes that SMC’s strong balance sheet and international reach and relationships increase its leverage and bargaining power with suppliers and financial institutions as well as enhance its sources of funding for its capital expenditure projects.

### **STRATEGIES**

The Company’s principal strategies are set out below:

#### **Maximize volume growth and further increase market share in the downstream oil markets in the Philippines and Malaysia**

The Company intends to leverage on its leading market position and extensive retail and distribution network in the Philippines to maximize its revenue and margin potential.

The Company believes that the downstream oil market in the Philippines and Malaysia are still underserved and have strong potential for growth. To capture this growth and further strengthen its market position, the Company will embark on: (i) offering competitive prices to boost volumes amidst a highly competitive market; (ii) increasing its retail outlets for fuels and LPG to improve market penetration and arrest the growth of other industry players; (iii) improving productivity of existing service station network; (iv) introducing new products with differentiated and superior qualities; (v) expanding lubes distribution network by putting up more sales channels such as new lubes outlets, sales centers and car care centers, and penetrating non-traditional outlets such as auto parts and repair shops; (vi) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services or franchising those establishments to provide “value conscious” customers with a one-stop full-service experience; and (vii) intensifying its dealer and sales personnel training to further improve customer service experience.

These initiatives will support the Company’s growing retail business and continuing service station network expansion.

### **Innovation as tool for customer retention and growth**

The Company intends to continue to invest in its digital offerings such as the Petron App to provide value-added services to its customers and increase interaction by cross-selling into non-fuel retail offerings, tie-ups with other merchants and insurance products, among others. In addition, contactless payment solutions through PayMaya are now offered in more than 970 service stations nationwide as of March 31, 2021. The Company's market leadership and customer brand awareness, coupled with digital offerings such as online orders and pick-ups at service stations nationwide, will serve to increase customer frequency and in turn increase fuel sales as well as non-fuel sales.

The Company will continue to position Petron as a premium brand with premium fuel and lubricants offerings in addition to other related products. The Company seeks to maintain and further strengthen its established position in the Philippines and Malaysia by reinforcing business relationships with existing customers, providing differentiated service offerings in its retail service stations and by promoting enhanced loyalty programs in both countries.

### **Maximize production of high margin refined petroleum products and petrochemicals**

Over the years, the Company has made significant investments in upgrading its facilities and is focused on increasing production of White Products and petrochemicals while minimizing production of low margin fuel products. In recent years, it has shifted production from lower margin fuel oils to higher margin products, including petrochemical feedstock such as propylene, mixed xylene, toluene and benzene.

Going forward, the Company expects to continue investing in upgrading its production capability with a focus on high-margin petroleum products and petrochemicals.

### **Ensure reliability and efficiency of refinery operations**

The Company has undertaken a number of strategic projects such as improving operational efficiency and profitability at the refinery, and increasing market reach through the expansion of the Company's service station network.

The Company also intends to further enhance efficiency and reduce production costs through supply chain improvements and enhancements to its existing facilities through a range of initiatives including: (i) enhancing its crude optimization program (a program which determines the crude mix that will yield the best product value at the lowest cost) and expanding its crude oil supply sources in addition to its major crude oil suppliers; (ii) investing in new receiving and storage facilities and improving the existing facilities to attain greater sourcing flexibility and support new growth areas; (iii) managing crude oil freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness with the spot market; and (iv) reducing distribution costs through rationalization of the terminal network, joint operations with other companies and optimized utilization of its marine and tank truck fleet. The Company also expects to continue utilizing operational synergies by leveraging on SMC's network, products and services.

### **Continue to evaluate possible selective synergistic acquisitions**

In addition to organic growth, the Company will continue to consider and evaluate selective opportunities to expand both within and outside the Philippines through strategic acquisitions that will create operational synergies and add value to the existing business.

## RECENT DEVELOPMENTS

### The COVID-19 Pandemic

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, was declared as a pandemic by the World Health Organization and spread globally over the course of 2020. Countries have taken measures in varying degrees to contain the spread of COVID-19, including social distancing measures, community quarantine or lockdowns, the suspension of operations of non-essential businesses and travel restrictions.

For its part, the Government issued a series of directives and social distancing measures as part of its efforts to contain the outbreak in the Philippines. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and an enhanced community quarantine (“**ECQ**”) was imposed on the island of Luzon, including Metro Manila, which lasted through May 15, 2020 (the “**ECQ period**”). Under the ECQ guidelines, restrictions on movement outside of the residence were set in place (ranging from stay-at-home orders to total lockdowns), mass transport facilities were suspended, schools were closed and alternative work arrangements were implemented. The COVID-19 pandemic affected most daily activities and forced many businesses to suspend operations or shut down for the duration of the ECQ. Only essential businesses such as plants involved in manufacturing and processing basic food products, medicine, medical devices/equipment and essential products such as hygiene products, and delivery services transporting food, medicine and essential goods, as well as essential sectors such as hospitals, power and water utilities were allowed to operate, subject to certain conditions and limitations on operating capacity. Similarly, in Malaysia, a movement control order (“**MCO**”) was instituted.

After the ECQ was lifted in certain areas, a modified ECQ (“**MECQ**”), general community quarantine (“**GCQ**”) or modified GCQ (“**MGCQ**”) was implemented. The graduated lockdown schemes from ECQ, MECQ, GCQ, and MGCQ impose varying degrees of restrictions on travel and business operations in the Philippines. The Government continues to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities. On March 27, 2021, the Government placed Metro Manila and certain neighboring provinces under ECQ from March 29, 2021 until April 11, 2021.

The ECQ, graduated quarantine measures and MCO restrictions significantly affected volumes of both Philippine and Malaysian operations as these reduced economic activities and restricted travel. As such, the operations of the Petron Bataan Refinery were suspended from May to August 2020. The Port Dickson Refinery, on the other hand, continued operations during the MCO although production was reduced to minimum turn-down rate in line with reduced domestic demand. In addition, there was a scheduled 20-day shutdown in October 2020 for catalyst regeneration. The Company saw a gradual recovery in sales volumes starting the third quarter of 2020 with fuel consumption increasing, partly as a result of relaxing quarantine measures. Given the volatility in oil prices, however, particularly when global oil prices plunged in March 2020 coupled with modest gains after the easing of certain restrictions, the Company’s consolidated sales for the year ended December 31, 2020 were substantially lower than for the year 2019 and resulted in a net loss.

The extent of the COVID-19 pandemic impact in the short-term will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19 both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted.

### Measures Taken to Ensure Safety and Well-Being

To ensure a safe return to work, the SMC Group purchased polymerase chain reaction (“**PCR**”) testing kits to cover the estimated 70,000 employees, consultants, partners and service providers in the SMC Group’s system, including Petron’s employees. The Company has been cautiously allowing employees to return to the workplace and has taken measures to ensure employee safety and well-being and to protect its facilities, which include, but are not limited to, checking the temperature of employees and other persons when they enter its offices and facilities, maintaining an adequate supply of alcohol and hand sanitizers for use at the premises, requiring employees to wear masks and other protective clothing as appropriate, minimizing in-person meetings, and implementing additional cleaning and sanitization routines.

The Company continues to review and will implement the necessary changes to its operations and business processes as well as its capital expenditure plans in view of the global and local economic factors as a result of the COVID-19 pandemic.

Together with SMC, Petron also continued to support health workers and underprivileged communities affected by the pandemic. Petron has donated free fuel, PPE, and other donations to medical frontliners, its scholars, and communities. Through SMC, Petron also provided fuel subsidy for the Department of Transportation (“DOTr”) to help medical frontliners avail of free transport. Petron also partnered with Hyundai Philippines to help transport frontliners and locally stranded individuals. Petron recently pledged its support to the Ingat Angat program, a multi-sector campaign envisioned to rebuild consumer confidence in the new normal. Leveraging on its vast nationwide presence, Petron – which operates the widest petroleum retail network in the country – has displayed Ingat Angat collaterals at 900 of its service stations.

### **The CREATE Act**

On March 26, 2021, Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises bill (the “**CREATE Act**”), was signed into law by the President of the Republic of the Philippines.

The tax reforms under the CREATE Act include, among others:

- (a) a reduction in corporate income tax effective July 1, 2020, as follows: (i) from 30% to 25%, for corporations with a net taxable income of more than ₱5 million or total assets (excluding land) of more than ₱100 million and (ii) from 30% to 20%, for corporations that do not fall under (i);
- (b) the imposition of corporate income tax on regional operating headquarters;
- (c) the imposition of conditions for claims of tax exemption for foreign-sourced dividends;
- (d) increase in the applicable tax on interest income earned by a resident foreign corporation under the expanded foreign currency deposit system and capital gains from the sale of shares of stock not traded in the stock exchange and earned by a resident foreign corporation and nonresident foreign corporation;
- (e) amendments on tax free exchanges;
- (f) introduction of additional VAT exempt transactions;
- (g) decrease in the rate of percentage tax from July 1, 2020 until June 30, 2023; and
- (h) the rationalization of tax incentives that may be granted by investment promotion agencies (such as the Authority of the Freeport Area of Bataan), acting upon the delegated authority of the Fiscal Incentives Review Board, to qualified registered business enterprises. In the interest of national economic development and upon the recommendation of the Fiscal Incentives Review Board, the President of the Philippines may modify the mix, period or manner of availment of incentives provided under the CREATE Act or craft the appropriate financial support package for a highly desirable project or a specific industrial activity (subject to maximum incentive levels recommended by the Fiscal Incentives Review Board), provided that (i) the grant of income tax holiday shall not exceed eight years and thereafter, a special income tax rate of 5% may be granted and (ii) the total period of incentive availment shall not exceed 40 years.

Registered business enterprises with incentives granted prior to the effectivity of the CREATE Act shall be subject to the following rules:

- (1) registered business enterprises whose projects or activities were granted only an income tax holiday prior to the effectivity of the law shall be allowed to continue to avail the income tax holiday for the remaining period specified in the terms and conditions of their registration, provided that enterprises that have been granted the income tax holiday but have not yet availed of such incentive upon the effectivity of the law may use the income tax holiday for the period specified in the terms and conditions of their registration;

- (2) registered business enterprises whose projects or activities were granted an income tax holiday prior to the effectivity of the law and that are entitled to 5% tax on gross income earned incentive after the income tax holiday shall be allowed to avail of the 5% tax on gross income incentive based on the law; and
- (3) registered business enterprises currently availing of the 5% gross income earned incentive granted prior to the effectivity of the law shall be allowed to continue of such tax incentive for 10 years.

As part of the rationalization of tax incentives, the CREATE Act further provides that (i) any law to the contrary notwithstanding, the importation of petroleum products by any person shall be subject to the payment of applicable duties and taxes under the Customs Modernization and Tariff Act and the National Internal Revenue Code, respectively, upon importation into the Philippine customs territory and/or into free zones (as defined in the Customs Modernization and Tariff Act), subject to the right of the importer to file claims for refund of duties and taxes under applicable law; and (ii) the importation of crude oil that is intended to be refined at a local refinery, including the volumes that are lost and not converted to petroleum products when the crude oil actually undergoes the refining process, shall be exempt from payment of applicable duties and taxes, provided the applicable duties and taxes on the refined petroleum products shall be paid upon the lifting of the petroleum products produced from the imported crude oil in accordance with the rules and regulations that may be prescribed by the Bureau of Customs and the BIR.

Under the CREATE Act, the Company shall be entitled to, among others: (i) avail of a lower corporate income tax and (ii) the tax exemption for the importation of crude oil to be refined at a local petroleum refinery.

### **Freeport Area of Bataan Registration**

On December 28, 2020, the Authority of the Freeport Area of Bataan (“**AFAB**”) and the Company entered into a Registration Agreement pursuant to which the Company’s Petron Bataan Refinery complex was approved as a FAB-registered enterprise. The Company believes that the AFAB registration would result in a more level playing field among fuel and oil marketing and distribution companies. The Company’s competitiveness has suffered vis-à-vis other players in the market which are not refiners because value-added tax (“**VAT**”) is imposed on the Company’s importation of crude oil while non-refiners pay VAT and excise tax upon importation and, in the case of non-refiners located in special economic zones, upon withdrawal of finished products. There are generally 60 days between importation of crude and lifting of the finished products produced therefrom at the Petron Bataan Refinery, and another 15 days to sell at retail, so the Company is unable to pass on the VAT for a longer time compared to its non-refining competitors. Also, not all of the crude imported by the Company, for which VAT is imposed and paid, is refined into finished petroleum products and sold to consumers, again resulting to higher input VAT absorbed by the Company and adding to the disparity versus its non-refining competitors. As a FAB-registered enterprise, the Company will be entitled to: (i) tax- and duty-free importation of merchandise which include raw materials, capital equipment machineries and spare parts; (ii) exemption from export wharfage dues, export taxes, imposts, and fees; and (iii) VAT zero-rating of local purchases subject to compliance with BIR and AFAB requirements.

Petron subsidiary New Ventures Realty Corporation (“**NVRC**”) also applied for the declaration of the Petron Bataan Refinery properties, its leased premises, as a FAB Expansion Area. On December 28, 2020, NVRC likewise entered into a FAB Expansion Area Agreement with the AFAB. Locators within NVRC’s FAB Expansion Area will be entitled to the same incentives above.

### **Other Recent Developments**

The Company has decided to proceed with a temporary shutdown of the Petron Bataan Refinery from February 10, 2021 to conduct maintenance activities on key process units while demand is low. The Company expects to resume operations at the Petron Bataan Refinery in May 2021.

On February 22, 2021, the Company executed an asset and purchase agreement with San Miguel Foods, Inc. and Foodcrave Marketing, Inc. (collectively, the “**San Miguel Food Group**”) for the reacquisition by the Company of the *Treats* convenience store business for an aggregate purchase price of ₱64 million. The sale was completed on March 1, 2021.

### **CORPORATE HISTORY AND MILESTONES**

The Company was incorporated in 1966 under the name “Esso Philippines Inc.” and was later renamed “Petrophil Corporation” (“**Petrophil**”). Between 1987 and 1988, Petrophil, Bataan Refining Corporation and Petron TBA Corporation were merged into one entity, and the surviving corporation was renamed

“Petron Corporation.” In 1994, the Philippine National Oil Company (“**PNOC**”) sold 40% of its shares in the Company to Aramco Overseas Company B.V. (“**AOC**”), a wholly owned subsidiary of Saudi Aramco, and 20% to the public in an initial public offering. The Company’s common shares were listed on the PSE in 1994. In 2008, AOC sold its shares in the Company to the Ashmore group, and, following a series of share transfers, at the end of 2008, the Company was majority-owned by the Ashmore group through its subsidiaries, specifically, 50.1% by SEA Refinery Corporation (“**SEA Refinery**”) and 40.47% by SEA Refinery Holdings B.V. (“**SEA BV**”).

In 2008, SMC and SEA BV entered into an option agreement granting SMC the option to buy 100% of SEA BV’s ownership interest in SEA Refinery. In April 2010, SMC exercised its option to purchase a 40% equity interest in SEA Refinery. SMC subsequently acquired an additional 1.97% of the Company’s common shares pursuant to a tender offer. In July 2010, PCERP acquired from SEA BV 24.28% of the common shares in the Company. In August 2010, SMC purchased approximately 16% of the outstanding common shares in the Company from SEA BV, and in October 2010, SMC acquired from the public 0.006% of the Company’s outstanding common shares. SMC subsequently exercised its option to purchase the remaining 60% of SEA Refinery from SEA BV in December 2010, increasing its effective ownership of the outstanding and issued common shares of the Company to 68.26%.

Certain key dates and milestones for the Company’s business are set forth below.

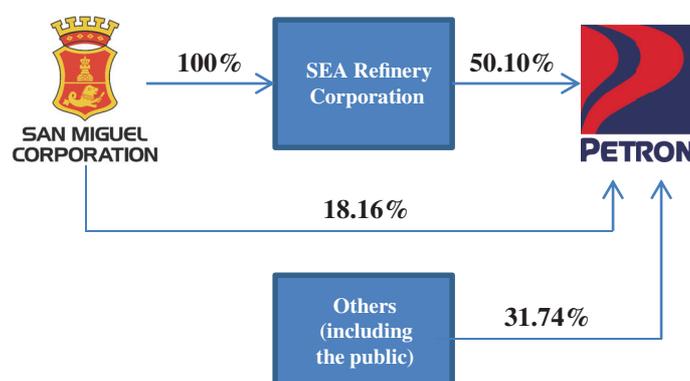
<u>Year</u>	<u>Milestone</u>
1957. . . . .	Standard Vacuum Oil Company was granted a concession to build and operate the Petron Bataan Refinery in Limay, Bataan owned by Bataan Refining Corporation.
1961 . . . . .	The Petron Bataan Refinery commenced commercial operations with a capacity of 25,000 bpd.
1998. . . . .	The lubricant oil blending plant in Pandacan, Manila was modernized, replacing facilities that were built in 1968.
2000. . . . .	The mixed xylene plant in the Petron Bataan Refinery commenced operations, marking the Company’s entry into the petrochemicals market.
2008. . . . .	The petrofluidized catalytic cracking (“ <b>PetroFCC</b> ”) unit in the Petron Bataan Refinery commenced operations enabling the Company to convert fuel oil into higher value products such as LPG, gasoline and diesel.  The propylene recovery unit in the Petron Bataan Refinery commenced operations enabling the recovery of propylene from the LPG produced by the PetroFCC unit.  The fuel additives blending plant in the Subic Freeport Zone commenced operations, making the Company the exclusive blender of Innospec’s additives in the Asia Pacific region.
2009. . . . .	Debottlenecking of the Company’s continuous catalyst regeneration reformer unit and its mixed xylene plant was completed, enabling the recovery of more mixed xylene.  The benzene-toluene extraction unit in the Petron Bataan Refinery commenced operations, enabling the Company to produce benzene and toluene.

Year	Milestone
2010. . . . .	<p>The Company acquired a 40% stake in PAHL, the ultimate parent company of PPI, which was diluted to 33% when PAHL issued new shares to another investor in June 2010. PPI operated a polypropylene plant located in Mariveles, Bataan in the Philippines from 2011 until its polypropylene business was acquired by the Company on July 1, 2014.</p> <p>The Company acquired a 35% stake in MNHPI, forming a joint venture between the Company and Harbour Centre Port Terminal, Inc.</p> <p>In the fourth quarter of 2010, the Company commenced construction of the second phase of the Refinery Master Plan (“RMP-2”), a US\$2 billion project designed to enable the Petron Bataan Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, increase the Company’s production of petrochemicals, and produce Euro-IV standard fuels.</p>
2011. . . . .	<p>PPI commissioned a rehabilitated polypropylene plant in Mariveles, Bataan.</p>
2012. . . . .	<p>The Company acquired 65% of the voting shares of Esso Malaysia Berhad (“Esso Malaysia”) from ExxonMobil International Holdings Inc. The Company subsequently acquired an additional 8.4% of the voting shares of Esso Malaysia in May 2012 pursuant to a mandatory takeover offer. In July 2012, Esso Malaysia was renamed “Petron Malaysia Refining &amp; Marketing Berhad.”</p> <p>The Company’s acquisition of ExxonMobil’s downstream oil business in Malaysia extended its portfolio of oil refining and marketing businesses outside the Philippines.</p> <p>The Company converted certain loans that it had extended to PAHL to additional equity, increasing its stake in PAHL to 45.9%.</p>
2013. . . . .	<p>The Company sold to SMC Powergen Inc. the cogeneration power plant located in the Petron Bataan Refinery.</p>
2014. . . . .	<p>The Company acquired the polypropylene business of PPI and took over the operations of the polypropylene plant, which is leased from PPI’s parent, RIHL.</p> <p>The Company completed RMP-2 in the fourth quarter of 2014.</p>
2015. . . . .	<p>The Company completed commissioning of RMP-2 in the fourth quarter of 2015.</p> <p>The Company increased its stake in PAHL to 47.25%.</p>

Year	Milestone
2016.	<p>The Company declared commercial operations of RMP-2 in January 2016.</p> <p>The Company took over the retail operations of PMC.</p> <p>The Company increased its stake in PAHL to 100%.</p> <p>The Company acquired from SMC Powergen Inc. the cogeneration power plant.</p>
2017.	<p>In March 2017, the Company introduced Blaze 100 Euro 6 gasoline. Petron Blaze is the first premium plus gasoline in the Philippines with 100 octane and the first local fuel to surpass Euro 6 fuel standards.</p> <p>In October 2017, the Company completed the sale of its 10,449,000 shares in MNHPI (equal to 34.83% of MNHPI's outstanding shares) to International Container Terminal Services, Inc.</p>
2020.	<p>In September 2020, the Company sold all its shares in Petrofuel Logistics, Inc. to San Miguel Integrated Logistics Services, Inc.</p> <p>In December 2020, the Company entered into a Registration Agreement with the AFAB pursuant to which the Petron Bataan Refinery complex was approved as a FAB registered enterprise. In the same month, NVRC also entered into a FAB Expansion Area Agreement with the AFAB.</p>
2021.	<p>In February 2021, the Securities and Exchange Commission approved the increase in the capital stock of Petrogen from ₱750 million to ₱2.25 billion, out of which 1,494,973 shares were issued to SMC, making Petrogen 25.06%-owned by Petron and 74.94%-owned by SMC.</p> <p>In March 2021, the Company acquired from San Miguel Foods, Inc. and Foodcrave Marketing, Inc. the <i>Treats</i> convenience store business for an aggregate purchase price of ₱64 million.</p>

## OWNERSHIP AND CORPORATE STRUCTURE

The Company is a publicly listed company jointly owned by SEA Refinery, SMC and others, including the general public. The chart below sets forth the ownership structure of the Company's common shares as of December 31, 2020.



SEA Refinery is a Philippine company wholly-owned by SMC.

## SUBSIDIARIES, ASSOCIATES AND HOLDING COMPANIES

The table below sets forth the Company's equity interest in its primary operating subsidiaries, associates and holding companies as of the date of this Offering Circular, as well as their principal businesses and places of incorporation. As of December 31, 2020, the Company had two insurance subsidiaries, Petrogen and Ovincor, which were established to support the insurance requirements of the Company and its allied business partners, including contractors, suppliers, haulers and dealers. In January 2021, SMC infused a ₱3.0 billion equity investment into Petrogen and effective February 2021, the Company's interest in Petrogen decreased from 100% to 25.06% while SMC's interest totaled 74.94%. The Company also has marketing and trading subsidiaries and interests in realty companies to support its core business.

<u>Name of Company</u>	<u>Place (Date) of Incorporation/ Form of Organization</u>	<u>Company's Equity Interest</u>	<u>Principal Business</u>
Overseas Ventures Insurance Corporation Ltd. ("Ovincor")	Bermuda (1995)/exempt company	100%	Reinsurance
Petron Freeport Corporation ("PFC")	Philippines (2003)/company	100%	Wholesale or retail sale of fuels, operation of retail outlets, restaurants and convenience stores, and the manufacture of fuel additives
Petron Singapore Trading Pte. Ltd. ("PSTPL")	Singapore (2010)/company	100%	Procurement of crude oil, trading of petroleum and petrochemical products, vessel chartering and risk management
Petron Oil & Gas International Sdn Bhd ("POGI")	Malaysia (2011)/company	100% indirect interest	Investment holding
Petron Malaysia Refining & Marketing Bhd ("PMRMB")	Malaysia (1960)/company	73.4% indirect interest (the other 26.6% is owned by the public)	Manufacturing and marketing of petroleum products in Peninsular Malaysia
Petron Fuel International Sdn. Bhd. ("PFISB")	Malaysia (1961)/company	100% indirect interest	Marketing of petroleum products in Peninsular Malaysia
Petron Oil (M) Sdn. Bhd. ("POMSB")	Malaysia (1969)/company	100% indirect interest	Marketing of petroleum products in East Malaysia
New Ventures Realty Corporation ("NVRC")	Philippines (1995)/company	85.55% (the other 14.45% is owned by PCERP)	Purchase and sale of properties suitable for use as service station sites, bulk plants or sales offices

For the year ended December 31, 2020, the Company's subsidiaries contributed ₱111,622 million (US\$2,323.7 million) to total revenues or 39%. For the years ended December 31, 2019 and 2018, the subsidiaries contributed ₱199,578 million or 39% and ₱206,008 million or 37% to total revenues, respectively.

## PRODUCTS

The Company's core products are categorized into (i) Fuels, (ii) Lubricants and Greases, and (iii) Petrochemicals. The Company also produces other refinery products.

### Fuels

<u>Product Name</u>	<u>Product Type</u>	<u>Description</u>
<i><u>The Philippines</u></i>		
Petron Gasul	LPG	A premium LPG product used as fuel for cooking, lighting and industrial applications. Sold in 2.7-kg, 11-kg, 22-kg and 50-kg cylinders and in bulk.
Fiesta Gas	LPG	An economy LPG product used as fuel for cooking, lighting and industrial applications. Sold in 2.7-kg, 11-kg, 22-kg and 50-kg cylinders.
Petron Gaas	Kerosene	Water-white kerosene used as fuel for stoves, lamps and other domestic uses.
Petron Blaze 100 Euro 6	Gasoline	A 100-octane and Euro-6 level premium plus gasoline that meets European fuel quality standards for Euro-6 technology vehicles. It also meets Euro 6b emission standards.
Petron XCS	Gasoline	A 95-octane premium gasoline which contains a complete combustion additive system that delivers excellent engine response, enhanced power and acceleration, and improved fuel economy. It meets and exceeds Euro IV-PH standard for premium grade gasoline.
Petron XTRA Advance	Gasoline	A 91-octane regular gasoline formulated to provide better engine protection, corrosion control, better power, and improved fuel economy.
Petron Turbo Diesel	Diesel	An advanced diesel designed for high performance diesel engines. It is designed to provide excellent engine protection, improved fuel economy, and maximum power for today's modern diesel engines.
Petron Diesel Max	Diesel	A regular diesel fuel formulated with robust multi-functional additive system for optimum engine protection, better power, and improved fuel economy.
Petron Aviation Gasoline	Jet Fuel	A low-lead, high-octane aviation gasoline for aircraft with reciprocating engines.
Petron Jet A-1	Jet Fuel	A highly purified kerosene-type aviation fuel used by aircraft with turbo prop and turbojet engines. It has good combustion characteristics suitable for low-temperature operation at high altitude.

<b>Product Name</b>	<b>Product Type</b>	<b>Description</b>
<b><i>Malaysia</i></b>		
Petron Blaze 100	Gasoline	Malaysia's first 100-octane premium grade gasoline that meets Euro 4M and SIRIM MS 118-3:2011 standards. It provides optimum performance in terms of power, acceleration, and combustion efficiency. It has less sulfur and benzene content, making it a very environmentally friendly product.
Petron Blaze 97	Gasoline	A 97-octane high-performance premium gasoline that contains a special blend of multi-functional additive, combustion enhancer and friction modifier, resulting in excellent engine cleaning action, enhanced power and acceleration, and improved fuel economy. It meets Euro 4M specifications.
Petron Blaze 95	Gasoline	A 95-octane premium gasoline that contains a high-performance detergent additive, friction modifier, and unique gas saving combustion improver that provides better engine protection, optimum power and acceleration, and improved fuel economy.
Petron Turbo Diesel Euro 5	Diesel	A premium plus diesel fuel with 7% PME. It is formulated with an advanced additive technology that provides excellent power, improved fuel economy, and reduced exhaust emissions. It also provides better ignition quality and smoother engine run. It is specially designed to meet European fuel quality standards.
Petron Diesel Max	Diesel	A premium biodiesel mix of PME and diesel which comply with the requirement under the Malaysia Biofuel Industry Act of 2007. It contains a robust multi-functional detergent additive to provide improved fuel economy, clean engine, and reduced exhaust emissions. (The government mandated the increase of PME content from 10% to 20% by area, starting with Langkawi and Labuan on January 1, 2020; Sarawak on September 1, 2020; Sabah on January 1, 2021, and peninsular Malaysia on June 15, 2021.)
Petron Diesel	Diesel	A premium diesel fuel with robust and multifunctional additives that provide improved fuel economy and reduced emissions. It is designed to maintain and improve fuel injection system cleanliness through unsurpassed detergency characteristics. It meets Euro 2M and SIRIM MS 123-1:2014 specifications.
Petron Gasul	LPG	A premium LPG product used as fuel for cooking, lighting and industrial applications, sold in 12-kg, 14-kg and 50-kg cylinders and in bulk. An additional product line called F14, which are 14-kg cylinders for forklifts, is also available.
Petron Kerosene	Kerosene	A refined kerosene with clean and efficient burning qualities.
Petron Jet A-1	Jet Fuel	A highly purified kerosene-type aviation fuel used by aircraft with turbo prop and turbojet engines.

## **Lubricants and Greases**

**Automotive oil and lubricant products** include the Company's extensive line of automotive oil and lubricants for different types of vehicle engines and road conditions.

**Industrial oil and lubricant products** include the Company's broad range of oil and lubricants designed for extreme temperatures and operating conditions for various industrial uses.

**Marine oil and lubricant products** include the Company's broad range of oil designed for lubrication of various types of diesel engines used in the maritime industry.

**Greases** include the Company's grease products used for the protection of equipment and the reduction of wear on gears and other components of vehicle and industrial engines.

**Asphalts** include the Company's asphalt products used for road paving, sealing applications, undercoating, waterproofing and rust proofing.

**Special products** include the Company's products designed for special applications, such as process oils, thermal oils, protective coatings, steel case moulding, tire manufacturing, processing of natural fibers and other non-lubricating applications.

**Aftermarket specialties** include products such as brake fluid coolants, diesel additives, engine oil and gasoline additives, sprayable grease, car shampoos and multi-purpose sprays.

## **Petrochemicals**

**Xylene** is used to make polyester fibres, packaging materials, bottles and films.

**Propylene** is the raw material used for the production of polypropylene.

**Polypropylene** is used to manufacture food packaging plastics, car bumpers, computer housings, appliance parts and fibres.

**Benzene** is an aromatic hydrocarbon used to produce numerous intermediate petrochemical compounds, such as styrene, phenol, cyclohexane, alkylbenzenes, and chlorobenzenes, which are used to produce plastics, pharmaceuticals, pesticides and other chemicals. It is also used as a solvent for paints and natural rubber.

**Toluene** is used as a solvent in paints, inks, adhesives, and cleaning agents, as well as in chemical extractions. It is also used in the chemical synthesis of benzene, urethane foams and other organic chemicals, and in the production of pharmaceuticals, dyes and cosmetic nail products.

## **Other Refinery Products**

**LSWR** is a low-sulfur bottom/residue from refinery processing that is used as feedstock for chemical plants or as fuel for industrial boilers or heaters.

**Naphtha** is widely used as a motor gasoline component. It is also used as feedstock in steam crackers to produce olefins. Like some petrochemicals, it is also used as solvent for cleaning applications and also as a diluent in the mining industry.

**Molten sulfur** is a by-product of the Petron Bataan Refinery. It is used as precursor to different chemical compounds with a wide variety of applications from sulfuric acid to fertilizers and pharmaceutical drugs.

**Petcoke** is used in power generation and manufacturing processes as an alternative feedstock to coal.

## PRODUCTION

### Production Facilities

#### *The Philippines*

In the Philippines, the Company owns the Petron Bataan Refinery complex located in Limay, Bataan, which is a 180,000 bpd full conversion refinery. The Petron Bataan Refinery is capable of producing a range of all white petroleum products such as LPG, naphtha, gasoline, kerosene, jet fuel and diesel, with no residual fuel oil production. It also produces petrochemical feedstocks benzene, toluene, mixed xylene, and propylene. It has its own product piers and two offshore berthing facilities, one of which can accommodate very large crude oil carriers, or “VLCCs.” In December 2016, the Company acquired the cogeneration power plant from SMC Powergen, Inc., which consists of four turbo generators with a combined capacity of 140 MW and four solid fuel fired Circulating Fluidized Bed boilers with a combined capacity of 800 TPH. This ensures the sufficient and reliable supply of steam and power for the Petron Bataan Refinery and export excess power to the grid.

In 2000, the Petron Bataan Refinery commenced petrochemical production and, as of the date of this Offering Circular, is capable of producing the following:

<b>Product</b>	<b>Capacity (Metric tons/year)</b>
Mixed Xylene. . . . .	232,000
Propylene. . . . .	391,000*
Benzene. . . . .	24,000
Toluene . . . . .	158,000
Polypropylene . . . . .	160,000
<b>Total</b> . . . . .	<b>965,000</b>

\* Based on FCC1 maximum propylene case and FCC2 hybrid case on their design capacities

In addition to the Petron Bataan Refinery, the Company owns and operates a fuel additives blending plant (the “**Subic Plant**”) in the Subic Bay Freeport Zone in the Philippines with a capacity of 12,000 metric tons per year. The Company has a tolling agreement with Innospec, Limited (“**Innospec**”), a global fuel additives supplier. The output of the Subic Plant serves the fuel additive requirements of the Company and Innospec’s customers in the Asia-Pacific region. The Company is Innospec’s exclusive blender in the Asia-Pacific region.

Petron also operates a lube oil blending plant in Tondo. The capacity of the New Lube Oil Blending Plant (NLOBP) is 90,000,000 liters per year per shift.

#### *Malaysia*

In Malaysia, the Company owns the Port Dickson Refinery complex located in Port Dickson in the state of Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 bpd and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. With the exception of naphtha and LSWR, these products are intended to meet domestic demand in Malaysia. The Company exports its naphtha and LSWR to various customers in the Asia-Pacific region under term and spot contracts.

Crude oil feedstock for the Port Dickson Refinery is received through a single buoy mooring (“**SBM**”) and crude pipeline facilities that are jointly owned with Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad) through an unincorporated joint venture. Under the joint venture, the Company shares 50% of SBM operating and capital costs and also pays a levy of one-third of the overhead and administrative charges incurred in connection with the operation of the SBM.

## **The Refining Process and Quality Improvement Initiatives**

### ***The Petron Bataan Refinery***

The Petron Bataan Refinery has been continuously implementing various programs and initiatives to achieve key performance index targets on reliability, processing efficiency, energy efficiency, safety and environmental protection.

To adapt to ever-changing market conditions, the refinery implements margin enhancement programs to strategize production of higher value product yields.

On December 28, 2020, Petron Bataan Refinery was approved as a FAB-registered enterprise. With this registration, the refinery would be more competitive and in a better position to sustain its operation to supply fuel for the nation.

### ***The Port Dickson Refinery***

The Port Dickson Refinery uses an Integrated Management System (“**IMS**”) in support of its operations. Embedded within the IMS are the Petron Operation Integrity Management System (“**POIMS**”), Control Management System (“**CMS**”), and Product Quality Management System (“**PQMS**”). In addition, the Port Dickson Refinery also practices the Loss Prevention System (“**LPS**”), the Reliability Management System (“**RMS**”) and plant optimization initiatives for improved plant efficiency.

The Port Dickson Refinery adopted IMS in 2019 to align all existing processes under one management system. The POIMS provides a structured approach to the management of risks related to safety, security, health, environment (SSHE) and operation integrity to comply with local regulations and laws. CMS provides a process for ensuring that Corporate Policies and In-Line Controls are implemented and effectively sustained over time. PQMS provides a work process to ensure high-quality products are delivered to customers. The Port Dickson Refinery was awarded with the certification in December 2019.

To increase plant reliability, the Port Dickson Refinery adopted the RMS, which utilizes a risk-based equipment strategy and aims to improve mechanical efficiency through routine work planning, scheduling and execution. The Port Dickson Refinery also continuously seeks improvement in the areas of process optimization, flaring, oil loss and energy conservation through the use of advanced process computer control and an integrated plant information system.

## **Raw Materials**

### ***Philippine Operations***

The main raw material used in the Petron Bataan Refinery’s production process is crude oil. The Company’s crude oil optimization strategy includes the utilization of various types of crude oil, ranging from light and sweet crude to heavier, more sour alternative crude.

The Company acquires crude oil for the Petron Bataan Refinery primarily through arrangements with its wholly-owned subsidiary Petron Singapore Trading Pte. Ltd. (“**PSTPL**”), which in turn obtains crude oil from foreign sources, through a combination of term or spot purchase contracts. PSTPL has a term contract with Saudi Aramco for the year 2021 to purchase various Saudi Arabian crude. The pricing and payment mechanisms under this contract are consistent with Saudi Aramco’s standard practice for its Far East customers. Pricing is determined through a formula that is linked to international industry benchmarks, and payment is secured by irrevocable standby letters of credit. The contract is automatically renewed annually unless either the Company or Saudi Aramco elects to terminate the contract upon at least 60 days’ written notice prior to its expiration date. As of the date of this Offering Circular, neither the Company nor Saudi Aramco had terminated the contract.

Several other crude oils are purchased on spot basis from various suppliers.

PSTPL has a term contract with GS Caltex for year 2021 to purchase group II base oils (J500 (500N) and J150 (150N)) and avgas. The term contract is negotiated annually, subject to both parties’ options, and pricing is calculated using a formula based on an international standard price benchmark for base oils and Mean of Platts Singapore for avgas. Group II base oil is the Company’s main feedstock for the production of automotive, industrial and marine lubricants, while avgas is used for aviation fuel requirements.

PSTPL has a term contract with Hiin for year 2021 to purchase asphalt. The term contract is negotiated annually, subject to both parties' options, and pricing is calculated using a formula based on an international standard price benchmark for asphalt.

The Company may import gasoline, diesel, LPG, and jet fuel. These imports are necessary if there is higher demand in the Philippines and during maintenance of the Petron Bataan Refinery. The Company ceased producing fuel oil, a lower margin product, upon the completion of the RMP-2. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline and jet fuel, and Saudi Aramco contract prices ("Saudi CP") for LPG.

### ***Malaysian Operations***

The main raw materials used in the Port Dickson Refinery's production process are crude oil and condensate. The Port Dickson Refinery is designed to process sweet crude oil. The Company's crude oil optimization strategy includes diversification in processing different types of local as well as regional sweet crude oil.

The Company acquires crude oil and condensate for the Port Dickson Refinery from various sources, through a combination of term purchase contracts and spot market purchases. The Company has a long-term supply contract for Tapis crude oil and Terengganu condensate with Exxon Mobil Exploration and Production Malaysia Inc. ("EMEPMI") for a period of 10 years until March 2022 (to be renewed), supplemented by other short-term supply contracts and spot crude purchases. Currently, about 73% of the crude and condensate volume is sourced from EMEPMI, while the balance from other term and spot purchases. Pricing is determined through a formula that is linked to international industry benchmarks. Petron also utilizes Port Dickson Refinery spare capacity for crude processing arrangement of third parties to optimize utilization and benefits.

A portion of the Company's palm oil methyl ester ("PME") requirements for its bio-diesel mix are sourced from the PME plant acquired by Petron Malaysia Refining & Marketing Bhd in March 2019. The plant is located at Lumut, Perak and has an annual capacity of 60,000 metric tons. The Company purchases the balance of its PME requirements from other Malaysian government-approved local suppliers. PME is the bio-component of the biodiesel mix sold to domestic customers in Malaysia. Petron produces a biodiesel mix comprising 10% PME: 90% diesel for the Retail sector and 7% PME: 93% diesel for the Commercial sector (with exception for electricity power generation) mainly for the transportation and subsidized segment, following the Malaysian Biofuel Industry Act of 2007.

The Company also imports LPG, diesel, gasoline, jet fuel and some gasoline blending components into Malaysia to support domestic demand beyond its production level. These imports are purchased through term purchase contracts and in the spot market. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline, jet fuel and some gasoline blending components, and Saudi CP for LPG.

### **Utilities**

The principal utilities required for the Company's production process are water, electricity and steam.

#### **Water**

Deep wells provide the Petron Bataan Refinery's water requirements.

The Port Dickson Refinery's clean water requirements for the process units are sourced from the local municipal cooling water source. Water for fire-fighting purposes is sourced from a natural lagoon located within the Port Dickson Refinery complex.

#### **Electricity and Steam**

The Petron Bataan Refinery's electricity and steam requirements are sourced from the Petron Bataan Refinery's existing turbo and steam generators as well as from its cogeneration power plant. The cogeneration power plant was acquired by the Company in December 2016 from SMC Powergen Inc., a subsidiary of SMC and an affiliate of the Company.

The Port Dickson Refinery's electricity requirements are purchased from Tenaga Nasional Berhad (TNB), the Malaysian national electricity provider, while the Port Dickson Refinery's fired and waste heat boilers supply the steam requirements of the refinery's process units.

## SALES AND MARKETING

The major markets in the petroleum industry are Retail, Industrial, LPG and Lube Trades. Petron sells its products to both industrial end-users and through a nationwide network of service stations, LPG dealerships, sales centers and other retail outlets. It also supplies jet fuel at key airports to international and domestic carriers.

### **The Philippines**

In the Philippines, the Company operates the only integrated oil refinery and is a leading oil marketing company. The Company had an overall market share of 24% of the Philippine oil market in the first half of 2020 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the DOE.

#### ***Retail Service Stations***

The Company had a network of approximately 2,435 retail service stations in the Philippines as of December 31, 2020, according to the Company's estimates. Most of these stations are located in Luzon, where demand is heaviest.

The Company employs two types of service station operating structures in the Philippines: (i) CODO, which are Company-owned-dealer-operated service stations, and (ii) DODO, which are dealer-owned-dealer-operated service stations. For CODOs, the Company buys or leases the land and owns the service station structures and equipment, but third-party dealers operate the CODOs. For DODOs, third-party dealers buy or lease the land, build service station structures according to Company specifications, lease the service station equipment from the Company, and operate the DODOs. As of December 31, 2020, approximately 34% of the Company's retail service stations in the Philippines were CODOs, and approximately 66% were DODOs.

The Company's DODO network includes Petron *Bulilit* Stations, which are small service stations that provide the flexibility to establish a presence even in remote rural areas and make the Company's products and services accessible to more Filipinos. As of December 31, 2020, about 720 Petron *Bulilit* Stations are in operation.

To improve traffic in the Company's service stations and increase potential revenues of the Company's non-fuel business, the Company established *Treats* convenience stores and leases space to quick-serve restaurants and other consumer service shops in strategic service stations nationwide. The *Treats* convenience stores were rebranded under the brand name *San Mig Food Avenue* in 2011 pursuant to an agreement with San Miguel Foods Inc. The convenience stores are operated by dealers through a franchise obtained from San Miguel Foods, Inc. In 2014, the Company opened stores in Manila under the brand name "*Treats*," with permission from San Miguel Foods, Inc. for the use of the brand name. As of December 31, 2020, there are about 125 *Treats* outlets nationwide. On March 1, 2021, the Company reacquired the *Treats* convenience store business from the San Miguel Food Group. The acquisition covered fixed assets in the stores, inventory, and intangible assets such as contracts and the *Treats* trademarks. The *Treats* acquisition will optimize the synergies between the operation of the Petron service stations and the *Treats* outlets located in the service stations and result in operational efficiencies and savings, unified customer marketing programs, maximized exposure of the *Treats* brand, and the provision of holistic business consulting to dealers on their businesses within the service station.

The Company continues to install the point of sale ("POS") system across its retail network throughout the Philippines. POS systems are used for gaining efficiencies through automating retail transactions and the proper monitoring of actual sales in service stations. As of December 31, 2020, the Company had installed POS terminals in approximately 1,234 retail service stations in the Philippines.

#### ***Industrial Sales***

The Company believes it is the leading supplier to the Philippine industrial sector, which includes major manufacturing, aviation, marine, and power accounts. The Company had approximately 820 direct industrial account customers as of December 31, 2020.

## ***LPG***

The Company is a leading market participant in the Philippine LPG market in terms of market share. The Company has set up approximately 1,117 branch stores through its *Gasul* and *Fiesta Gas* LPG dealers as of December 31, 2020. The Company has commissioned 8 mini-refilling plants in the Philippines as of December 31, 2020 to broaden the reach of the Company's LPG products and make them accessible to more Filipinos.

## ***Lubricants, Specialties and Petrochemicals***

To augment lubricants and greases sales, the Company has a network of approximately 44 Car Care Centers, 36 Petron Lube Distributors, and 14 Key Accounts, which includes Original Engine Manufacturers (OEM) and Franchise Car Dealers (FCDs), throughout the Philippines as of December 31, 2020. The Company capitalizes on the strong lubricant distribution network of non-traditional outlets such as automotive and motorcycle parts outlets and automotive repair shops, and expanded LPG-outlet network by utilizing its LPG branch stores as outlets for the Company's lubricants and specialty products. The Company has expanded into blending and export of fuel additives, leveraging on its technology partnership with Innospec, a global fuel additives supplier. The Company also provides technical services to Innospec's customers and was able to tap the customer base of Innospec in Asia to broaden the market for its own lubricant brands.

The Company exports various petroleum products such as lubricants and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. These products are sold through accredited traders and to end-users under term or spot contracts.

Polypropylene is sold mostly to companies engaged in the manufacture of packaging materials.

## ***Loyalty Programs***

The Company actively pursues initiatives to improve customer service and promote customer loyalty. In 2004, the Company launched the Petron Fleet Card, the first microchip-powered card in the Philippines, which is a credit card that offers rebates and discounts on fuel, lubricants and services and provides 24-hour free towing and roadside assistance to cardholders. As of December 31, 2020, approximately 470,368 Petron Fleet Cards had been issued. In 2008, the Company launched Petron e-Fuel Card as a promotional item. To maximize patronage of its service stations and related businesses, the Company launched a loyalty program in October 2011 through its Petron Value Card, which offers 24-hour free towing and roadside assistance, rewards points for every purchase and complimentary annual personal accident insurance coverage. In 2014, the Company introduced the Petron Super Driver Card, a variant of the Petron Value Card, to the public utility vehicle sector, specifically targeting the taxi and tricycle markets. As of December 31, 2020, the Company has issued approximately 5.6 million Petron Value Cards (including Petron Super Driver Cards).

## ***Malaysia***

The Company's fuels marketing business in Malaysia is segmented into retail and commercial business.

### ***Retail Business***

The retail business markets fuel and its related products through a dealer network comprising more than 720 retail service stations located throughout Peninsular and East Malaysia as of December 31, 2020. In Malaysia, the Company uses the company-owned, dealer-operated (CODO) and dealer-owned, dealer-operated (DODO) operating structures for its retail service stations. CODO accounted for approximately 60% of the total retail service station network of the Company while DODOs made up the 40% balance. The Company also has approximately 290 Treats convenience stores, generating non-fuel income and improving traffic in the service stations.

To further enhance the customer service experience in Malaysia, the Company launched the "Fuel Happy" campaign in March 2015 with various marketing activities and events organized to reward and enchant the customers. This was followed by "Best Day at Petron" campaign launched in 2017. In January 2016, the Company pioneered the country's first premium fuel with the rollout of Petron Blaze 100. As of December 31, 2020, Blaze 100 is available in more than 100 stations, mainly located in Klang Valley and the southern city Johor Bahru. The Company also offers Petron Turbo Diesel Euro 5, a premium plus diesel fuel with 7% biodiesel mix that meets Euro 5 standards, even prior to the mandatory implementation of Euro 5 diesel standards by the Malaysian government slated on April 1, 2021. As of December 31, 2020, the Company has approximately 250 service stations offering Turbo Diesel Euro 5.

## **Commercial Business**

The Company's commercial business is divided into three segments: industrial and wholesale fuels, LPG and lubricants and specialties.

### *Industrial and Wholesale Fuels*

The industrial segment sells diesel and gasoline to unbranded mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors. The Company's sales of RON95 gasoline and diesel to unbranded mini-stations represented approximately 40% of its industrial sales by volume in 2020. Sales to the mini-stations are priced according to the APM. Many power plants in Malaysia run on natural gas and use diesel as alternative fuel when there are gas curtailments. The Company sells diesel to such power plants on an ad-hoc basis at formulated prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Prices of diesel to the manufacturing, mining, plantation and construction sectors are not regulated by the Malaysian government, and the pricing of these sales is subject to market supply and demand.

The Malaysian wholesale segment consists of sales, primarily of diesel, to Company-appointed distributors, which subsequently sell the Company's products to industrial customers. As of December 31, 2020, the Company had about 200 active distributors. See "*Risk Factors – Risks Relating to the Company's Business and Operations – The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products.*"

In Malaysia's aviation sector, the Company is one of the three major jet fuel suppliers at KLIA and KLIA 2 pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System Sdn Bhd, the operator of the KLIA's storage and hydrant facility.

### *LPG*

The Company markets LPG in 12-kg and 14-kg cylinders for domestic/household sales, and 50-kg cylinders and bulk for commercial use, through redistribution centers, stockists and dealers. LPG redistribution centers are owned by the Company to store and distribute bottled LPG to dealers. Stockists are dealer-owned distribution centers which also distribute bottled LPG to other dealers. Dealers generally collect bottled LPG directly from redistribution centers and stockists for onward sale to domestic and commercial consumers. Prices of 12-kg and 14-kg cylinders for domestic use are regulated under the APM. In April 2019, Petron launched Petron Gasul at its service stations, the first "cash and carry" service wherein customers can purchase their LPG cooking gas at the service station. As of December 31, 2020, the Company has over 80 service stations selling Gasul LPG.

The Company also sells bulk LPG to industrial users through appointed dealers and to resellers. Prices of 14-kg forklift gas, 14-kg commercial gas, 50-kg and bulk LPG are not regulated by the APM. To further enhance the Petron Gasul brand, the Company has identified three Brand Promises to drive the business forward: Safety, Quality and Convenience. See "*Regulatory and Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products – Price Control and Anti Profiteering Act, 2011*" for a more detailed discussion of the APM and the Malaysian quota system.

### *Lubricants and Specialties*

The Company established a lubricants and specialties business line in April 2012 to introduce Petron lubricants and greases into the Malaysian market. These products are marketed through a network of appointed distributors in both West and East Malaysia to various industry segments including car and motorcycle workshops, transport and fleet operators, manufacturing and industrial accounts. The Company's wide range of automotive lubricants is sold through the Company's extensive network of service stations in Malaysia.

The Company exports surplus intermediate products LSWR and naphtha from the Port Dickson Refinery through accredited traders and to end-users under term or spot contracts.

In response to the government's biofuel mandate, Petron acquired a PME plant in Lumut, Perak in March 2019 to help ensure reliable and adequate supply of PME for the Company's needs. Besides PME, the Lumut plant also produces glycerin that is sold to local and overseas customers. Glycerin is used mainly for pharmaceutical and cosmetic products like moisturizing skin care products and soaps.

### Loyalty Programs

The Company has been actively pursuing initiatives to improve customer service and promote customer loyalty for its Malaysian retail business by offering rebates, points and discounts. As of December 31, 2020, the Company has about 12 million Petron Miles cardholder accounts in Malaysia under its loyalty card program.

### Export Sales

In line with the Company's efforts to increase its presence in the regional market, it exports various petroleum and non-fuel products to Asia-Pacific countries such as South Korea, Taiwan, China, Vietnam, Singapore, Hong Kong, Thailand and Indonesia. Exports, which generate dollar inflows for the Company, provide a natural hedge against losses which may arise from fluctuations in the foreign exchange rate. The Company's revenues from these export sales amounted to ₱51.5 billion, or 9% of total sales, in 2018, ₱26.8 billion, or 5% of total sales, in 2019, and ₱15.5 billion, or 5% of total sales, for the year ended December 31, 2020.

Below is the summary of the percentage of sales or revenues of domestic and export sales of the Company and its subsidiaries from 2018 to 2020:

	<u>Domestic</u>	<u>Exports/ International</u>	<u>Total</u>
2018 (in millions). . . . .	₱313,742 56%	₱243,644 44%	₱557,386
2019 (in millions). . . . .	₱301,445 59%	₱212,917 41%	₱514,362
2020 (in millions). . . . .	₱166,820 58%	₱119,213 42%	₱286,033

### Additional Information on Business Segments – Consolidated

The following table presents additional information on the petroleum business segment of the Company as at and for the years ended December 31, 2018, 2019 and 2020:

	<u>Reseller</u>	<u>Lube</u>	<u>Gasul</u>	<u>Industrial</u>	<u>Others</u>	<u>Total</u>
	(in millions)					
<b>2018</b>						
Revenue. . . . .	₱270,760	₱4,883	₱27,810	₱132,397	₱119,108	₱554,958
Property, plant and equipment. . . . .	12,192	70	499	90	150,567	163,418
Capital expenditures . . . .	3,326	6	14	9	8,989	12,344
<b>2019</b>						
Revenue. . . . .	₱249,210	₱4,474	₱25,745	₱125,314	₱107,178	₱511,921
Property, plant and equipment. . . . .	9,949	40	303	100	156,868	167,260
Capital expenditures . . . .	1,892	2	5	–	14,951	16,850
<b>2020</b>						
Revenue. . . . .	₱149,406	₱3,577	₱20,259	₱57,889	₱52,754	₱283,885
Property, plant and equipment. . . . .	9,057	37	258	13	158,924	168,289
Capital expenditures . . . .	2,382	1	12	–	22,234	24,629

## **DISTRIBUTION**

### **The Philippines**

The Company's main storage facility in the Philippines was formerly located in Pandacan, Manila. The reclassification by local authorities of the area occupied by the Pandacan terminal prohibited the continued operation of the Company's facility in Pandacan as a petroleum storage facility and necessitated relocation to other alternative sites in Luzon. The Company ceased its petroleum product storage operations in Pandacan in January 2015.

To serve its domestic markets, the Company maintains 40 terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 13 terminals in Luzon, seven in the Visayas and eight in Mindanao, as well as four airport installations in Luzon, five airport installations in Visayas and three airport installations in Mindanao. Terminals have marine receiving facilities, multiple product storage tanks for liquid fuels and LPG, drummed products storage, and warehouses for packaged products, such as lubricants and greases. From the Petron Bataan Refinery, refined products are distributed to the various terminals and direct large consumer accounts using a fleet of contracted barges and tankers, and to service stations and industrial accounts through a fleet of contracted tank trucks. The barges and tankers are chartered on term or spot contracts from third-party ship owners. From the storage terminals, bulk products are hauled by tank trucks owned by third parties to service stations and industrial accounts. Under the terms of the applicable contracts, the third-party owners of the contracted barges, tankers and tank trucks that are used to haul the Company's products are liable for losses and environmental issues that may arise while the products are being transported.

In its Philippine LPG business, the Company has a nationwide network of retail dealerships and outlets. Some service stations carry the Company's LPG products and accessories. The Company has stand-alone LPG operations in its terminals in Pasig City, Legazpi City and San Fernando City in Pampanga.

Lubricants and greases in various packages are transported by container vans to bulk plants and terminals outside Metro Manila. Package trucks owned by third parties are utilized to deliver these lubricants and greases to various customers in Metro Manila and Luzon. Sales counters throughout the Philippines are appointed to sell these products. The Company has a tolling agreement with Innospec for the blending of fuel additive products in its Subic Plant.

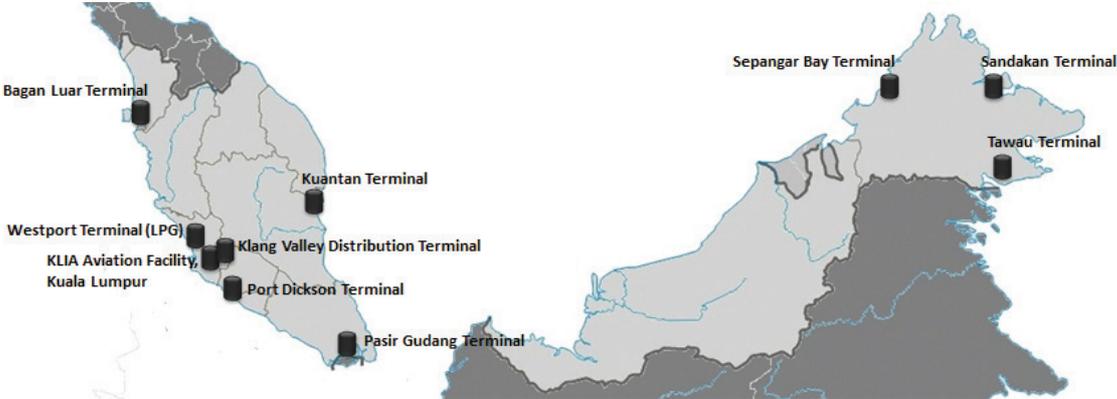
The Company has airport installations at the Ninoy Aquino International Airport ("NAIA") and 11 other airports located in major urban centers in the Philippines. These installations provide storage of aviation fuels as well as refueling services for various aircraft. In addition, the Company has presence in the airports of Puerto Princesa and Clark in Luzon, Mactan, Bohol, Kalibo, Caticlan and Iloilo City in the Visayas, as well as in Zamboanga City in Mindanao via mobile into plane refueling equipment.

### **Malaysia**

Products from the Port Dickson Refinery are distributed to service stations and commercial accounts through tank trucks that lift products via the Port Dickson Terminal's tank truck loading facilities. These loading facilities are connected to the storage tanks inside the refinery. The refinery's produced volume is also sent to Klang Valley Distribution Terminal ("KVDT") through a pipeline. Tank trucks lift products from KVDT for delivery to Petron customers. The other terminals source product through imports from regional suppliers. Products are lifted from the terminals via tank trucks and delivered to service stations and commercial accounts. The Port Dickson terminal is located beside the Port Dickson Refinery, while the other terminals are located near major fuel product market areas.

The map below shows the geographic coverage of the Company’s terminals in Malaysia as of December 31, 2020.

**Geographic coverage of the Company’s terminals in Malaysia**



PETRON TERMINALS IN MALAYSIA		
	Peninsular Malaysia	Sabah
<b>Terminals</b>	Bagan Luar Klang Valley Distribution Terminal* KLIA Aviation Facility** Kuantan Pasir Gudang*** Port Dickson Westport****	Sandakan Sepangar Bay Tawau

\* Breakdown of equity share as follows: Petron (20%), Shell Malaysia Trading Sdn Bhd (40%), Petronas Dagangan Berhad (40%)

\*\* Petron operates within the facility owned by Malaysia Airport Holdings Berhad (MAHB) under an agreement with Kuala Lumpur Aviation Fuelling System Sdn Bhd (KAFS), a subsidiary of Petronas Dagangan Berhad.

\*\*\* Co-share with Chevron Malaysia Limited

\*\*\*\* Co-share with Boustead Petroleum Marketing Sdn Bhd

Jet fuel is transported from the Port Dickson Refinery to KLIA through a multi-product pipeline (the “MPP”), which is jointly owned by the Company through its 20% ownership interest in an unincorporated joint venture with Petronas Dagangan Berhad (“PDB”) and Shell Malaysia Trading Sdn Bhd (“Shell Malaysia”), each of which has a 40% ownership interest. The MPP is a fungible products pipeline for transporting gasoline, diesel and jet fuel and is operated by PS Pipeline Sdn Bhd, a 50-50 joint venture between PDB and Shell Malaysia.

The joint venture through which the Company owns its interest in the MPP also owns the Klang Valley Distribution Terminal (KVDT), where fuel inventory is commingled. Prior to 2015, the Company only used the MPP to transport jet fuel to KLIA and not for transporting gasoline or diesel to the KVDT. In 2015, the Company successfully completed a project linking the Port Dickson Refinery to the MPP to transport gasoline and diesel products to KVDT. This improved the Company’s logistics and reduced cost of delivery to service stations in the Klang Valley area, a major market.

LPG is bottled at the Port Dickson and Westport terminals. Most redistribution centers and stockists collect bottled LPG directly from the Port Dickson and Westport terminals. The Company has an LPG storage and bottling facility at West Port (part of Port Klang, the principal port facility serving the Klang Valley), which is a 50-50 joint venture between the Company and Boustead Petroleum Marketing Sdn Bhd. Both terminals also load Bulk LPG for industrial customers. The Company had also contracted third-party bottling facilities to expand the reach of its Gasol products in Perak and Penang in the north, Kelantan in the east coast and recently in Johor in the south.

The Company entered the Sarawak retail market in February 2017 with an initial six DODO stations, subsequently increasing the number to 11 as of December 31, 2020. These stations are supplied through a sales and purchase term agreement with a local company, Petronesa Trading Sdn Bhd, from independent terminals located in Kuching and Tanjung Manis.

## **CAPITAL EXPENDITURE PROJECTS**

### **Petron Bataan Refinery**

The Company undertook the upgrade and expansion of the Petron Bataan Refinery in two phases – Phase 1 of the Refinery Master Plan (“**RMP-1**”) was completed in May 2009 while Phase 2 (“**RMP-2**”) attained full commercial operation in January 2016. RMP-1 increased the Petron Bataan Refinery’s capability to convert low-margin fuel oil into White Products such as LPG, gasoline and diesel. RMP-1 also expanded the Company’s venture into production of petrochemical feedstocks such as propylene, benzene, toluene and additional mixed xylene. RMP-2 was a US\$2 billion investment project which enabled the Petron Bataan Refinery to further enhance its operational efficiencies, convert all residual fuel oil production into production of more White Products and produce Euro-IV fuels and increase the Company’s production of petrochemicals. With RMP-2, the Petron Bataan Refinery also produces byproduct petcoke, which is used as fuel for its cogeneration power plant, lowering its power and steam costs.

The Company believes that RMP-2 significantly enhanced the Petron Bataan Refinery’s competitiveness with its complexity index higher than most refineries in the region. The Company will continue to make investments in the Petron Bataan Refinery facilities to ensure reliability and efficiency of critical refinery processes and to reduce costs.

The Company is currently constructing a new powerplant to replace some of its old generators and generate incremental power and steam. In addition, products previously used as refinery fuel will be converted to high-value products. Construction is expected to be completed by the second half of 2022. Other investments in the Petron Bataan Refinery include the expansion of the polypropylene plant and investments to reduce product costs and improve crude flexibility.

### ***Philippine Retail Network Expansion***

To support growing fuel demand in the Philippines, the Company will continue to build service stations in high-growth or high-volume sites. The Company will also continue its retail network expansion programs for its LPG and Lubes segments.

### ***Logistics Expansion and Upgrade***

The Company will continue upgrading and expanding its storage capacity to improve product supply reliability, support growing demand and reduce costs. Moreover, the need to construct new terminals closer to their markets is constantly being evaluated to reduce distribution costs.

### **Malaysia Expansion and Improvements**

The Company will continue to construct new service stations and expand its retail network in Malaysia. Production facilities at the Port Dickson Refinery will also be enhanced to improve operating efficiency. The Company is nearing completion of a new diesel hydrotreater process unit in Port Dickson Refinery to meet Euro-5 diesel regulation in 2021. These projects will be financed mainly from internally generated cash provided by operating activities.

## COMPETITION

### The Philippines

In the Philippines, the Company operates in a deregulated business environment, selling its products to individual, commercial and industrial customers. The enactment of the Downstream Oil Industry Deregulation Law in 1998 effectively removed the rate-setting function of the Philippine government through what was then known as the Energy Regulatory Board, leaving price-setting to market forces. It also opened the oil industry to free competition. See “*Regulatory and Environmental Matters*” for a more detailed discussion of the oil deregulation law.

The Philippine downstream oil industry is dominated by three major oil companies: the Company, Shell and Chevron, which, based on Company estimates based on its internal assumptions and calculations and industry data from the DOE for the first half of 2020, together constituted 50% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 200 other industry market participants, rendering the petroleum business more competitive. The Company, with total crude oil distillation capacity of 180,000 bpd, operates the only petroleum refinery in the country. The rest of the industry market participants are importers of finished petroleum products or purchase finished petroleum products from other market participants in the local market. In the Philippines, the Company competes with other industry market participants on the basis of price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value.

The Company participates in the reseller (service station), industrial, LPG and lube sectors through its network of service stations, terminals, dealers and distributors throughout the Philippines. In the reseller sector, competition is most dynamic among the major firms, as seen through the construction of service stations by Shell, Chevron, Total Philippines, Phoenix Petroleum, Seoil and other new participants in major thoroughfares. The Company has approximately 2,435 retail service stations as of December 31, 2020, reaching more customers throughout the Philippines. The small market participants continued to grow, with station count increasing from approximately 2,660 in 2017 to approximately 3,500 stations as of December 31, 2020. Participants in the reseller and LPG sectors continue to resort to aggressive pricing and discounting in order to expand their market share. The number of major LPG importers in the Philippines increased from three, prior to deregulation, to about seven, with new entrants having more flexible and bigger import receiving capacities. In the industrial sector, the major market participants continue to invest heavily in order to increase their market share and tap new markets. In the lubricants sector, intense competition among many brands, including global brands such as Castrol, Mobil, Shell and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of previously unutilized markets, such as auto-dealerships in malls.

The Company is the leader in the Philippine downstream oil industry, with an overall market share of about 24% of the Philippine oil market in the first half of 2020, ahead of the other two major oil companies, which have a combined market share of 26% in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the DOE. Approximately 200 smaller oil market participants, which started operations after the deregulation of the oil industry in 1998, account for the remaining market share. The Company believes that it is the leader in terms of sales volume in the retail, industrial and LPG market segments based on Company estimates using its internal assumptions and calculations and industry data from the DOE for the year ended 2020. The Company’s retail sales volumes for the years ended 2018, 2019 and 2020 were approximately 59,000 bpd, 53,000 bpd and 39,000 bpd, respectively. The Company’s non-retail sales volumes (including industrial and LPG) for the years ended 2018, 2019 and 2020 were approximately 115,000 bpd, 105,000 bpd and 64,000 bpd, respectively.

The Company believes that its competitive advantages include organization, technology, assets, resources and infrastructure. The Company continues to implement initiatives aimed at improving operational efficiencies, managing costs and risks, and maximizing utilization of its assets and opportunities.

## Malaysia

In the retail service station business, the Company's Malaysian operations compete with four other main participants in the market, namely, Petronas, Shell, Caltex and BHPetrol. Of these four, only Petronas has refinery operations in Malaysia. Market players compete in terms of product quality, customer service, operational efficiency and extent of distribution networks. Pricing of gasoline and diesel at retail service stations is not a competitive factor since the Malaysian government regulates the pricing these products through the APM. See "*Regulatory and Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products – Price Control and Anti Profiteering Act, 2011.*"

The Company continues to grow its retail market share to more than 21%, with over 720 service stations in Malaysia as of December 31, 2020. With the Company's customer-centric programs, service station facilities upgrades, continued retail network expansion program, introduction of innovative product lines, and improvements in logistics and refinery capabilities, the Company believes that it is well positioned to compete in the retail segment.

The Company continues to face intense competition in the industrial, aviation and wholesale market segments from other local and multi-national oil companies. The Company uses its local production from the Port Dickson Refinery and its strategic terminal locations across Malaysia to remain competitive in these segments. Besides the mini stations, fisheries and some selected transportation sectors, which are governed by the APM, other sectors do not benefit from the subsidies provided for under the APM. Major participants resort to aggressive pricing in these segments in order to expand market share. The aviation market is also very competitive, as the three local refiners offload their jet fuel through the MPP to KLIA. Sales of jet fuel at the other Malaysian airports are supplied by the oil companies having the necessary storage and logistics capability. In the LPG segment, the Company competes with Petronas and NGC Energy Sdn Bhd, among others. The APM applies only for sales of LPG for domestic/household cylinders while industrial and bulk LPG are not covered. Competition in this market is driven by supply reliability, dealer network efficiency and customer service. The Company, being well established, remains competitive in this segment. Overall, the Company's commercial sales volume registered significant growth in all sectors as a result of the Company's reliable and steady supply of quality fuel to sectors such as transportation, manufacturing, construction, mining, agriculture, and power generation. The Company's retail sales volumes for the years ended 2018, 2019 and 2020 were approximately 80,000 bpd, 83,000 bpd and 68,000 bpd, respectively. In the year 2020, retail sales volume was affected by the MCO restrictions in Malaysia due to the COVID-19 pandemic.

The lubricants and specialties market is dominated by traditional global brands as well as established local participants. The Company leverages on its growing network of service stations to market its products and to provide brand presence. Price is a major competitive factor in this market. The Company believes that it is well positioned to compete in this market, due to its efficient blending plant and supply chain, and national consumer promotion through service station and independent workshops.

## EMPLOYEES

As of December 31, 2020, the Company had 2,709 employees, of which 264 are managerial employees, and 2,445 are rank and file employees (including professional/technical and supervisory level employees). Approximately 77% of the Company's employees are based in the Philippines, with the remaining 23% based in Malaysia and Singapore. The Company believes that it has a well-trained and experienced pool of employees. As of December 31, 2020, approximately 28% of the Company's employees had worked with it for over 10 years. The average tenure of the Company's employees is approximately 9.56 years in the Philippines and approximately 9 years in Malaysia.

The Company has collective bargaining agreements ("CBAs") with three labor unions in the Philippines: (1) Petron Employees Association with 179 members is affiliated with the National Association of Trade Unions and has a CBA effective from January 1, 2020 to December 31, 2022; (2) Petron Employees Labor Union with 44 members has a CBA effective from January 1, 2019 to December 31, 2021; and (3) the Bataan Refiners Union of the Philippines with 374 members is affiliated with the Philippine Transport and General Workers Organization and has a CBA effective from January 1, 2019 to December 31, 2021. As of December 31, 2020, approximately 29% of the Company's employees in the Philippines were covered by CBAs.

The Company has CBAs with two labor unions in Malaysia: (1) the National Union of Petroleum and Chemical Industry Workers has 130 members with a CBA effective from January 1, 2020 to December 31, 2022; and (2) the Sabah Petroleum Industry Workers Union has 8 members with a CBA effective from May 1, 2020 to April 30, 2023. As of December 31, 2020, approximately 23% of the Company's employees in Malaysia were covered by CBAs.

The Company has not experienced any significant strikes or work stoppages for more than 20 years on account of employee relations and the Company considers its relationship with its employees to be good.

In addition to Philippine statutory benefits, the Company provides hospitalization insurance, life insurance, vacation, sick and emergency leaves and computer, company and emergency loans to its employees. It has also established a savings plan wherein an eligible employee may apply for membership and have the option to contribute 5% to 15% of his or her monthly basic salary. The Company, in turn, contributes a maximum of 5% of the monthly basic salary to a member-employee's account in the savings plan. The Company has adopted the "*Rewarding Excellence through Alternative Pay Program*," a performance incentive program that rewards eligible employees who contribute to the achievement of the Company's annual business goals. The Company has a tax-qualified defined benefit pension plan, PCERP, which covers all permanent, regular and full-time employees of the Company, excluding its subsidiaries. The control and administration of PCERP are vested in its board of trustees, as appointed by the Board of Directors of the Company. PCERP's accounting and administrative functions are undertaken by the SMC Retirement Funds Office. The annual cost of providing benefits under the plan is determined using the projected unit credit actuarial cost method. As of the Company's latest actuarial valuation date of December 31, 2020, the Company is expected to contribute about ₱553 million to its defined benefit plans in 2021.

The benefits in Malaysia are substantially similar to those in the Philippines, with the exception of the savings plan and variable pay scheme. Malaysian employment regulations require employers and employees to contribute to an employees' provident fund (the "**EPF**") to provide for the retirement and other needs of employees in Malaysia. Under present regulations, employees contribute a minimum of 9% of their monthly salary to the EPF via payroll deductions. Employers are required to contribute a minimum amount equivalent to 12% to 13% of a managerial, professional and technical ("**MPT**") employee's monthly salary to the EPF. Under collective agreements entered into by the Company with its non-MPT employees in Malaysia, the Company contributes up to 16% of the salaries to the EPF. The Malaysian government does not require employers to make contributions to the EPF with respect to foreign workers. However, if foreign employees opt to contribute, the Company will make the commensurate employers' contribution.

The Company employs experienced, skilled, and qualified personnel for the management and operation of its business and prioritizes programs that will ensure the retention and continuous engagement of its talent. The Company's attrition rate is still lower than the industry average. The Company ensures that manpower for critical positions are adequately maintained. The Company has an established succession planning program supported by a structured mentoring program for identified replacements of retiring employees to ensure leadership strength and technical knowledge preservation necessary for continued business operation. Promising or high-potential employees are given the opportunity to accelerate their development in the early stages of their careers through a structured coaching program to prepare them for greater roles and responsibilities. The Company also supports the continuing education or learning of employees through an education reimbursement program for post-graduate studies and employees' participation in functional technical courses, conferences, and seminars. The Company believes it has a strong compensation and benefits package and regularly reviews its employee relations programs to continuously attract, retain and engage talent.

## **RESEARCH AND DEVELOPMENT**

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, the Company engages in research and development to identify improvements that can be made to its products and production processes. The Company's Research and Development Department ("**R&D**") engages in various technical research and testing activities to develop and enhance the performance of products and optimize production processes. In addition to research and product development, it also engages in quality control and technical training. The development, reformulation and testing of new products are continuing business activities of the Company.

R&D develops revolutionary products that meet and exceed the highest industry quality standards. The Company utilizes appropriate technology in developing new fuel and lubricant products to improve product performance, quality level and cost-effectiveness. R&D also continuously seeks ways to develop more eco-friendly petroleum products. The Company remains fully compliant with all government laws and regulations such as the Clean Air Act and the Biofuels Act.

In addition to these regulations, Petron also secures stringent certifications and approvals from global industry certifying institutes and original equipment manufacturers to be more competitive both in local and international markets. These approvals are applicable to specific Petron products in the Philippines, Malaysia, China, Brunei, and Cambodia.

In 2019, the R&D group also spearheaded the implementation of Total Quality Management (“**TQM**”) at the terminals and Petron Research and Testing Centers (“**PRTC**”) laboratories. TQM is a management system where all members of the organization participate and work together in improving processes by eliminating unnecessary steps and doing value-adding and innovative activities, thereby resulting to a more efficient, productive, and cost-saving operations. Expenses relating to research and development amounted to approximately ₱76 million in 2019 and approximately ₱65 million in 2020, from approximately ₱86 million in 2018 or roughly 13% savings on year on year vs. annual budget requirement.

With TQM implementation, Petron terminals were able to optimize resources and safeguard product quality with the use of quality assurance tools. PRTCs were also able to save on operating costs by rationalizing critical test properties and focusing on customer requirements. With this quality system, the laboratories were able to develop innovative procedures that enhance operating efficiency, reduce hazardous wastes, and provide customer-focused services. The Petron TQM program works in conjunction with Loss Prevention System (“**LPS**”) wherein it focuses on quality management system without compromising loss in safety, business opportunity, and capital expenditures.

As of December 31, 2020, R&D has 28 regular employees. Its testing facilities are ISO/IEC17025 certified – a testament to its ability to perform tests and analyses in accordance with global standards. R&D also has long-standing partnerships with leading global technology providers in fuels, lubricants and grease products. In addition, it provides technical training to keep internal and external customers updated of the latest technology trends in the industry.

## **INTELLECTUAL PROPERTY**

The Company has existing and pending trademark registrations for its products for terms ranging from 10 to 20 years. Its trademark registrations include those for the Petron new logo, Gasul (stylized) and Fiesta Gas with device. The Company also has copyrights for its 7-kg LPG container, “*Gasulito*” with stylized letter “P” and two flames, for “*2T Powerburn*,” and for Petron New Logo (22 styles). Under Philippine law, copyrights subsist during the lifetime of the creator and for another 50 years after the creator’s death. The Company has not had any significant disputes with respect to any of its trademarks or copyrights.

As of December 31, 2020, the Company has filed 179 trademark applications in Malaysia for brands relating to its Malaysian operations. It has obtained copyright protection for the stylized letter “P” and has registered other trademarks in Malaysia, including “*Petron*,” “*Gasul*,” “*Fiesta Gas*” and “*Energen*.”

## **PROPERTY**

### **The Philippines**

The Company owns the Petron Bataan Refinery complex located in Limay, Bataan and operates and maintains a network of terminals as bulk storage and distribution points throughout the Philippines. It also operates three manufacturing facilities: the Subic Plant, the lube oil blending plant in Tondo and the polypropylene plant in Mariveles, Bataan.

All facilities owned by the Company are free from liens and encumbrances.

In respect of the parcels of land occupied by the Petron Bataan Refinery and certain of its terminals and service stations, the Company entered into commercial leases with the Philippine National Oil Company (“PNOC”). The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, the Company renewed its lease with PNOC (through NVRC) for the continued use of the Petron Bataan Refinery land for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). In 2015, the Company also entered into another 25-year lease agreement with PNOC effective August 1, 2014 for additional lots near the Petron Bataan Refinery for its expansion projects. The Company entered into negotiations with PNOC for the renewal of leases relating to 22 terminals and sales offices and 67 service stations that were expiring in August 2018. These leases were renewable under such terms and conditions as may be agreed between the parties. On October 20, 2017, the Company filed an action against the PNOC in respect of the leased properties to preserve its rights under the lease agreements. Expenses relating to the PNOC leases paid directly to PNOC and through NVRC amounted to ₱264 million in 2019 and ₱290 million in 2020. See “– *Legal Proceedings – Leases with PNOC.*”

The Company leases from NVRC 108 sites for service stations and terminals pursuant to 25-year lease contracts renewable upon agreement of the parties. Expenses relating to the NVRC leases amounted to ₱198 million in 2019 and ₱198 million in 2020.

The Company also leases land for its service stations from third parties pursuant to lease contracts with varying terms that generally range from five to 25 years and which are renewed upon negotiations between the Company and the lessors. As of December 31, 2020, there were leases covering 683 service stations: 445 in Luzon, 137 in the Visayas and 101 in Mindanao. Expenses under these leases amounted to ₱1,697 million in 2019 and ₱1,226 million in 2020.

## **Malaysia**

In Malaysia, the Company owns the Port Dickson Refinery in Negeri Sembilan, including the diesel hydrotreater process unit scheduled to be operational in 2021 and also located within the Port Dickson Refinery complex.

The land on which the Company’s retail service stations operate are either owned by the Company or leased from third parties. As of December 31, 2020, the Company owned approximately 250 parcels of land and leased about 320 parcels of land from third parties for the use of its CODO service stations. Rentals for the service station lands are either paid in advance and amortized over the lease period, or paid over the lease period, depending on the agreement. Payments under these leases amounted to about RM21 million in 2019 and RM39 million in 2020. Port Dickson Refinery occupies a 579-acre site, out of which 404 acres are freehold land while the remaining 175 acres are leasehold land pursuant to a 99-year lease that expires in 2060.

## **INSURANCE**

The Company’s insurance coverage includes property, marine cargo and third-party liability, as well as personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown, and business interruption. One of the main insurance policies of the Company, the Industrial All Risk (the “IAR”) policy, covers the Petron Bataan Refinery for material damages and machinery breakdown. The Company considers its insurance coverage to be in accordance with industry standards. The Company’s Malaysian operations are insured with local Malaysian insurance companies as required by Malaysian law.

In January 2021, the Company’s parent SMC infused ₱3.0 billion equity investment into Petrogen. The investment enables Petrogen to expand its insurance business. All insurance policies relating to the Company’s Philippine operations, including SMC operations, are now written by Petrogen. The majority of the risks are reinsured through Ovincor, Petron’s Bermuda-based captive insurance subsidiary.

## SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY PROGRAMS

Sustainability at Petron is integrated in its business. Sustainability is completely aligned with Petron's business model, its mission, and corporate culture. It is good for the communities that Petron serves. Through its corporate social responsibility (CSR) arm, Petron Foundation, Inc. ("PFI"), the Company fuels initiatives that address national concerns in essential areas such as education, environment, health and human services, livelihood and other advocacies in partnership with its host communities, national government agencies and local government units, like-minded organizations, and employee volunteers.

PFI's key programs revolve around the following "iFUEL" pillars:

- iFUEL Knowledge: initiatives include Tulong Aral ng Petron, which has been providing scholarships from elementary to college for more than 17,000 children and youth throughout the Philippines, 108 Petron Schools equivalent to 258 classrooms built and over 1,700 classrooms refurbished nationwide benefitting at least 100,000 students and teachers;
- iFUEL the Environment: initiatives include leading the establishment of the Bataan Integrated Coastal Management Program in partnership with the Provincial Government of Bataan and the UNDP's Partnerships in Environmental Management for the Seas of East Asia (PEMSEA); over one million tree and mangrove seedlings planted since 2000; over 30 hectares of mangrove reforestation sites in the Visayas adopted with nearly 1,100 tons of CO<sub>2</sub> captured, and 100% of Petron terminals and the Petron Refinery with environmental programs in place;
- iFUEL Health: initiatives include operating Community Health Centers Limay (Bataan), Pandacan (Manila) and Rosario (Cavite) to benefit residents of its host communities with specialized services (X-Ray, Laboratory, ECG, and Ultrasound) to augment surrounding barangay health centers; providing Petron employees with free RT-PCR testing during the COVID-19 pandemic and making these tests affordable and available to business partners and employee family members; and
- iFUEL Communities: initiatives include livelihood programs and skills training for members of its host communities and parents of Tulong Aral ng Petron scholars, and providing assistance to affected populations in times of calamities, including providing critical assistance (PPEs, e-fuel cards, Gasul LPGs, food packs) to protect, transport, and care for medical and security frontliners, Petron personnel, and partner communities.

Petron's CSR and sustainability programs are guided by indicators set forth by local and international agencies, including global standards (Millennium Development Goals and Global Reporting Initiative (GRI) international guidelines for sustainability reporting) as well as by the local context (NEDA's Philippine Medium-Term Development Plan and the Basic Education Sector Reform Agenda or BESRA). Petron also benchmarks best practices on CSR and sustainability and optimizes its practice of employee engagement with such memberships as in the Philippine Business for Social Progress, Association of Foundations, Business for Sustainable Development, and Philippine Council for NGO Certification.

Petron faithfully practices the principles of good governance, transparency and accountability. Petron Foundation secured a five-year certification from the Philippine Council for NGO certification (PCNC) in 2002 as a Donee Institution, and has been successfully renewing the certification every five years, i.e., in December 2012 and February 22, 2018. The Foundation likewise renewed its DSWD Certificate of Registration for another three years as well as the License to Operate as a Resource Agency.

## HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

The Company is guided by its Corporate Health, Safety and Environment Policy (the “**Corporate HSE Policy**”). The principles of the Corporate HSE Policy apply to all assets, facilities, and operating and support groups of the Company. The Company has a Corporate Technical Services Group (“**CTSG**”) responsible for formulating, implementing and enforcing the Company’s employee health, safety and environment policies, as well as ensuring compliance with applicable laws and regulations in the Philippines.

### The Philippines

The Company is subject to a number of employee health, safety and environmental regulations in the Philippines. For example, the Company is subject to the occupational safety and health standards under Republic Act No. 11058 (or An Act Strengthening Compliance with Occupational Safety and Health Standards and Providing Penalties for Violations Thereof) and those promulgated by the Philippine Department of Labor and Employment (“**DOLE**”) as well as various other regulations on environmental compliance.

The Safety unit of the CTSG (“**CTSG-Safety**”) ensures, among others, compliance by the Company’s personnel, contractors and service station dealers with government-mandated safety standards and regulations through multifunctional audits and safety inspections of the terminals, service stations and conducts training programs designed to raise awareness on process safety, oil spill response, fire-fighting and basic safety procedures for employees, contractors and service station dealers. CTSG-Safety has put together a Corporate Safety Management System, the main reference of all safety management systems in the Company, which is based mainly on OHSAS 18001. The Petron Bataan Refinery continues to be certified for the Integrated Management System (“**IMS**”) Certification to Quality Management System (“**QMS**”) ISO-9001 Version 2015 and Occupational Health & Safety Assessment Series OHSAS-18001 Version 2007, and also sustained Surveillance Audit to Environmental Management System (“**EMS**”) ISO-14001 Version 2015. 24 out of 28 terminals are certified under the new ISO 9001:2015 (QMS), ISO 14001:2015 (EMS) standards and OHSAS 1800:2007 (Occupational Health and Safety Management). Terminals are already in transition to ISO 45001:2018 (Occupational Health and Safety (OH&S) Management System). 19 out of 28 terminals have been ISO 45001:2018-certified, the remaining four are scheduled for ISO 45001 certification in 2022. In addition, all of the Company’s terminals have Philippine Coast Guard-approved Oil Spill Response Contingency Plans.

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

In 2014, CTSG-Safety launched the Safety Management System (“**SMS**”) for Service Stations. This program aims to elevate the level of safety awareness among the Company’s service station dealers, their employees, workers as well as the Company’s employees. The SMS, based on OHSAS 18001:2007, is very similar to the Environmental Management System (“**EMS**”), focusing on Hazards Identification and Risk Assessment. It also aims to educate Petron dealers on the Occupational Safety and Health Standards of the DOLE.

In 2018, the Company’s Terminal Operations Department embarked on a new venture with the implementation of the Loss Prevention System (“**LPS**”). LPS is a system to prevent or reduce losses using behavior-based tools and proven management techniques. With this new system, the Company aims to improve the over-all safety culture of the division to prevent all types of losses, and eventually apply the same system throughout the organization. The LPS Core Team members were able to conduct 23,592 training hours to more than 2,635 personnel in the Terminal Operations Group to disseminate the principles of LPS.

As part of its advocacy functions, CTSG-Safety is actively involved in public stakeholder consultations during the drafting of Philippine safety and environmental protection standards, laws and regulations. The Company also actively participates in the implementation of government programs, such as the Tripartite Secretary Seal of Excellence and Gawad Kaligtasan at Kalusugan programs of the DOLE.

From January to December 2020, a total of 11,897,819 safe man hours were achieved by the corporate head office, the Petron Bataan Refinery and the terminals.

The Environment unit of CTSG (“**CTSG-Environment**”) provides, among others, technical assistance and consultancy services on areas of environmental management and conducts environmental awareness training for the Company’s employees, contractors and service station dealers. CTSG-Environment is a recognized training organization by DENR – Environmental Management Bureau (“**DENR-EMB**”) in the conduct of the Basic Pollution Control Officer Training Course for service stations since 2014, when DENR-EMB required national recognition/accreditation of environmental training provider per DAO 2014-02. CTSG-Environment championed the Terminal ECOWATCH Assessment program, a color-coded rating system for all terminals to assess compliance with applicable environmental regulations and the effectiveness of environmental management programs implemented.

On its seventh year of implementation in 2020, the program has recognized five Hall of Famers in the area of Environmental Management within the Operations Group. CTSG-Environment conducts compliance monitoring for service stations to measure the effectiveness of trainings conducted. Moreover, CTSG-Environment conducts environmental due diligence audits for contractors, service providers and possible mergers and acquisitions. Furthermore, CTSG-Environment actively participates in the crafting and review of new laws and policies through Industry associations.

CTSG-Safety and CTSG-Environment conduct annual audits of the Petron Bataan Refinery and the Company’s other facilities, terminals, service stations and industrial accounts in the Philippines to ensure compliance with Petron safety standards and government laws and regulations on safety.

See “*Regulatory and Environmental Matters*” for a more detailed discussion of applicable environmental regulations.

As of December 31, 2020, the Company is in material compliance with applicable environmental laws in the Philippines.

## **Malaysia**

The Company is subject to local safety, health and environmental regulations in Malaysia, including (i) the Factories and Machinery Act 1967 (Act 139), Petroleum (Safety Measures) Act 1984 (Act 302), and the Occupational Safety and Health Act 1994 (Act 514), as amended, and regulations, rules and orders made pursuant thereto, which are administered by the Malaysian Department of Occupational Safety and Health, (ii) the Environmental Quality Act 1974 (Act 127), as amended, and regulations, rules and orders made pursuant thereto, which are administered by the Malaysian Department of Environment and (iii) the Fire Services Act 1988 (Act 341), as amended, and regulations made pursuant thereto, which are administered by the Malaysian Fire and Rescue Department.

CTSG-Safety and CTSG-Environment conduct multi-functional audits of the Port Dickson Refinery and the other facilities, terminals and service stations in Malaysia every two years. The Company has a corporate safety, security, health and environment department that is responsible for formulating, implementing and enforcing the Company’s safety, health and environmental policies in Malaysia, coordinating and conducting relevant programs to raise the level of awareness of SSHE and ensuring compliance with applicable laws and regulations.

As of December 31, 2020, the Port Dickson Refinery had accumulated more than 18 consecutive years without any lost-time injury for employees or contractors and had received numerous awards from the Malaysian Society for Occupational Safety and Health (“**MSOSH**”) for excellent Occupational Safety and Health performance, as well as the Prime Minister Hibiscus Award for “Exceptional Achievement in Environmental Performance 2017/2018.”

As prescribed by local regulatory requirements, the Port Dickson Refinery and the distribution terminals have established emergency response and oil spill contingency plans and regularly conduct drills and exercises. For more than 15 years, the Company’s Malaysian operations have actively participated in local and regional oil spill response consortiums, such as the Petroleum Industries of Malaysia Mutual-Aid Group and Oil Spill Response Ltd.

The Company strives to achieve and sustain good SSHE performance in Malaysia through the implementation of various key programs including (i) the POIMS, which provides a structured approach to the management of work-related personal and operational risks, including the selection, recruitment and training of employees and contractors, equipment design, maintenance and servicing, emergency preparedness and response as well as to ensuring regulatory compliance, and (ii) the LPS, which was adopted to prevent or reduce losses and incidents using behavior-based tools and other safety management techniques.

## LEGAL PROCEEDINGS

As set forth below, the Company is involved in ongoing legal cases the outcome of which may or may not have a material adverse effect on its operations and profitability. While the final outcomes of these legal proceedings are not certain, the Company believes it has strong legal grounds in each of these legal proceedings. In certain cases, the Company has made provisions in its financial statements for possible liabilities arising from adverse results of these legal proceedings.

### Tax Credit Certificates Related Matters

In 1998, the Philippine BIR issued a deficiency excise tax assessment against the Company relating to the Company's use of ₱659 million worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Company by suppliers as payment for fuel purchases. The 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 Board of Investments-registered companies, the Company was a qualified transferee of the TCCs and that the collection by 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 Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR for deficiency excise taxes in 1998 based on a finding by the BIR that the TCCs used by the Company as payment were fraudulent. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in a resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. The Supreme Court ("SC") issued a decision in favor of the Company dated July 9, 2018. No motion for reconsideration was filed by the BIR. The SC issued its Entry of Judgment declaring that its decision dated July 9, 2018 in the Company's favor already attained finality on April 1, 2019. This case could now be considered closed and terminated.

### Guimaras Oil Spill Incident

On August 11, 2006, M/T Solar I, a third-party vessel contracted by the Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice ("DOJ") and the Special Board of Marine Inquiry ("SBMI"), both agencies found the owners of M/T Solar I liable. The DOJ found the Company not criminally liable, but the SBMI found that the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. The Company believes that the SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total aggregate claims for both cases amount to ₱292 million. The cases are still pending.

Pursuant to DENR Memorandum Circular No. 2012-01, the DENR declared that the Guimaras coastal water was already compliant with applicable water quality standards.

### Leases with PNOC

On October 20, 2017, the Company filed with the Regional Trial Court of Mandaluyong City a complaint against PNOC for Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour Temporary Restraining Order and Verified Applications for 20-day Temporary Restraining Order and Writ of Preliminary Injunction.

In its complaint, the Company seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Company. These landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by the Company of the conveyed lots for its business operation. Thus, PNOC and the 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.

Earlier in 2009, the Company, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint stemmed from PNOC's refusal to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned and -controlled corporation. The Company alleged that by unilaterally setting aside both the renewal clauses of the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots, and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with the Company.

On December 11, 2017, the trial court granted the Company's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting the Company of possession of the subject properties until the case is decided, conditioned upon the posting by the Company of a bond in the amount of ₱100 million. The Company has posted the required bond. On December 29, 2017, the trial court mandated the conduct of mediation proceedings on February 5, 2018 before the Philippine Mediation Center.

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. The Company also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13, 2019, the trial court granted the Company's motion for summary judgment and ordered (i) the rescission of the Deeds of Conveyance dated 1993 relating to the Company's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to the Company of all such properties, and (iii) the payment by the Company to PNOC of the amount of ₱143 million, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. The Company also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to the Company all lease payments the latter had paid to PNOC since 1993. Following the trial court's denial of their separate motions for reconsideration, both PNOC and the Company filed their notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. The Company filed its appellant's brief in October 2020. PNOC filed its appellant's brief on November 5, 2020.

### **Other Proceedings**

The Company is also 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, the Company believes that the final outcome of these other proceedings will not have a material adverse effect on its business, financial condition or results of operations.

## REGULATORY AND ENVIRONMENTAL MATTERS

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

### PHILIPPINES

#### Downstream Oil Industry Deregulation Law

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

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

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

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

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

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

## Promotion of Retail Competition

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

## Rules Relating to Retailing of Liquid Petroleum Products

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

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

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

The prohibited acts under the Revised Retail Rules include illegal trading, adulteration, underdelivering, refusal/obstruction of inspection and sampling, hoarding, and continuing to operate after an order or notice of cessation of operation has been issued by the DOE. The refusal of inspection shall constitute prima facie evidence of the commission of Prohibited Acts under the Revised Retail Rules.

Liquid petroleum products dispensed at retail outlets must comply with the Philippine National Standards. On June 6, 2019, the DOE issued Department Circular No. DC2019-06-0009, otherwise known as Implementing the Modified Philippine National Standard Specifications for Liquefied Petroleum Gases. This issuance mandates compliance to PNS/DOE Quality Standards ("**QS**") 005:2016 and PNS DOE QS 012:2016, the latest standard specifications for LPG for non-motor fuel and motor fuel, respectively. Meanwhile, on December 9, 2020, the DOE issued Department Circular No. DC2020-12-0025, also known as Implementing the Philippine National Standard Specification for Kerosene. This, on the other hand, mandates compliance of all kerosene sold in the Philippines with PNS/DOE QS 009:2019 – Kerosene – Specifications. Under the issuance, petroleum fuel product adulteration, or the failure to meet the required product specifications at the bulk plants/depots as prescribed by the applicable products standards, and adulteration, or the possession and sale of liquid fuels that do not conform with quality standards, are considered prohibited acts.

## Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate (the "**ECC**") prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the "**EMB**"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("**EIS**") to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination

(“**IEE**”) to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is mandatory. The construction of major roads and bridges are considered environmentally critical projects for which EIS and ECC are mandatory. Presidential Proclamation No. 2146 also classified petroleum and petro-chemical industries as environmentally critical projects.

The EIS refers to both the document and the study of a project’s environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by the EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

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

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

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

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

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

In 2008, a Joint Administrative Order known as the “Guidelines Governing the Biofuel Feedstocks Production and Biofuels and Biofuel Blends Production, Distribution and Sale” (the “**Guidelines**”) was issued by various Philippine government agencies. The Guidelines mandate oil companies to blend biodiesel with diesel and bioethanol with gasoline. The Guidelines further require oil companies to source biofuels only from biofuel producers accredited by the DOE or from biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Biofuels Act of 2006, an oil company’s failure to source its biofuels from accredited biofuel producers and/or registered biofuel distributors would constitute a prohibited act under the Guidelines.

In June 2015, the DOE issued Department Circular No. DC 2015-06-007, or the Revised Guidelines on the Utilization of Locally-Produced Bioethanol (“**Revised Guidelines**”), which repealed Department Circular No. 2011-12-0013, or the “Guidelines on the Utilization of Locally-Produced Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006”. The Revised Guidelines require oil companies operating within the Philippines to secure and maintain a DOE accreditation as an “Oil Industry Participant in the Fuel Bioethanol Program” and submit to the OIMB certain reports in order for the OIMB to monitor the oil companies’ compliance with the Revised Guidelines, including an annual performance compliance report relating to the oil companies’ compliance with the minimum biofuel blends and monthly reports on compliance with local monthly allocations for the use of locally-sourced bioethanol. The Revised Guidelines further require oil companies to strictly comply with the Local Monthly Allocation (“**LMA**”). The LMA refers to the local bioethanol volume imposed on oil companies based on the committed volume by the local bioethanol producers of bioethanol available for lifting by the oil companies and computed and circulated by the OIMB.

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

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

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

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

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

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

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

In 2004, Republic Act No. 9275, or the “Philippine Clean Water Act”, was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country’s water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land-based sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Philippine Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Clean Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

In May 24, 2016, DENR issued DENR Administrative Order No. 2016-08, otherwise known as the Water Quality Guidelines and General Effluent Standards of 2016 (the “**Water Quality Guidelines**”), which apply to all water bodies in the Philippines. The guidelines set forth, among others: (a) the classification of water bodies in the Philippines, (b) determination of time trends and evaluation of stages of deterioration or enhancement in water quality, (c) the designation of water quality management areas and (d) the general effluent standards. On the general effluent standards, the Water Quality Guidelines provide that discharges from any point of source (regardless of volume) shall, at all times, meet the effluent standards prescribed by the guidelines to maintain the required water quality per water body classification. The general effluent standards apply regardless of the industry category. For purposes of implementing the Water Quality Guidelines, the DENR has extended a grace period of not more than five years from June 15, 2016 (i.e., the effectivity of the Water Quality Guidelines) to allow establishments to submit to the DENR a compliance action plan and a periodic status of implementation on the steps taken for the establishment’s compliance schedule within the grace period. The grace period shall include a moratorium on the issuance of cease and desist and/or closure order, fines and other penalties against the establishment’s operations.

### ***LPG Laws and Regulations***

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

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

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

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

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

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

## ***R.A. 9514 – IRR***

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

### ***LPG Industry Rules***

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

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

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

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

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

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

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

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

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

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

The law also provides that any person who has received more than 150,000 tons of “contributing oil” (as explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage (the “**1992 Fund Convention**”). For this purpose, “oil” includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

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

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

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

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

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

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

To address issues on marine pollution and oil spillage, the MARINA issued: (i) Circular No. 2007-01 which mandated the use of double-hull vessels including those below 600 tons deadweight tonnage by April 2008 for transporting black products; and (ii) Circular No. 2010-01 for transporting white products in certain circumstances by 2011.

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

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

## **Foreign Investment Laws and Restrictions**

### ***Land Ownership***

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

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

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

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

- Category A – Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US\$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly owned by Filipino citizens;
- Category B – Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of US\$2.5 million but less than US\$7.5 million may be wholly owned by foreigners except for the first two years after the effectiveness of R.A. 8762 wherein foreign participation shall be limited to not more than 60% of total equity;
- Category C – Enterprises with a paid-up capital of the equivalent in Philippine Pesos of US\$7.5 million or more may be wholly owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of US\$830,000;<sup>1</sup> and
- Category D – Enterprises specializing in high-end or luxury products with a paid-up capital of the equivalent in Philippine Pesos of US\$250,000 per store may be wholly owned by foreigners.

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

- A minimum of US\$200 million net worth in its parent corporation for Categories B and C, and US\$50 million net worth in its parent corporation for Category D;

- Five retailing branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US\$25 million;
- Five-year track record in retailing; and
- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

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

### ***Foreign Investments Act of 1991***

The Foreign Investments Act of 1991 (“**FIA**”), as amended, liberalized the entry of foreign investment into the Philippines. Under the FIA, foreigners can own as much as 100% equity in domestic market enterprises, except in areas specified in the Foreign Investment Negative List. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. The oil refining and distribution business is not found in the latest (11th) Negative List of the FIA.

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

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

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

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

## **Consumer Act of the Philippines**

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

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

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

## **Local Government Code**

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

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

## **Other Regulatory Requirements**

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

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

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. These certificates have to be submitted to the DOE for monitoring (not regulation) purposes. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining and processing, including recycling and blending; (b) storing/transshipment; (c) distribution/operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plants; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper governmental authorities.

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

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

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

Pursuant to Executive Order No. 113, the DOE issued on May 11, 2020 Department Circular No. DC2020-05-0012 or the Guidelines Implementing the Temporary Modification of Import Duty Rates on Crude and Petroleum Oil and Refined Petroleum Products as Provided Under Executive Order No. 113. This circular mandated the modification of import duty to 0% on the first date of the following month, if the three-week average of the Asian Benchmark Dubai Crude Oil price on any month of the year, based on Mean of Platts Singapore (MOPS), reaches US\$64 per barrel or above which is based on the computed month average of December 2019. This modification is no longer enforceable as Republic Act No. 11469, also known as the Bayanihan to Heal as One Act, ceased to take effect last June 2020.

Republic Act No. 9337, also known as the “**Expanded VAT Law**”, imposed a VAT of 10% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was further increased to 12% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱4.35 per liter of volume capacity.

In February 2012, the BIR issued Revenue Regulation No. 2-2012 stating that VAT and excise taxes due on all petroleum and petroleum products that are imported and/or brought from abroad to the Philippines, including from the freeport and economic zones shall be paid by the importer to the Bureau of Customs but was later declared unconstitutional by the Philippine Supreme Court in a decision issued in 2016.

Under the CREATE Act, persons who directly import petroleum products for resale in the Philippine customs territory and/or in free zones shall be subject to applicable duties and taxes. However, importers can file for the refund of duties and taxes for direct or indirect export of petroleum products, including the subsequent export of fuel, subject to the appropriate rules of the fuel marking program, and/or other tax-exempt sales by the importer.

Crude oil that is intended to be refined at a local refiner, including the volumes that are lost and not converted to petroleum products when the crude oil actually undergoes the refining process are exempt from payment of applicable duties and taxes upon importation under the CREATE Act. Instead, the applicable duties and taxes on petroleum products shall be payable upon lifting of the petroleum products produced from the imported crude oil, subject to the rules and regulations that may be imposed by the Bureau of Customs and the BIR to ensure that crude oil shall not be lifted from the refinery without payment of appropriate duties and taxes.

On January 1, 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion (“**TRAIN**”), took effect. The TRAIN law amended provisions of the Tax Code, among others, increasing excise tax rates of petroleum products. Excise tax rates on gasoline products were increased from ₱4.35 per liter to ₱7.00 per liter effective January 1, 2018, ₱9.00 per liter effective January 1, 2019 and ₱10.00 per liter effective January 1, 2020. Diesel and bunker fuel products which were previously not subject to excise taxes were imposed excise taxes at ₱2.50 per liter effective January 1, 2018 and increased further to ₱4.50 per liter effective January 1, 2019 and ₱6.00 per liter effective January 1, 2020.

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

### ***Special Economic Zones***

Republic Act No. 9728, also known as the Freeport Area of Bataan (FAB) Act of 2009, was enacted into law and converted the then Bataan Economic Zone into the Freeport Area of Bataan (“**FAB**”) under the Authority of the Freeport Area of Bataan (“**AFAB**”) which was later amended in 2018 by Republic Act No. 11453. FAB registered enterprises are entitled to avail of fiscal incentives under the Special Economic Zone Act of 1995 or the Omnibus Investment Code of 1987.

The Company was granted fiscal incentives by the AFAB as follows: (i) tax and duty-free importation of merchandise; (ii) exemption of non-traditional export goods from wharfage dues, export taxes, imposts, and fees; and (iii) VAT-zero-rating of local purchases. In light of the rationalization of tax incentives under the CREATE Act, the Company will continue to avail of the foregoing fiscal incentives subject to such requirements, rules and regulations that may be issued by the BIR, the Fiscal Incentives Review Board and AFAB.

Under the CREATE Act, crude oil imported by the Company to be refined at a Petron Bataan Refinery, including the volumes that are lost and not converted to petroleum products when the crude oil actually undergoes the refining process are exempt from payment of applicable duties and taxes upon importation. Instead, the applicable duties and taxes on petroleum products shall be payable upon lifting of the petroleum products produced from the imported crude oil, subject to the rules and regulations that may be imposed by the Bureau of Customs and the BIR. In addition, persons who directly import petroleum products for resale in the Philippine customs territory and/or in free zones shall be subject to applicable duties and taxes. However, importers can file for the refund of duties and taxes for direct or indirect export of petroleum products, including the subsequent export of fuel, subject to the appropriate rules of the fuel marking program, and/or other tax-exempt sales by the importer.

## **MALAYSIA**

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

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

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

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

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

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

## **Biofuel Industry Act, 2007**

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

In October 2014, the Malaysian Government announced the implementation of the B7 programme (blending of 7% POME and 93% diesel) for the subsidized sector. Implementation was completed in the second quarter of 2015. The use of B7 Bio-Diesel was implemented for use in the industrial sector, with an exception being given to power generation companies or other industries where the use of Bio-Diesel would not be possible due to mechanical specifications. In December 2018, the Government implemented the sale of B10 Bio-Diesel (blending of 10% POME and 90% diesel) from the current B7 Bio-Diesel in service stations.

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

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

The Control of Supplies Act, 1961 (the “**CSA**”) was enacted primarily to regulate, prohibit and control the movement of controlled articles in Malaysia. The CSA also regulates the distribution of any controlled article and limits the quantity of any controlled article that may be acquired or held by any person. Petrol, motor spirit, or motor gasoline of all grades, diesel fuel and LPG have all been classified as controlled articles under the CSA.

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

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

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

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

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

Cost of Product	Mogas 95	Mogas 97	Diesel	Retail LPG
	Based on MOPS	Based on MOPS	Based on MOPS	Based on Saudi CP
Alpha . . . . .	5 sen/liter	5 sen/liter	4 sen/liter	USD80.00/MT
Freight, Distribution and Marketing Cost . . . .	Peninsular Malaysia: 9.54 sen/liter Sabah: 9.54 sen/liter Sarawak: 9.54 sen/liter	Peninsular Malaysia: 9.54 sen/liter Sabah: 9.54 sen/liter Sarawak: 9.54 sen/liter	Peninsular Malaysia: 9.54 sen/liter Sabah: 9.54 sen/liter Sarawak: 9.54 sen/liter	Peninsular Malaysia: 38.95 sen/kg Sabah: 72.10 sen/kg Sarawak: 71.26 sen/kg
Oil company margin. . .	5 sen/liter	5 sen/liter	2.25 sen/liter	11.35 sen/kg
Dealer Margin . . . . .	15 sen/liter	15 sen/liter	10 sen/liter	Peninsular Malaysia: 35.00 sen/kg Sabah: 35.00 sen/kg Sarawak: 35.00 sen/kg

The specified amounts for alpha, freight, distribution and marketing cost, oil company margin and dealer margin are fixed by the Malaysian government and subject to change. The Malaysian government last revised the freight, distribution and marketing cost in January 2018 for East Malaysia. In January 2019, the dealer's margin was revised, while the alpha for Mogas 97 was last revised in January 2020 for all states. For retail LPG, the alpha and dealer margin for all states, and the freight, distribution and marketing costs for the states of Sabah and Sarawak, were revised upwards in June 2015.

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

As of February 2019, the Malaysian government-mandated ceiling prices for the products that are covered by the APM are at RM 2.08 per liter for Mogas 95 and RM 2.18 per liter for diesel. The government-mandated price for LPG is at RM 1.90 per kilogram. The government-mandated price of RM 1.65 per liter for diesel applies to sales to the fisheries sector; and RM 1.8810 (Peninsular Malaysia), RM 1.8840 (Sabah) and RM 1.8780 (Sarawak) per liter for diesel applies to sales to the transport sector.

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

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

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

## **Environmental Laws**

### ***Environmental Quality Act, 1974***

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

The MDOE will also have responsibility for monitoring the implementation of and compliance with Euro 4M and Euro 5M standards in Malaysia, which are the Malaysian equivalent of Euro IV and Euro V-standards. The main change from the current Euro 2M standards to Euro 4M and Euro 5 standards for Mogas and diesel will be the reduction in sulfur content, consistent with Euro IV and Euro V standards. Euro 4M for RON 97 was implemented in September 2015. The implementation of Euro 4M and Euro 5 fuels will be in phases: Euro 4M for RON 95 had been implemented since January 1, 2019, Euro 5 (sulfur specification only) for Diesel by the year 2020, and Euro 5 (of all other parameters) for Diesel by the year 2022, RON 95 and RON 97 by the year 2027.

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

The facilities at the Port Dickson Refinery are currently being enhanced to comply with diesel Euro 5 standards, and these enhancements are expected to be completed before diesel Euro 5 standards come into force. The current configuration of the facilities will allow the Port Dickson Refinery to produce diesel compliant with Euro 5 standards. The formulation of Euro 5 specifications was carried out by SIRIM Berhad in conjunction with other interested parties, including Malaysian oil companies, the Malaysian car manufacturers’ association, and regulatory bodies, such as the MDTCC and the DOE. SIRIM Berhad is a wholly owned company of the Malaysian government incorporated under the Malaysian Ministry of Finance. The Port Dickson Refinery plans to implement Euro 5 standards by April 1, 2021.

## **Other Laws**

### ***Companies Act, 2016***

The Companies Act which came into effect on January 1, 2017, governs the incorporation and registration of companies in Malaysia. The agency that oversees such incorporation is the Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia) (“CCM”).

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

### ***Malaysian Corporate Governance Code***

The Securities Commission Malaysia released the new Malaysian Code on Corporate Governance (“MCCG”) on April 26, 2017, which takes effect immediately. The MCCG is a set of best practices to strengthen corporate culture anchored on accountability and transparency.

## **Other Regulatory Requirements**

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

## MANAGEMENT

### DIRECTORS

The Board of Directors of Petron is composed of 15 members, three (3) of whom are independent directors. Currently, only two (2) of the members are executive directors, occupying the positions of the President and Chief Executive Officer and the General Manager of the Company.

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

Name	Position	Year Appointed as Director
Ramon S. Ang . . . . .	President and Chief Executive Officer and Director	2009
Lubin B. Nepomuceno . . . . .	General Manager and Director	2013
Ron W. Haddock . . . . .	Director	2008
Estelito P. Mendoza . . . . .	Director	2009
Aurora T. Calderon . . . . .	Director	2010
Francis H. Jardeleza . . . . .	Director	2020
Mirzan Mahathir . . . . .	Director	2010
Virgilio S. Jacinto . . . . .	Director	2010
Nelly F. Villafuerte . . . . .	Director	2011
Jose P. de Jesus . . . . .	Director	2014
Horacio C. Ramos . . . . .	Director	2018
John Paul L. Ang . . . . .	Director	2021
Artemio V. Panganiban . . . . .	Independent Director	2010
Margarito B. Teves . . . . .	Independent Director	2014
Carlos Jericho L. Petilla . . . . .	Independent Director	2018

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

**Ramon S. Ang**, Filipino, born 1954, has served as the Chief Executive Officer and an Executive Director of the Company since January 8, 2009 and the President of the Company since February 10, 2015. He is also a member of the Company’s Executive Committee. In relation to the oil and gas industry, Mr. Ang holds the following positions, among others: Chairman and President of SEA Refinery Corporation (“**SEA Refinery**”), Mariveles Landco Corporation, Petrochemical Asia (HK) Ltd. (“**PAHL**”), and Robinson International Holdings Ltd. (Cayman Islands); Chairman of Petron Marketing Corporation (“**PMC**”), New Ventures Realty Corporation (“**NVRC**”), Petron Freeport Corporation, Petron Fuel International Sdn. Bhd. (Malaysia) (“**PFISB**”), Petron Malaysia Refining & Marketing Bhd. (Malaysia), Petron Oil (M) Sdn. Bhd. (“**POMSB**”) (Malaysia), and Philippine Polypropylene Inc. (“**PPI**”); Director of Las Lucas Construction and Development Corporation (“**LLCDC**”), Petron Oil & Gas Mauritius Ltd. (“**POGM**”) and Petron Oil & Gas International Sdn Bhd. (“**POGI**”). He also holds the following positions, among others: Chairman and President of SMC Global Power Holdings Corp., San Miguel Holdings Corp., San Miguel Equity Investments Inc., and San Miguel Properties, Inc.; Chairman of San Miguel Brewery Inc. (“**SMB**”), San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond Hotel and Resort, Inc., Privado Holdings, Corp., Privado Holdings, Corp.; President and Chief Executive Officer of Northern Cement Corporation; and President of Ginebra San Miguel, Inc., and San Miguel Northern Cement, Inc.; and Director of Petrogen. He is also the sole director and shareholder of Master Year Limited; Mr. Ang formerly held the following positions, among others: Chairman of Liberty Telecoms Holdings, Inc.; President and Chief Operating Officer of PAL Holdings, Inc., and Philippine Airlines, Inc.; Director of Air Philippines Corporation; and Chairman of Manila North Harbour Port Inc. (“**MNHPI**”) (2015 – 2017) Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five (5) years. He has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

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

**Lubin B. Nepomuceno**, Filipino, born 1951, has served as a Director of the Company since February 19, 2013 and the General Manager of the Company since February 10, 2015. He is also a member of the Company’s Executive Committee. He holds the following positions, among others: President and Chief Executive Officer of PMC; Director and Chief Executive Officer of PMRMB; Director of POGI, PFISB, POMSB, LLCDC, NVRC, PFC, PPI, PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd. and Petron Singapore Trading Pte. Ltd. (“**PSTPL**”); Chairman and Chief Executive Officer of Petron Foundation, Inc. (“**PFI**”); Chairman of Overseas Ventures Insurance Corporation Ltd. (“**Ovincor**”); Director of San Miguel Paper Packaging Corporation and Mindanao Corrugated Fibreboard Inc.; President of Archen Technologies, Inc. Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with SMC as a furnace engineer at the Manila Glass Plant in 1973 and rose to the ranks to become the General Manager of the San Miguel Packaging Group in 1998. He was also formerly the Senior Vice President and General Manager of the Company (September 2009 – February 2013) and the President of the Company (February 2013 – February 2015). He also served as the Chairman of Petrogen (until 2021) and a Director of MNHPI (2012 – 2014). Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and master’s degree in Business Administration from the De La Salle University. He also attended the Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan’s Sakura Bank Business Management.

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

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

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

**Estelito P. Mendoza**, Filipino, born 1930, served as a Director of the Company from 1974 to 1986; thereafter, since January 8, 2009. He is a member of the Corporate Governance Committee and the Audit Committee. He is likewise a member of the Board of Directors of SMC, Philippine National Bank (“**PNB**”) and Philippine Airlines, Inc. He has now been engaged in the practice of law for more than 60 years, and presently under the firm name Estelito P. Mendoza and Associates. He has been consistently listed for several years as a “Leading Individual in Dispute Resolution” among lawyers in the Philippines in the following directories/journals: “The Asia Legal 500”, “Chambers of Asia” and “Which Lawyer?” yearbooks. He has also been a Professorial Lecturer of law at the University of the Philippines and served as Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga. He was also the Chairman of the Sixth (Legal) Committee, 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 other than Petron, SMC and PNB are also listed with the PSE.

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

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

**Francis H. Jardeleza**, Filipino, born 1949, has served as a Director of the Company since August 4, 2020. He is likewise a Director of GSMI and SMFB. He has been a Professorial Lecturer in Constitutional, Administrative, Remedial and Corporation Law at the University of the Philippines College of Law since 1993. He was formerly the Senior Vice President and General Counsel of SMC (1996 – 2010), a partner of Angara Abello Concepcion Regala and Cruz Law Offices (1975 – 1987), Roco Buñag Kapunan Migallos and Jardeleza Law Offices (1992 – 1995), Jardeleza Sobreviñas Diaz Hayudini and Bodegon Law Offices (1987 – 1990) and Jardeleza Law Offices (1990 – 1992). He is a retired Associate Justice of the Supreme Court of the Philippines (August 19, 2014 – September 25, 2019). He also served as Solicitor General of the Office of the Solicitor General of the Philippines (February 20, 2012 – August 18, 2014) and Deputy Ombudsman for Luzon of the Office of the Ombudsman of the Philippines (July 7, 2011 – February 19, 2012). Justice Jardeleza earned his Bachelor of Laws degree (salutatorian and cum laude) from the University of the Philippines in 1974, placed third in the bar exam that same year, and earned his Master of Laws degree from Harvard Law School in 1977.

Of the companies in which Justice Jardeleza currently holds directorships other than Petron, Petron-affiliates GSMI and SMFB are also listed with the PSE.

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

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

**Virgilio S. Jacinto**, Filipino, born 1956, has served as a Director of the Company since August 13, 2010. He is a member of the Corporate Governance Committee of the Company. He is also an alternate member of the Executive Committee. He holds the following positions, among others: Corporate Secretary, Compliance Officer, Senior Vice President and General Counsel of SMC; Corporate Secretary and Compliance Officer of Top Frontier; Corporate Secretary of GSMI and the other subsidiaries and affiliates of SMC; and Director of various other local and offshore subsidiaries of SMC. Mr. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank, a Director of SMB, and San Miguel Northern Cement, Inc., a Partner of the Villareal Law Offices (June 1985 – May 1993) and an Associate

of Sycip, Salazar, Feliciano & Hernandez Law Office (1981 – 1985). Atty. Jacinto is an Associate Professor of Law at the University of the Philippines. He obtained his law degree from the University of the Philippines (cum laude) where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard University.

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

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

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

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

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

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

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

**John Paul L. Ang**, Filipino, born 1980, was elected as a Director of the Company on March 9, 2021. He has been a director of SMC since January 21, 2021. He holds and has held various positions in Eagle Cement Corporation, such as the President and Chief Executive Officer since 2008, a Director since 2010, a member of the Audit Committee since 2020 and the Chairman of the Executive Committee since February 2017. He also served as a member of the Nomination and Remuneration Committee

(February 13, 2017 – July 15, 2020) and the General Manager and Chief Operating Officer (2008 – 2016). He has been the President and Chief Executive Officer of South Western Cement Corporation since 2017 and a Director of K Space Holdings, Inc. since 2016. He was the Managing Director of Sarawak Clinker Sdn. Bhd. Malaysia (2002 – 2008) and the Purchasing Officer of Basic Cement (2002 – 2003). Mr. Ang has a Bachelor of Arts in Interdisciplinary Studies from the Ateneo de Manila University.

Of the companies in which Mr. Ang currently holds directorships other than Petron, Petron-parent company SMC is also listed with the PSE.

**Artemio V. Panganiban**, Filipino, born 1936, has served as an Independent Director of the Company since October 21, 2010. He is the Chairman of the Risk Oversight Committee and a member of the Audit and Corporate Governance Committees. He is a columnist for the Philippine Daily Inquirer and officer, adviser or consultant to several businesses, civic, educational and religious organizations. He is also an adviser of Metropolitan Bank and Trust Company and Bank of the Philippine Islands. He was formerly the Chief Justice of the Supreme Court of the Philippines (2005 – 2006); Associate Justice of the Supreme Court (1995 – 2005); Chairperson of the Philippine House of Representatives Electoral Tribunal (2004 – 2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963 – 1995); President of Baron Travel Corporation (1967 – 1993); and professor at the Far Eastern University, Assumption College and San Sebastian College (1961 – 1970). He is an author of over 10 books and has received various awards for his numerous accomplishments, most notably the “Renaissance Jurist of the 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.

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

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

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

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

## SENIOR MANAGEMENT

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

<u>Name</u>	<u>Position</u>	<u>Year Appointed as Officer</u>
Ramon S. Ang . . . . .	President and Chief Executive Officer	2015
Lubin B. Nepomuceno . . . . .	General Manager	2015
Emmanuel E. Eraña . . . . .	Senior Vice President and Chief Finance Officer	2009
Susan Y. Yu . . . . .	Vice President, Procurement	2009
Albert S. Sarte . . . . .	Vice President and Treasurer	2009
Maria Rowena O. Cortez . . . . .	Vice President, Supply	2009
Archie B. Gupalor . . . . .	Vice President, National Sales	2018
Joel Angelo C. Cruz . . . . .	Vice President, General Counsel & Corporate Secretary/Compliance Officer	2010
Jaime O. Lu . . . . .	Vice President and Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects	2018
Rolando B. Salonga . . . . .	Vice President, Operations and Corporate Technical Services Group	2017
Fernando S. Magnayon . . . . .	Vice President, Advisor to National Sales	2020
Maria Rosario D. Vergel de Dios . . . . .	Vice President, Human Resources Management	2018
Myrna C. Geronimo . . . . .	Vice President and Controller	as Controller: 2019; as Vice President: 2020
Allister J. Go . . . . .	Vice President, Refinery	2020
Magnolia Cecilia D. Uy . . . . .	Vice President, Management Services	2020

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## PRINCIPAL SHAREHOLDERS

As of December 31, 2020, the Company had 9,375,104,497 common shares, 2,877,680 Series 2B preferred shares, 13,403,000 Series 3A preferred shares, and 6,597,000 Series 3B preferred shares issued and outstanding. The table below sets forth certain information with respect to beneficial ownership of the Company's common shares as of December 31, 2020 for each shareholder known by the Company to own more than 5% of the Company's common shares.

Name	Total Common Shares	Percentage of the issued common share capital of the Company
SEA Refinery Corporation . . . . .	4,696,885,564	50.10
PCD Nominee Corp. (Filipino) . . . . .	1,739,949,272	18.56
San Miguel Corporation . . . . .	1,702,870,560	18.16 <sup>(1)</sup>

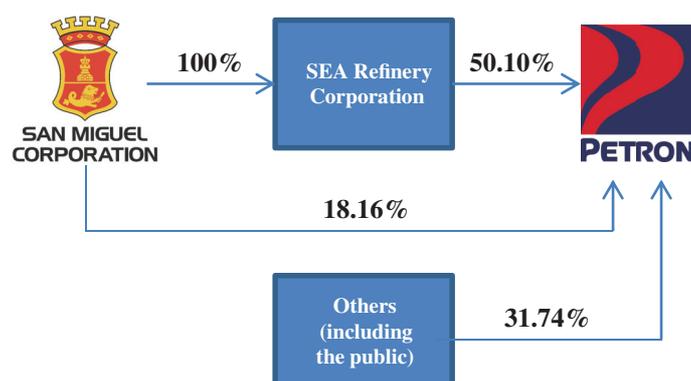
(1) Represents shares directly owned by SMC. Excludes common shares indirectly owned by SMC through SEA Refinery Corporation.

SRC is a Philippine company wholly owned by SMC.

SMC is Southeast Asia's largest publicly listed food, beverage and packaging company. Its broad range of businesses includes properties, fuel and oil, energy, infrastructure, and investment in banking.

Currently, SMC directly owns 1,702,870,560 common shares representing 18.16% of the Company's total issued common share capital. As mentioned above, SMC also owns 100% of SRC. Therefore, the total number of common shares beneficially owned, directly and indirectly, by SMC is 6,399,756,124 common shares, representing 68.26% of the Company's total issued common share capital.

The chart below sets forth the ownership structure of the Company's common shares as of the date of this Offering Circular.



## RELATED PARTY TRANSACTIONS

The Company engages from time to time in a variety of transactions with related parties. The Company's policy with respect to related party transactions is to ensure that these transactions are entered into under terms comparable to those available from unrelated third parties. For more information regarding the Company's transactions with related parties, see note 28 to the Company's audited consolidated financial statements as of and for the period ended December 31, 2020, included elsewhere in this Offering Circular.

### **San Miguel Corporation**

SMC is a major stockholder of the Company. See "*Principal Shareholders.*" The Company has supply agreements with various SMC subsidiaries, under which the Company supplies the diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries. Generally, the pricing formulae under these agreements are based on MOPS. Aggregate revenue with related parties amounted to approximately ₱6,753 million, ₱6,372 million and ₱4,864 million for the years ended December 31, 2018, 2019 and 2020, respectively. The Company also currently leases office space from an SMC subsidiary pursuant to a lease agreement that was entered into on an arm's length basis.

### **New Ventures Realty Corporation**

NVRC is a subsidiary of the Company 85.55%-owned by the Company and 14.45%-owned by PCERP. The Company leases from NVRC certain parcels of land where the Petron Bataan Refinery and its service station sites, terminals and bulk plants are located. NVRC is the holder of the lease over the site of the Petron Bataan Refinery of which PNOG is the lessor. Lease expenses in connection with the NVRC leases in 2018, 2019 and 2020 amounted to approximately ₱235 million, ₱198 million, and ₱198 million, respectively.

### **Petron Singapore Trading Pte. Ltd.**

PSTPL is a wholly owned subsidiary of the Company. The Company acquires crude oil for the Petron Bataan Refinery and certain finished petroleum products through arrangements with PSTPL. The pricing formula for these imports is based on regional benchmark prices. Aggregate purchases from PSTPL amounted to approximately ₱248.11 billion, ₱216.68 billion, and ₱78.36 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

## TAXATION

*The statements herein regarding taxation are based on the laws and administrative guidelines and circulars issued by the relevant authorities in force as of the date of this Offering Circular and are subject to any changes in such laws, administrative guidelines or circulars, or in the interpretation of those laws, guidelines or circulars occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities or dealers which have been granted financial sector tax incentives in Singapore) may be subject to special rules. Prospective purchasers of Securities are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of Securities.*

### PHILIPPINE TAXATION

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

The characterization of the Securities and Distributions for tax purposes is not settled under Philippine tax laws and regulations. Subject to definitive law or regulation or a specific ruling issued by Philippine tax authority in respect of the Securities, the Distributions may be treated as dividends or interest for tax purposes. Interest on debt instruments or interest-bearing obligations of residents (corporate or otherwise), and the amount received as dividend from domestic corporations, are generally considered as income derived from a source within the Philippines. Since the Company is a Philippine resident or a domestic corporation, Distributions received by Securityholders will be treated as income derived from a source within the Philippines and will generally be subject to Philippine income tax.

On March 26, 2021, the President of the Philippines signed into law Republic Act No. 11534, the CREATE Act. Under the CREATE Act, the corporate income tax rate for domestic corporation, resident foreign corporations, and non-resident foreign corporations shall be reduced to 25%, the rate of the MCIT shall be lowered to 1%, and capital gains from sale of shares of stock not traded in the stock exchange by resident and nonresident foreign corporations shall be subject to 15% tax rate, among others. The CREATE Act will take effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation. The CREATE Act was published in a newspaper of general circulation on March 27, 2021.

### Documentary Stamp Tax

Under the National Internal Revenue Code of 1997, as amended (the “**Tax Code**”), certain documents, instruments, papers, acceptances, assignments, sales and transfers of obligations, rights or property may be subject to documentary stamp tax. Documentary stamp tax will be levied, collected and paid for by the person making, signing, issuing, accepting or transferring the document wherever the document is made, signed, issued, accepted or transferred when the relevant obligation or right arises from a Philippine source or the relevant property is situated in the Philippines.

The Tax Code imposes documentary stamp tax on all original issuances of shares of stock at of ₱2.00 for each ₱200, or fractional part thereof, of the par value of such shares of stock or actual consideration for the issuance of the shares (in the case of no par value shares). On every original issuance of debt instruments, a documentary stamp tax of ₱1.50 on each ₱200, or fractional part thereof, of the issue price of any such debt instruments is imposed under the Tax Code. The original issuance of the Securities (whether treated as shares of stock or debt instruments) will therefore be subject to documentary stamp tax at the foregoing rates based on the issue price of the Securities. The documentary stamp tax due on the original issuance of the Securities will be for the account of the Company.

Transfers of shares of stock by assignment in blank, delivery, or by any paper, agreement or memorandum or other evidence of transfer or sale (including to secure the future payment of money or for the future transfer of stock) is subject to documentary stamp tax at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the par value of such shares of stock, or at an amount equivalent to 50% of the documentary stamp tax paid upon the issuance of the shares in the case of no par value shares. Accordingly, subsequent transfers or dispositions of Securities, if treated as shares of stock for tax purposes, will be subject to documentary stamp tax at these rates.

No documentary stamp tax is generally payable on the subsequent transfer or disposition of debt instruments, provided that the transfer or disposition does not constitute a renewal or entail a change in the maturity date or remaining period of coverage of the relevant instrument. Accordingly, if the Securities are treated as debt instruments, no documentary stamp tax will generally be imposed on their subsequent transfer or disposition, provided that any such transfer or disposition meets the foregoing requirements.

### **Distributions on the Securities**

Distributions that are characterized as dividends for Philippine tax purposes will be subject to final withholding tax at the rate of (i) 10% if the Securityholder is a Philippine citizen or resident alien or (ii) 20% if the Securityholder is a non-resident alien engaged in trade or business within the Philippines. A non-resident alien not engaged in trade or business within the Philippines is subject to final withholding tax at the rate of 25% regardless of whether the Distributions are characterized as dividends or interest or other fixed or determinable periodic or casual gains or profits. A non-resident foreign corporation is generally taxable on all gross income received from all sources within the Philippines at the rate of 25% (effective January 1, 2021 under the CREATE Act); however, if Distributions received by non-resident foreign corporations are regarded as taking the form of dividends for Philippine tax purposes, they may be subject to final withholding tax at the rate of 15%, provided that the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign-sourced dividends or allows a credit against the tax due from the non-resident foreign corporation, in which case taxes are deemed to have been paid in the Philippines equivalent to 15%, representing the difference between the regular income tax rate of 30% and the 15% tax rate on dividends. Under the CREATE Act, effective July 1, 2020, the credit against the tax due shall be equivalent to the difference between 25% regular income tax rate and the 15% tax on dividends. Distributions received by domestic corporations and resident foreign corporations that are regarded as taking the form of dividends for Philippine tax purposes are not subject to Philippine tax.

On the other hand, the tax treatment of interest generally depends on the type of instrument from which the interest arises and whether the class of taxpayer receiving the interest is a resident or a non-resident for Philippine tax purposes. Interest on debt instruments arising from borrowing from the public (which for this purpose means more than nineteen lenders), long-term deposits or investment certificates, currency bank deposits, trust funds and similar instruments is generally subject to a 20% final withholding tax if received by Philippine citizens, resident aliens, non-resident aliens engaged in trade or business within the Philippines, domestic corporations and resident foreign corporations (all of which may generally be considered as “residents” in respect of taxation of Philippine-sourced income). Interest on debt instruments not covered by the foregoing instruments received by the same categories of residents will form part of their taxable income and will be subject to ordinary income tax rates (at graduated rates from 0% – 35% for individuals and 30% regular corporate income tax or 1% minimum corporate income tax (“MCIT”), as the case may be, for domestic and resident foreign corporations), subject to the withholding by the issuer of an amount equivalent to 15% of such interest, which shall be creditable against the income tax liability of the resident for the relevant taxable year. Under the CREATE Act, effective July 1, 2020, (i) corporate income tax will decrease to 25%, save for corporations with net taxable income not exceeding ₱5 million and with total assets (excluding land) not exceeding ₱100 million, which shall be subject to 20% corporate income tax, (ii) MCIT for domestic corporations and resident foreign corporations will decrease to 1%, and (iii) with respect to nonresident foreign corporations, the credit against the tax due shall be equivalent to the difference between the regular income tax and the 15% tax on dividends.

Interest on debt instruments received by non-residents will generally be subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 20%, if the holder is a non-resident foreign corporation on the assumption that the debt instrument is a “foreign loan” granted by such non-resident foreign corporation. “Foreign loans” are defined as loan contracts, including all types of debt instrument, whether in kind or in cash, which are

payable in a currency other than the Philippine Peso, entered into by a Philippine resident, corporate or otherwise, with a non-resident. Distributions will be taxed in the manner and at the rate described above if they are characterized as interest. The tax withheld constitutes a final settlement of Philippine tax liability in respect of such interest or dividend income earned by the non-resident individual not engaged in trade or business within the Philippines or by the non-resident foreign corporation. For the purpose of implementing these rules, the Company will determine the holder of the Securities based on the records of the Registrar.

The Company, as required by the Tax Code, will withhold and make payment of the applicable withholding tax described above. However, the Company shall pay Additional Amounts as may be necessary and subject to certain exceptions, so that the net amounts received by Securityholders equal the amounts which would otherwise have been receivable by them had no such deduction or withholding been required. See *“Terms and Conditions of the Securities – Taxation and Gross-up.”*

The above-mentioned tax rates are without prejudice to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of the non-resident holder. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest or dividend arises in the Philippines and is paid to a resident of the other contracting state. In addition, some treaties provide that the withholding tax rate may be reduced to 10% in cases where the interest arises in respect of a public issue of bonded indebtedness or in the case of a dividend, where the recipient of the dividend beneficially owns at least 10% or 25% of the issuer, depending on which treaty applies. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest or dividend, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing or dividend-earning interest is effectively connected with such permanent establishment.

The Philippine tax authorities have prescribed a certain procedure for claiming tax treaty benefits for dividend and interest income of non-resident income earners. The preferential treaty rates for dividend and interest income of non-residents shall be applied and used outright by the withholding agents upon submission by the non-resident of a Certificate of Residence for Tax Treaty Relief (“**CORTT**”) Form that complies with Revenue Memorandum Order No. 8-2017. The use of the preferential rates shall be done through withholding final taxes at applicable treaty rates. Withholding agents or income payors can withhold at a reduced rate or exempt the non-resident based on the duly accomplished CORTT Form submitted to them. Failure to submit a CORTT Form to the withholding agent or income payor would mean that the non-resident is not claiming any tax treaty relief and therefore such income should be subjected to the normal rate provided under the Tax Code.

### **Sale or Other Disposition of the Securities**

In general, a holder of a Security will recognize a gain or loss upon the sale or other disposition (including a redemption at maturity or otherwise) of the Securities in an amount equal to the difference between the amount realized from such disposition and such holder’s basis in the Securities.

### **If the Securities are considered shares of stock**

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

The net capital gains realized by a resident foreign corporation or a non-resident foreign corporation during each taxable year from the sale, exchange or disposition of shares of stock in a domestic corporation outside the facilities of the PSE are subject to final tax at rate of 15%.

Accordingly, if the Securities are regarded as “shares of stock” for Philippine tax purposes, capital gains tax will be payable on the sale or disposition of the Securities. Gains from the sale of shares of stock in a domestic corporation are treated as derived entirely from a source within the Philippines, regardless of where the shares are sold.

### **If the Securities are considered debt securities**

Gains realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years as measured from the date of the issuance of such bonds, debentures or other certificate of indebtedness (“**Long-Term Bonds**”) are exempt from income tax. Accordingly, if the Securities are regarded as Long-Term Bonds for Philippine tax purposes, gains realized from the sale or transfer of the Securities will be exempt from Philippine income tax.

If the Securities are not regarded as Long-Term Bonds for Philippine tax purposes, the tax treatment of gains from the sale or transfer of the Securities will generally depend on the status of the Securityholder, whether the Securities are held as an ordinary or capital asset and the place of sale of the Securities. Gains from the sale or transfer of the Securities within the Philippines will be included in the computation of taxable income of certain Securityholders and subject to ordinary income tax rates (at graduated rates from 0% to 35% for citizens, resident aliens, and non-resident aliens engaged in trade or business in the Philippines, 25% for non-resident aliens not engaged in trade or business in the Philippines, 30% regular corporate income tax or 2% MCIT, as the case may be, for domestic and resident foreign corporations and 30% for non-resident foreign corporations). Under the CREATE Act, effective July 1, 2020, (i) corporate income tax will decrease to 25%, save for corporations with net taxable income not exceeding ₱5 million and total assets (excluding land) not exceeding ₱100 million, which shall be subject to 20% corporate income tax, and (ii) MCIT for domestic corporations and resident foreign corporations will decrease to 1%. The corporate income tax for non-resident foreign corporations will decrease to 25% effective January 1, 2021.

Gains derived by resident citizens and domestic corporations from the sale or disposition of the Securities outside the Philippines will be subject to ordinary income tax based on the above tax rates, while gains derived by non-resident citizens, aliens and foreign corporations from the sale of the Securities outside the Philippines will not be taxable.

If the Securityholder is a resident of a country with which the Philippines has an income tax treaty, an exemption from tax on gains from the alienation of personal property (such as the Securities) may be available under the applicable tax treaty. The procedures for availment of the applicable tax treaty relating to such gains will have to be duly complied with under existing rules.

In the event the Securities are held as capital assets, capital gains recognized can be reduced by any capital loss up to the extent of the capital gain recognized. Further, in case the Securityholder is (i) an individual, (ii) is not a dealer in securities, and (iii) has held the Securities for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in said Securityholder’s gross income for Philippine tax purposes.

### **Value-added Tax**

The transfer of the Securities in the Philippines by dealers in securities will be subject to value-added tax at the rate of 12% on the gross income they derive from the sale or exchange of the Securities.

### **Estate and Donor’s Tax**

Securities issued by a corporation organized or constituted in the Philippines in accordance with Philippine laws are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and donor’s taxes.

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Securities shall be subject to an estate tax which is levied on the net estate of the deceased at a rate of 6%. A Securityholder shall be subject to donor’s tax at a rate of 6% based on the total gifts in excess of ₱250,000.00 made during the calendar year on the transfer of the Securities by donation.

The estate tax or donor’s tax shall not be collected in respect of intangible personal property situated in the Philippines (such as the Securities) if (a) the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the

Philippines not residing in that foreign country; or (b) the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or of the donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the decedent or donor.

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

## CLEARANCE AND SETTLEMENT OF THE SECURITIES

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream, Luxembourg (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Company believes to be reliable, but neither the Company nor any of the Joint Lead Managers takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Company nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Securities held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Custodial and depository links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Securities and transfers of the Securities associated with secondary market trading.*

### THE CLEARING SYSTEMS

#### **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry of changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant institution’s rules and procedures.

#### **Registration and Form**

Book-entry interests in the Securities held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Certificate, registered in the name of nominee of the common depository of Euroclear and Clearstream, Luxembourg. The Global Certificate will be held by a common depository for Euroclear and Clearstream, Luxembourg. Beneficial ownership in Securities will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Securities in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Securities, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the Securities. The Registrar will be responsible for maintaining a record of the aggregate holdings of Securities registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg and/or, if individual Certificates are issued in the limited circumstances described under “*The Global Certificate – Registration of Title,*” holders of Securities represented by those individual Certificates. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Company for holders of interests in the Securities holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Company will not impose any fees in respect to the Securities; however, holders of book-entry interests in the Securities may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg.

## **CLEARANCE AND SETTLEMENT PROCEDURES**

### **Initial Settlement**

Upon their original issue, the Securities will be in global form represented by the Global Certificate. Interests in the Securities will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Securities through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Securities will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (for value the Closing Date).

### **Secondary Market Trading**

Secondary market sales of book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Securities through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

### **GENERAL**

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Securities among participants of Euroclear and Clearstream, Luxembourg, none of Euroclear and Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Trustee or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

## SUBSCRIPTION AND SALE

### GENERAL

The Joint Lead Managers have agreed, severally and not jointly, pursuant to a Subscription Agreement dated [●], 2021 (the “**Subscription Agreement**”) between the Company and the Joint Lead Managers and subject to the satisfaction of certain conditions, to procure subscriptions and payment for the aggregate principal amount of the Securities and the Company has agreed to sell to such Joint Lead Manager, the principal amount of the Securities set forth opposite such Joint Lead Manager’s name:

<b>Joint Lead Manager</b>	<b>Principal amount of Securities</b>
The Hongkong and Shanghai Banking Corporation Limited . . . . .	US\$[●]
DBS Bank Ltd. . . . .	US\$[●]
MUFG Securities Asia Limited . . . . .	US\$[●]
SMBC Nikko Capital Markets Limited . . . . .	US\$[●]
Standard Chartered Bank . . . . .	US\$[●]
UBS AG Singapore Branch . . . . .	US\$[●]
<b>Total</b> . . . . .	<b>US\$[●]</b>

The Subscription Agreement provides that the Company will indemnify the Joint Lead Managers against certain liabilities. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Company.

The Joint Lead Managers and their affiliates have performed and may perform in the future various financial advisory, investment banking and commercial banking services for the Company and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Company, and/or its affiliates in the ordinary course of their business.

The Joint Lead Managers or certain of their affiliates may purchase the Securities and be allocated Securities for asset management and/or proprietary purposes but not with a view to distribution. The Joint Lead Managers may pay commissions to certain third parties (including, without limitation, rebates to private banks.) While each Joint Lead Manager and its affiliates have policies and procedures to deal with conflicts of interests, any such transactions may cause a Joint Lead Manager or its affiliates or its clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Securities. Each Joint Lead Manager may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Securities.

The Joint Lead Managers or certain of their affiliates may purchase the Securities for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of the Company or its subsidiaries or associates at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Securities). As a result of such transactions, a Joint Lead Manager or its affiliates may hold long or short positions relating to the Securities. The Joint Lead Managers have entered into certain arrangements with each of BDO Capital & Investment Corporation, China Bank Capital Corporation and PNB Capital and Investment Corporation (the “**Domestic Lead Managers**”) in connection with the sale of the Securities in the Philippines, for which the Domestic Lead Managers will receive customary fees.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Securities is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Company in such jurisdiction.

## **SELLING RESTRICTIONS**

### **General**

None of the Company or the Joint Lead Managers makes any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Company that would permit a public offering of the Securities, or possession or distribution of this Offering Circular (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required.

Each of the Joint Lead Managers will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Securities or has in its possession or distributes this Offering Circular (in preliminary, proof or final form) or any such other material, in all cases at its own expense. The Joint Lead Managers will also ensure that no obligations are imposed on the Company in any such jurisdiction as a result of any of the foregoing actions. The Company will have no responsibility for, and the Joint Lead Managers will not obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Securities under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Joint Lead Managers are not authorized to make any representation or use any information in connection with the issue, subscription and sale of the Securities other than as contained in, or which is consistent with, the Offering Circular or any amendment or supplement to it.

### **United States**

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold in the United States unless registered under the Securities Act or pursuant to an exemption from such registration or in a transaction not subject to the registration requirements of the Securities Act. There will be no public offering of the securities in the United States. The Securities are being offered outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

### **Hong Kong**

The contents of this Offering Circular have not been reviewed by any governmental or regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. Please note that (1) shares may not be offered or sold in Hong Kong by means of this Offering Circular or any document other than to “professional investors” within the meaning of Part I of Schedule I to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) and any rules made thereunder, or in circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (the “CO”) or which do not constitute an offer or invitation to the public for the purposes of the CO and/or the SFO, and (2) no person shall issue or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to shares which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to such professional investors within the meaning of the SFO and any rules made thereunder.

### **Singapore**

Each Joint Lead Manager has, severally and not jointly, acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has, severally and not jointly, represented, warranted and agreed that it has not offered or sold any Securities or caused the Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Securities or cause the Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA), pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

### **United Kingdom**

Each of the Joint Lead Managers represents, warrants and agrees that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

### **Prohibition of Sales to UK Retail Investors**

Each of the Joint Lead Managers represents, warrants and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
- (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

### **The Philippines**

Under Republic Act No. 8799, known as the Securities Regulation Code of the Philippines (the "**Philippine SRC**"), and its implementing rules, securities, such as the Securities, are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are registered with the SEC or are otherwise exempt securities under Section 9 of the Philippine SRC or sold pursuant to an exempt transaction under Section 10 of the Philippine SRC.

The Securities are being offered in the Philippines to any number of qualified buyers as defined in the Philippine SRC. The offer and sale of the Securities qualify as an exempt transaction pursuant to sections 10.1(l) of the Philippine SRC. A confirmation of exemption from the SEC that the offer and sale of the Securities in the Philippines qualify as an exempt transaction under the Code is not required to be, and has not been, obtained.

THE SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED, AND WILL NOT BE REGISTERED, WITH THE SEC UNDER THE PHILIPPINE SRC, ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE PHILIPPINE SRC, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

**Prohibition of sales to EEA retail investors**

Each of the Joint Lead Managers represents, warrants and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

## **LEGAL MATTERS**

Certain legal matters as to Philippine law will be passed upon for the Company by Picazo Buyco Tan Fider & Santos and for the Joint Lead Managers by Angara Abello Concepcion Regala & Cruz Law Offices (ACCRAALAW). Certain legal matters as to the laws of England and Wales will be passed upon for the Trustee by Clifford Chance and for the Joint Lead Managers by Latham & Watkins LLP.

## **INDEPENDENT AUDITORS**

The audited consolidated financial statements of the Company prepared in accordance with PFRS as of and for the years ended December 31, 2018, 2019 and 2020 included in this Offering Circular have been audited by R.G. Manabat & Co., a member firm of KPMG, as indicated in their report with respect thereto included herein.

## GLOSSARY

TERM	DEFINITION
<b>APM</b> .....	Malaysian automatic pricing mechanism.
<b>ASEAN</b> .....	Association of Southeast Asian Nations.
<b>bbl</b> .....	Barrel.
<b>BIR</b> .....	Philippine Bureau of Internal Revenue.
<b>Black Products</b> .....	Fuel oil and asphalts.
<b>BSP</b> .....	Bangko Sentral ng Pilipinas.
<b>Clearing Systems</b> .....	Euroclear and Clearstream, Luxembourg.
<b>Clearstream, Luxembourg</b> .....	Clearstream Banking, SA.
<b>CODO</b> .....	Company-owned-dealer-operated service stations.
<b>CREATE Act</b> .....	Corporate Recovery and Tax Incentives for Enterprises Act.
<b>DENR</b> .....	Philippine Department of Environment and Natural Resources.
<b>DENR-EMB</b> .....	DENR-Environment Management Bureau.
<b>DODO</b> .....	Dealer-owned-dealer-operated service stations.
<b>DTI</b> .....	Philippine Department of Trade and Industry.
<b>EIU</b> .....	Economist Intelligence Unit.
<b>Euroclear</b> .....	Euroclear Bank SA/NV.
<b>IEA</b> .....	International Energy Agency.
<b>IMS</b> .....	Integrated Management System.
<b>Innospec</b> .....	Innospec, Limited.
<b>ISO</b> .....	International Organization for Standardization.
<b>kbpd</b> .....	Thousand barrels of oil per day.
<b>KLIA</b> .....	Kuala Lumpur International Airport.
<b>ktoe</b> .....	Thousand tons of oil equivalent.
<b>LPG</b> .....	Liquefied petroleum gas.
<b>LPS</b> .....	Loss prevention system.
<b>mmbbl</b> .....	Million barrels of oil.
<b>mmbpd</b> .....	Million barrels of oil per day
<b>MOPS</b> .....	Mean of Platts Singapore. The daily average of all trading transactions between a buyer and a seller of petroleum products as assessed and summarized by Standard and Poor's Platts, a Singapore-based market wire service.
<b>MNHPI</b> .....	Manila North Harbour Port, Inc.
<b>NVRC</b> .....	New Ventures Realty Corporation.
<b>OECD</b> .....	Organization for Economic Co-operation and Development.
<b>Ovincor</b> .....	Overseas Ventures Insurance Corporation Ltd.
<b>PAHL</b> .....	Petrochemical Asia (HK) Ltd.
<b>PCERP</b> .....	Petron Corporation Employees' Retirement Plan.
<b>Petrogen</b> .....	Petrogen Insurance Corporation.
<b>Petron Bataan Refinery</b> .....	The Company's refinery located in Limay, Bataan, Philippines.
<b>Petrophil</b> .....	Petrophil Corporation.
<b>PFC</b> .....	Petron Freeport Corporation.
<b>PFI</b> .....	Petron Foundation Inc.
<b>PFISB</b> .....	Petron Fuel International Sdn. Bhd. (formerly known as ExxonMobil Malaysia Sdn. Bhd.).

<b>TERM</b>	<b>DEFINITION</b>
<b>PFRS</b> .....	Philippine Financial Reporting Standards.
<b>Philippine DOE</b> .....	Philippine Department of Energy.
<b>Philippine SEC</b> .....	The Securities and Exchange Commission of the Philippines.
<b>Philippine SRC</b> .....	The Securities Regulation Code of the Philippines.
<b>Philippine Tax Code</b> .....	Philippine National Internal Revenue Code of 1997, as amended.
<b>PMC</b> .....	Petron Marketing Corporation.
<b>PMRMB</b> .....	Petron Malaysia Refining & Marketing Berhad.
<b>PNOC</b> .....	Philippine National Oil Company.
<b>POGI</b> .....	Petron Oil & Gas International Sdn Bhd.
<b>POGM</b> .....	Petron Oil & Gas Mauritius Ltd.
<b>Port Dickson Refinery</b> .....	The Company's refinery located in Port Dickson, Malaysia.
<b>POS</b> .....	Point of sale.
<b>PPI</b> .....	Philippine Polypropylene Inc.
<b>PSE</b> .....	The Philippine Stock Exchange, Inc.
<b>PSTPL</b> .....	Petron Singapore Trading Pte. Ltd.
<b>RMP-2</b> .....	The second phase of the Company's Refinery Master Plan project.
<b>Saudi Aramco</b> .....	Saudi Arabian Oil Company.
<b>Saudi CP</b> .....	Saudi Aramco contract prices.
<b>SEA BV</b> .....	SEA Refinery Holdings B.V.
<b>Securities Act</b> .....	U.S. Securities Act of 1933, as amended.
<b>Series 2 Preferred Shares</b> .....	the 10,000,000 cumulative, non-voting, non-participating and non-convertible perpetual series 2 preferred shares issued by the Company on November 3, 2014 at an issue price of ₱1,000.00.
<b>Series 2A Preferred Shares</b> .....	the sub-series A of the Series 2 Preferred Shares.
<b>Series 2B Preferred Shares</b> .....	the sub-series B of the Series 2 Preferred Shares.
<b>Series 3 Preferred Shares</b> .....	the 20,000,000 cumulative, non-voting, non-participating and non-convertible perpetual series 3 preferred shares issued by the Company on June 25, 2019 at an issue price of ₱1,000.00.
<b>Series 3A Preferred Shares</b> .....	the sub-series A of the Series 3 Preferred Shares.
<b>Series 3B Preferred Shares</b> .....	the sub-series B of the Series 3 Preferred Shares.
<b>Shell</b> .....	Pilipinas Shell Petroleum Corporation.
<b>SIRIM</b> .....	Standard and Industrial Research Institute of Malaysia
<b>SMC</b> .....	San Miguel Corporation.
<b>SRC</b> .....	SEA Refinery Corporation.
<b>SSHE</b> .....	Safety, security, health and the environment.
<b>TCCs</b> .....	Tax Credit Certificates.
<b>TRAIN</b> .....	Tax Reform for Acceleration and Inclusion.
<b>VAT</b> .....	Value-added tax.
<b>White Products</b> .....	Diesel, gasoline, jet fuel, kerosene and LPG.

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## REPORT OF INDEPENDENT AUDITORS

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

### *Opinion*

We have audited the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020, 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.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee



### *Key Audit Matters*

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

#### *Revenue Recognition (P286,033 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. 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.



*Valuation of Inventories (P44,922 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 (P8,031 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, 2020, 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, 2020 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. 94495-SEC, Group A, valid for five (5) years  
covering the audit of 2019 to 2023 financial statements

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 8533922

Issued January 4, 2021 at Makati City

March 19, 2021

Makati City, Metro Manila

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

		December 31	
	Note	2020	2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5, 34, 35	<b>P27,053</b>	P34,218
Financial assets at fair value	6, 14, 34, 35	<b>603</b>	864
Investments in debt instruments	7, 34, 35	<b>184</b>	109
Trade and other receivables - net	4, 8, 28, 34, 35	<b>27,195</b>	44,657
Inventories - net	4, 9	<b>44,922</b>	72,210
Other current assets	14, 28	<b>32,337</b>	27,430
<b>Total Current Assets</b>		<b>132,294</b>	179,488
<b>Noncurrent Assets</b>			
Investments in debt instruments	7, 34, 35	<b>197</b>	311
Property, plant and equipment - net	2, 4, 10, 12, 37	<b>168,831</b>	168,267
Right-of-use assets - net	4, 11	<b>6,045</b>	5,509
Investment property - net	4, 10, 12	<b>30,049</b>	29,935
Deferred tax assets - net	4, 27	<b>2,190</b>	262
Goodwill - net	4, 13	<b>8,031</b>	8,319
Other noncurrent assets - net	2, 4, 6, 14, 34, 35	<b>2,088</b>	2,744
<b>Total Noncurrent Assets</b>		<b>217,431</b>	215,347
		<b>P349,725</b>	P394,835
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	15, 33, 34, 35	<b>P77,704</b>	P71,090
Liabilities for crude oil and petroleum products	16, 28, 31, 34, 35	<b>22,320</b>	39,362
Trade and other payables	17, 28, 30, 33, 34, 35, 39	<b>15,402</b>	28,741
Lease liabilities - current portion	4, 31, 33, 34	<b>1,243</b>	1,295
Derivative liabilities	34, 35	<b>1,124</b>	738
Income tax payable		<b>162</b>	267
Current portion of long-term debt - net	18, 33, 34, 35	<b>31,114</b>	16,881
<b>Total Current Liabilities</b>		<b>149,069</b>	158,374
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	18, 33, 34, 35	<b>88,340</b>	116,196
Retirement benefits liability - net	30	<b>3,705</b>	3,565
Deferred tax liabilities - net	27	<b>3,084</b>	6,348
Lease liabilities - net of current portion	4, 31, 33, 34	<b>14,561</b>	14,454
Asset retirement obligation	4, 19	<b>2,867</b>	1,720
Other noncurrent liabilities	20, 34, 35	<b>1,904</b>	1,748
<b>Total Noncurrent Liabilities</b>		<b>114,461</b>	144,031
<b>Total Liabilities</b>		<b>263,530</b>	302,405

Forward

		December 31	
	Note	2020	2019
<b>Equity Attributable to Equity Holders of the Parent Company</b>	21		
Capital stock		<b>P9,485</b>	P9,485
Additional paid-in capital		<b>37,500</b>	37,500
Capital securities		<b>36,481</b>	25,183
Retained earnings		<b>29,799</b>	45,510
Equity reserves		<b>(18,371)</b>	(16,899)
Treasury stock		<b>(15,122)</b>	(15,122)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>79,772</b>	85,657
<b>Non-controlling Interests</b>	13	<b>6,423</b>	6,773
<b>Total Equity</b>		<b>86,195</b>	92,430
		<b>P349,725</b>	P394,835

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
(Amounts in Million Pesos, Except Per Share Data)

	<i>Note</i>	<b>2020</b>	2019	2018
<b>SALES</b>	28, 31, 37	<b>P286,033</b>	P514,362	P557,386
<b>COST OF GOODS SOLD</b>	22	<b>277,320</b>	483,855	522,824
<b>GROSS PROFIT</b>		<b>8,713</b>	30,507	34,562
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>	23	<b>(14,389)</b>	(15,815)	(16,981)
<b>OTHER OPERATING INCOME</b>	4, 29	<b>1,047</b>	1,507	1,340
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	26, 37	<b>(11,313)</b>	(13,490)	(9,689)
<b>INTEREST INCOME</b>	26, 37	<b>780</b>	1,340	706
<b>OTHER INCOME (EXPENSES) - Net</b>	26	<b>(1,049)</b>	(312)	517
		<b>(24,924)</b>	(26,770)	(24,107)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		<b>(16,211)</b>	3,737	10,455
<b>INCOME TAX EXPENSE (BENEFIT)</b>	27, 36, 37	<b>(4,798)</b>	1,434	3,386
<b>NET INCOME (LOSS)</b>		<b>(P11,413)</b>	P2,303	P7,069
<b>Attributable to:</b>				
Equity holders of the Parent Company	32	<b>(P11,380)</b>	P1,701	P6,218
Non-controlling interests	13	<b>(33)</b>	602	851
		<b>(P11,413)</b>	P2,303	P7,069
<b>BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	32	<b>(P1.58)</b>	(P0.17)	P0.28

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
(Amounts in Million Pesos)

	<i>Note</i>	<b>2020</b>	2019	2018
<b>NET INCOME (LOSS)</b>		<b>(P11,413)</b>	P2,303	P7,069
<b>OTHER COMPREHENSIVE LOSS</b>				
<i>Item that will not be reclassified to profit or loss</i>				
Equity reserve for retirement plan	30	<b>(631)</b>	(2,531)	(1,133)
Income tax benefit	27	<b>191</b>	751	339
		<b>(440)</b>	(1,780)	(794)
<i>Items that may be reclassified to profit or loss</i>				
Net income (loss) on cash flow hedges	35	<b>100</b>	(208)	(110)
Exchange differences on translation of foreign operations		<b>(1,330)</b>	(1,133)	1,372
Unrealized fair value gains (losses) on investments in debt instruments at fair value through other comprehensive income	7	<b>1</b>	15	(10)
Share in other comprehensive income of a joint venture		<b>10</b>	-	-
Income tax benefit (expense)	27	<b>(30)</b>	58	36
		<b>(1,249)</b>	(1,268)	1,288
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>		<b>(1,689)</b>	(3,048)	494
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax</b>		<b>(P13,102)</b>	(P745)	P7,563
<b>Attributable to:</b>				
Equity holders of the Parent Company		<b>(P12,852)</b>	(P1,167)	P6,570
Non-controlling interests		<b>(250)</b>	422	993
		<b>(P13,102)</b>	(P745)	P7,563

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
(Amounts in Million Pesos)

	Note	Equity Attributable to Equity Holders of the Parent Company										
		Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
		P9,485	P37,500	P25,183	P15,000	P30,510	(P4,704)	(P12,195)	(P15,122)	P85,657	P6,773	P92,430
<b>As of December 31, 2019</b>												
Net income on cash flow hedges - net of tax	35	-	-	-	-	-	-	70	-	70	-	70
Unrealized fair value losses on investments in debt instruments		-	-	-	-	-	-	1	-	1	-	1
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(1,109)	-	(1,109)	(221)	(1,330)
Share in other comprehensive income of a joint venture		-	-	-	-	-	-	10	-	10	-	10
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(444)	-	-	(444)	-	(440)
Other comprehensive loss		-	-	-	-	-	(444)	(1,028)	-	(1,472)	(217)	(1,689)
Net loss for the year		-	-	-	-	(11,380)	-	-	-	(11,380)	(33)	(11,413)
Total comprehensive loss for the year		-	-	-	-	(11,380)	(444)	(1,028)	-	(12,852)	(250)	(13,102)
Cash dividends	21	-	-	-	-	(2,515)	-	-	-	(2,515)	(100)	(2,615)
Distributions paid	21	-	-	-	-	(1,816)	-	-	-	(1,816)	-	(1,816)
Issuance of redeemable perpetual securities	21	-	-	11,298	-	-	-	-	-	11,298	-	11,298
Transactions with owners		-	-	11,298	-	(4,331)	-	-	-	6,967	(100)	6,867
<b>As of December 31, 2020</b>		<b>P9,485</b>	<b>P37,500</b>	<b>P36,481</b>	<b>P15,000</b>	<b>P14,799</b>	<b>(P5,148)</b>	<b>(P13,223)</b>	<b>(P15,122)</b>	<b>P79,772</b>	<b>P6,423</b>	<b>P86,195</b>

Forward

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

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

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
(Amounts in Million Pesos)

	<i>Note</i>	<b>2020</b>	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) before income tax		<b>(P16,211)</b>	P3,737	P10,455
Adjustments for:				
Depreciation and amortization	25, 37	<b>9,490</b>	13,245	11,543
Interest expense and other financing charges	26, 37	<b>11,313</b>	13,490	9,689
Retirement benefits costs	30	<b>289</b>	70	523
Interest income	26	<b>(780)</b>	(1,340)	(706)
Unrealized foreign exchange losses (gains) - net		<b>(2,308)</b>	(2,573)	2,484
Other losses (gains) - net		<b>(994)</b>	139	(1,738)
Operating income before working capital changes		<b>799</b>	26,768	32,250
Changes in noncash assets, certain current liabilities and others	33	<b>12,031</b>	11,847	(15,616)
Cash generated from operations		<b>12,830</b>	38,615	16,634
Contribution to retirement fund	30	<b>(315)</b>	(940)	(1,068)
Interest paid		<b>(10,758)</b>	(12,722)	(9,035)
Income taxes paid		<b>(110)</b>	(949)	(1,980)
Interest received		<b>886</b>	1,358	496
Net cash flows provided by operating activities		<b>2,533</b>	25,362	5,047
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	10	<b>(8,167)</b>	(17,547)	(10,416)
Proceeds from sale of property and equipment		<b>144</b>	43	58
Acquisition of investment property	12	<b>(591)</b>	(2,466)	(852)
Proceeds from sale of investment property		-	116	-
Increase in other noncurrent assets		<b>(43)</b>	(582)	(79)
Proceeds from disposal (acquisition) of:				
Investment in subsidiary - net	13	<b>181</b>	-	-
Investments in debt instruments	7	<b>39</b>	(31)	148
Net cash flows used in investing activities		<b>(8,437)</b>	(20,467)	(11,141)

*Forward*

	<i>Note</i>	<b>2020</b>	2019	2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from availment of loans	33	<b>P151,408</b>	P386,875	P339,581
Payments of:				
Loans	33	<b>(155,604)</b>	(381,558)	(312,564)
Lease liabilities	29, 33	<b>(2,361)</b>	(1,128)	-
Cash dividends and distributions	21, 33	<b>(4,423)</b>	(4,100)	(6,160)
Issuance of preferred shares	21	-	19,847	-
Redemption of preferred shares	21	-	(7,122)	-
Issuance of redeemable and senior perpetual capital securities	21	<b>11,298</b>	302	24,881
Redemption of undated subordinated capital securities	21	-	-	(39,769)
Acquisition of additional interest in a subsidiary	13	-	-	(20)
Net cash flows provided by financing activities		<b>318</b>	13,116	5,949
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		<b>(1,579)</b>	(1,198)	536
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		<b>(7,165)</b>	16,813	391
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
		<b>34,218</b>	17,405	17,014
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	5	<b>P27,053</b>	P34,218	P17,405

*See Notes to the Consolidated Financial Statements.*

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**PETRON CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in Million Pesos, Except Par Value, Number of Shares and  
Per Share Data, Exchange Rates and Commodity Volumes)

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**1. Reporting Entity**

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

Pursuant to the Parent Company’s Articles of Incorporation (AOI), it has a corporate life of 50 years or for such longer period as may hereafter be authorized by the laws of the Philippines. Under Section 11 of the Revised Corporation Code of the Philippines, the Parent Company shall have a perpetual existence unless its AOI provides otherwise.

Petron is the only oil refining and the leading 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 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 2,000 service stations and hundreds of industrial accounts, Petron remains the leader in the Philippine fuel 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. In line with efforts to increase its presence in the regional market, Petron exports various products to Asia-Pacific countries.

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

Today, Petron is one of the leading oil companies in Malaysia with an integrated business which includes an 88,000 barrel-per-day refinery, 11 terminals and facilities, and a network of more than 700 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, 2020, 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 Investment 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 9, 2021.

### Basis of Measurement

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

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

### Functional and Presentation Currency

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

### Basis of Consolidation

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

Name of Subsidiary	Percentage of Ownership		Country of Incorporation
	2020	2019	
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	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 include 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, 2020 and 2019, NVRC owns 100% of Las Lucas Construction and Development Corporation (LLCDC), Parkville Estates & Development Corporation (PEDC), South Luzon Prime Holdings, Inc. (SLPHI), Abreco Realty Corporation (ARC) and 60% of Mariveles Landco Corporation (MLC).

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

On August 28, 2020, the Parent Company signed the Share Purchase Agreement with San Miguel Integrated Logistics Services, Inc. (SMILSI) for the sale by the Parent Company of its 100% ownership in PLI's equity which is equivalent to the entire 2,010,000 outstanding shares of PLI. The closing of the transaction occurred on September 1, 2020 (Note 13).

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, 2020 and 2019, 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, 2020 and 2019, 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.

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 2020 and 2019.

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 financial position as at December 31, 2019 is summarized below:

	<i>Note</i>	<b>As Previously Presented</b>	<b>Reclassification</b>	<b>As Reclassified</b>
Property, Plant and Equipment - net	10	P167,941	P326	P168,267
Other noncurrent assets - net	14	3,070	(326)	2,744

The reclassification did not have an effect on the consolidated income, consolidated total comprehensive income and cash flows for the year ended December 31, 2019.

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

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

#### Adoption of New and Amended Standards and Interpretations

The Group has adopted the following new and amended standards and interpretations effective January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of the amended standards and framework did not have a material effect on the consolidated financial statements.

- Amendments to References to Conceptual Framework in PFRS 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) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). 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: (a) 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; (b) narrowed the definition 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 (c) 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.
- 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 what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The Group has early adopted the below PFRS effective June 1, 2020 and accordingly, changed its accounting policy:

- Coronavirus Disease 2019 (COVID-19) Related Rent Concessions (Amendment to PFRS 16, *Leases*). The amendment introduces an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if:
  - the revised consideration is substantially the same or less than the original consideration;
  - the reduction in lease payments relates to payments due on or before June 30, 2021; and
  - no other substantive changes have been made to the terms of the lease.

The Group has lease agreements with rent concessions that ranges from one to two months of rental payments in 2020. The rent concessions decreased the lease liabilities and increased other income by P23 (Note 26).

#### Standards Issued but Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2020 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

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

- Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4, *Insurance Contracts* and PFRS 16). To ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:
  - *Practical Expedient for Particular Changes to Contractual Cash Flows*. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.

- *Relief from Specific Hedge Accounting* . The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.
- *Disclosure Requirements*. To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted. The amendments apply retrospectively, but restatement of comparative information is not required. Reinstatement of a discontinued hedging relationship is required if the hedging relationship was discontinued solely because of changes required by the reform, and that discontinued hedging relationship meets all qualifying criteria for hedge accounting at the date of initial application.

The amendments are still subject to the approval by the FRSC.

- *Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, Property, Plant and Equipment)*. The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a Company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the costs of fulfilling a contract comprise both the incremental costs (e.g., direct labor and materials); and an allocation of other direct costs (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS Standards 2018 - 2020. This Cycle of improvements contains amendments to four standards, of which the following are applicable to the Group:
  - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9). This amendment clarifies that for the purpose of performing the '10 per cent test' for derecognition of financial liabilities, in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
  - Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application permitted.

- Reference to the Conceptual Framework (Amendment to PFRS 3). The amendments:
  - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;
  - added a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
  - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022, with earlier adoption permitted.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:
  - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- 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 profit or loss or to recognize some of that income or expenses in other comprehensive income (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 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, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures: 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 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 until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent 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 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

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

#### Financial Instruments

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

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

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

#### Financial Assets

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

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

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time 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 amortized cost. 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 other comprehensive income. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

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

#### Financial Liabilities

The Group determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the consolidated statements of income. 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 FVOCI or amortized cost using the effective interest method. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Amortized cost of other financial liabilities 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 or cancelled, or expires. 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 the 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.

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the 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 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.

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 in other comprehensive income, 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 and interest 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 other comprehensive income and presented in the "Other reserves" 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 other comprehensive income 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 other comprehensive income. The cost of hedging is removed from other comprehensive income 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 the 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 the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the 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, 2020 and 2019 (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, 2020 and 2019 (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.

### 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, 2020, the Group has capital commitments amounting to P0.1 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 for property, plant and equipment other than those assets used in production such as refinery and plant equipment, which commences when the assets are available for its intended use, are computed using the straight-line method. Effective January 1, 2020, depreciation of refinery and plant equipment used in production is computed based on the unit of production method (UPM) which considers the expected capacity over the estimated useful lives of these assets. The estimated useful lives of the assets are as follows:

	Number of Years
Buildings and improvements and related facilities	7 - 50
Refinery and plant equipment	4 - 34
Service stations and other equipment	3 - 33
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10- 12 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 and 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.

The Group has applied COVID-19-Related Rent Concessions. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

#### *Group as a Lessor*

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

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

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

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

The Group identified the use of loaned equipment related to the sale of goods to be accounted for under PFRS 16. The Group provides equipment such as pumps, tanks, signage and other ancillary equipment necessary for the operation of the business. These are loaned to the customers for the duration of the contract for the sole purpose of storing, handling and selling products and shall, at all times, remain the property of Petron. The Group allocates portion of the revenue to the use of loaned equipment and presented as part of "Net sales" in the consolidated statements of income based on adjusted market assessment approach. Lease revenue from the use of loaned equipment is contingent to, and recognized at the same time as, the sale of goods.

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

*Policy Applicable before January 1, 2019*

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

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

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

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

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

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

*Operating Lease*

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

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

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. Cost also includes any related asset retirement obligation (ARO), if any. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

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

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

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

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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

	Number of Years
Software	5 - 7
Franchise fee	3 - 10
Other intangibles	10 - 16

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

As of December 31, 2020 and 2019, 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, Petron New Logo (22 styles), Philippine Card Designs and Malaysian Card Designs, and Petron font. 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 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 about 90% 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 best 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 of the amount of the obligation can be made. 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.

### Capital Securities

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

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

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

#### Retained Earnings

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

#### 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.

#### Revenue

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

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

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

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

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

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

- *Provisions of Technical Support.* The Group provides technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs. Revenue is recognized over time upon rendering of services to the customer. The Group allocates portion of the revenue to the technical support based on expected cost plus a margin approach.
- *Consumer Loyalty Program.* The Group has Consumer Loyalty Programs which allows customers to accumulate points when they purchase products at participating service stations. These points can be redeemed for Group's products, rewards, discounts and other privileges from partner merchants. Revenue is allocated between the goods sold and the points issued that are expected to be redeemed. This allocation is based on the relative stand-alone selling price of the points. A deferred liability account is set up for these points. The liability will be reversed when 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.

*Gain or Loss on Sale of Investments in Shares of Stock.* Gain or loss is recognized when the Group disposes of its investment in shares of stock of a subsidiary, associate and joint venture and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any

*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 other comprehensive income.

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

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

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

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

#### Related Parties

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

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

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

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

#### Operating Segments

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

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods.

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

#### Contingencies

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

#### Events After the Reporting Date

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

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#### **4. Use of Judgments, Estimates and Assumptions**

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

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

#### Judgments

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

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

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

*Leases.* 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.

*Determining whether a Contract Contains a Lease.* The Group uses its judgment in determining whether a contract contains a lease. At inception of a contract, the Group makes an assessment whether it has the right to obtain substantially all the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

*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 P1,047, P1,507 and P1,340 in 2020, 2019 and 2018, respectively. Rent income recognized as part of "Interest expense and other financing charges, interest income and other income (expenses)" amounted to P63 each in 2020, 2019 and 2018 (Note 26). Revenues from the customers' use of loaned equipment amounted to P1,150, P1,099 and P1,117 in 2020, 2019 and 2018, respectively (Note 37).

Rent expense recognized in the consolidated statements of income amounted to P143, P101 and P1,806 in 2020, 2019 and 2018, respectively (Notes 22, 23 and 29).

*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.* 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.

*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.

*Classification of Financial Instruments.* The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, 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.

*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 2020, 2019 and 2018, 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, ARC and PEDC, as they opted to apply OSD (Note 27).

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

#### Estimates and Assumptions

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

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

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

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

Impairment losses on trade and other receivables amounted to P67, P294 and P261 in 2020, 2019 and 2018 respectively (Notes 8, 23 and 26). Receivables written-off amounted to P8 in 2020, P375 in 2019 and P68 in 2018 (Note 8).

The carrying amount of trade and other receivables amounted to P27,195 and P44,657 as of December 31, 2020 and 2019, 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.

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.

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 2020 and 2019. The carrying amounts of other financial assets at amortized cost are as follows:

	<b>Note</b>	<b>2020</b>	2019
Cash in banks and cash equivalents	5	<b>P25,970</b>	P32,049
Investments in debt instruments	7	<b>255</b>	257
Noncurrent deposits	14	<b>121</b>	104
		<b>P26,346</b>	P32,410

*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 P44,922 and P72,210 as of the end of 2020 and 2019, 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 loss on inventory write-down amounting to nil in 2020 while P564 in 2019 and P742 in 2018 (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 2020, 2019 and 2018, the Group provided an additional loss on inventory obsolescence amounting to P73, P31 and nil, 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.

Except for refinery and plant equipment used in production, there is no change in estimated useful lives of property, plant and equipment, right-of-use asset, investment property and intangible assets with finite useful lives based on management's review at the reporting date.

Starting January 1, 2020, the Group adopted the UPM of accounting for depreciation of refinery and plant equipment used in production. UPM closely reflects the expected pattern of consumption of the future economic benefits embodied in these assets. Depreciation of said assets is computed using the expected consumption over the estimated useful lives of these assets. Previously, depreciation was computed using the straight-line method over the estimated useful lives of the assets.

Property, plant and equipment, net of accumulated depreciation, amounted to P168,831 and P168,267 as of December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of property, plant and equipment, amounted to P98,902 and P93,193 as of December 31, 2020 and 2019, respectively (Note 10).

Right-of-use assets, net of accumulated depreciation, amounted to P6,045 and P5,509 as of December 31, 2020 and 2019, respectively. Accumulated depreciation of right-of-use asset amounted to P1,639 and P1,096 at December 31, 2020 and 2019, respectively (Note 11).

Investment property, net of accumulated depreciation, amounted to P30,049 and P29,935 as of December 31, 2020 and 2019, respectively. Accumulated depreciation of investment property amounted to P15,345 and P14,099 at December 31, 2020 and 2019, respectively (Note 12).

Intangible assets with finite useful lives, net of accumulated amortization, amounted to P138 and P127 as of December 31, 2020 and 2019, respectively (Note 14). Accumulated amortization of Intangible assets with finite useful lives amounted to P662 and P651 at December 31, 2020 and 2020, 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 P37,126 and P37,614, respectively as of December 31, 2020 and 2019 (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 2020 and 2019 and discount rates of 6.3% and 6.6% in 2020 and 2019, 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 2020 2019 and 2018 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, 2020 and 2019.

*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 P2,190 and P262 as of December 31, 2020 and 2019, 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 P430, P196 and P523 in 2020, 2019 and 2018, respectively. Remeasurement losses of the net defined retirement obligation recognized in OCI amounted to P631, P2,531 and P1,133 in 2020, 2019 and 2018, respectively. The retirement benefits liability amounted to P3,808 and P3,655 as of December 31, 2020 and 2019, 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 based on the dismantling costs as estimated by the operating unit responsible for the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 3.21% to 5.47% 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 P2,867 and P1,720 as of December 31, 2020 and 2019, respectively (Note 19).

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## 5. Cash and Cash Equivalents

This account consists of:

	<b>Note</b>	<b>2020</b>	2019
Cash on hand		<b>P1,083</b>	P2,169
Cash in banks		<b>4,253</b>	5,193
Short-term placements		<b>21,717</b>	26,856
	<b>34, 35</b>	<b>P27,053</b>	P34,218

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Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn annual interest at the respective short-term placement rates ranging from 0.01% to 5.75% in 2020, 0.13% to 6.25% in 2019 and 0.20% to 7.00% in 2018 (Note 26).

## 6. Financial Assets at Fair Value

This account consists of:

	<i>Note</i>	<b>2020</b>	2019
Proprietary membership shares		<b>P275</b>	P284
Derivative assets not designated as cash flow hedge		<b>322</b>	546
Derivative assets designated as cash flow hedge		<b>12</b>	200
	34, 35	<b>609</b>	1,030
Less noncurrent portion	14	<b>6</b>	166
		<b>P603</b>	P864

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 2020, 2019 and 2018 amounted to (P9), P30 and P84, respectively (Note 26) while changes in fair value of derivative assets designated as cash flow hedge were recognized in OCI.

## 7. Investments in Debt Instruments

This account consists of:

	<i>Note</i>	<b>2020</b>	2019
Government securities		<b>P225</b>	P227
Other debt instruments		<b>156</b>	193
	34, 35	<b>381</b>	420
Less current portion		<b>184</b>	109
		<b>P197</b>	P311

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 1.78% to 7.02% in 2020 and 4.25% to 7.02% in 2019 (Note 26).

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

	<b>Note</b>	<b>2020</b>	2019
Due in one year or less		<b>P184</b>	P109
Due after one year through six years		<b>197</b>	311
	<b>34, 35</b>	<b>P381</b>	P420

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

	<b>Note</b>	<b>2020</b>	2019
Financial assets at amortized cost		<b>P255</b>	P257
Financial assets at FVOCI		<b>126</b>	163
	<b>34, 35</b>	<b>P381</b>	P420

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

	<b>Note</b>	<b>2020</b>	2019
<b>Financial Assets at FVOCI</b>			
Balance as of January 1		<b>P163</b>	P152
Disposals		<b>(37)</b>	-
Amortization of premium		<b>(1)</b>	(4)
Unrealized fair value gains		<b>1</b>	15
Balance as of December 31		<b>126</b>	163
<b>Financial Assets at Amortized Cost</b>			
Balance as of January 1		<b>257</b>	226
Additions		<b>69</b>	71
Disposal		<b>(71)</b>	(40)
Balance as of December 31		<b>255</b>	257
	<b>34, 35</b>	<b>P381</b>	P420

## 8. Trade and Other Receivables

This account consists of:

	<b>Note</b>	<b>2020</b>	2019
Trade	34	<b>P19,372</b>	P35,009
Related parties - trade	28, 34	<b>932</b>	1,126
Allowance for impairment loss on trade receivables		<b>(823)</b>	(759)
		<b>19,481</b>	35,376
Government		<b>5,292</b>	6,392
Related parties - non-trade	28	<b>1,636</b>	2,011
Others		<b>958</b>	1,061
Allowance for impairment loss on non-trade receivables		<b>(172)</b>	(183)
		<b>7,714</b>	9,281
	<b>34, 35</b>	<b>P27,195</b>	P44,657

Trade receivables are non-interest bearing and are generally on a 45-day average 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 P482 and P1,500 as of December 31, 2020 and 2019, 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 2020 and 2019 is shown below:

	<i>Note</i>	<b>2020</b>	2019
Balance at beginning of year		<b>P1,260</b>	P1,410
Additions	23, 26	<b>67</b>	294
Write off	4	<b>(8)</b>	(375)
Currency translation adjustment		<b>(17)</b>	(69)
Balance at end of year		<b>1,302</b>	1,260
Less noncurrent portion for long-term receivables	34	<b>307</b>	318
		<b>P995</b>	P942

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 P8 and P375 in 2020 and 2019, 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, 2020 and 2019:

	<b>Weighted Average Loss Rate</b>	<b>Gross Carrying Amount</b>	<b>ECL</b>
<b>December 31, 2020</b>			
Retail	<b>2.62%</b>	<b>P4,350</b>	<b>P114</b>
Lubes	<b>0.16%</b>	<b>621</b>	<b>1</b>
Gasul	<b>6.96%</b>	<b>790</b>	<b>55</b>
Industrial	<b>3.99%</b>	<b>7,760</b>	<b>310</b>
Others	<b>3.51%</b>	<b>14,669</b>	<b>515</b>
		<b>P28,190</b>	<b>P995</b>

	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

## 9. Inventories

This account consists of:

	2020	2019
Petroleum	<b>P19,414</b>	P33,173
Crude oil and others	<b>17,433</b>	29,626
Materials and supplies	<b>5,503</b>	5,688
Lubes, greases and aftermarket specialties	<b>2,572</b>	3,723
	<b>P44,922</b>	P72,210

The cost of these inventories amounted to P45,535 and P73,314 as of December 31, 2020 and 2019, 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 P142 and P1,374 as of December 31, 2020 and 2019, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P263,078, P463,028 and P498,117 in 2020, 2019 and 2018, respectively (Note 22).

Research and development costs on these products constituted the expenses incurred for internal projects in 2020, 2019 and 2018 (Note 23).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2020 and 2019 follow:

	Note	2020	2019
Balance at beginning of year		<b>P1,104</b>	P1,251
Additions:			
Loss on inventory obsolescence	4	<b>73</b>	31
Loss on inventory write-down	4	-	564
Reversals		<b>(564)</b>	(742)
Balance at end of year		<b>P613</b>	P1,104

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:

Cost	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
January 1, 2019, as previously reported		P20,132	P188,237	P17,808	P5,239	P4,818	P12,328	P248,562
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	-	(5,471)	(588)
Reclassification to/from investment property	12	(844)	-	-	-	(1,275)	-	(2,119)
Currency translation adjustment		(382)	(153)	(242)	(46)	(376)	(158)	(1,357)
December 31, 2019 as previously reported		22,717	192,451	19,280	5,652	4,162	16,872	261,134
Adjustments due to reclassification from Long-term Assets		-	422	-	-	-	-	422
December 31, 2019, as adjusted		22,717	192,873	19,280	5,652	4,162	16,872	261,556
Additions		243	446	560	222	-	7,009	8,480
Disposals/reclassifications		970	1,360	259	77	71	(3,262)	(525)
Reclassification to/from investment property	12	(162)	-	-	-	(31)	-	(336)
Currency translation adjustment		(271)	(430)	(315)	(64)	(68)	(294)	(1,442)
<b>December 31, 2020</b>		<b>23,487</b>	<b>194,249</b>	<b>19,784</b>	<b>5,887</b>	<b>4,134</b>	<b>20,182</b>	<b>267,733</b>
<b>Accumulated Depreciation and Amortization</b>								
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
Depreciation		888	7,755	1,081	520	91	-	10,335
Disposals/reclassifications		(61)	(35)	(442)	(17)	(4)	-	(559)
Reclassification to/from investment property	12	126	-	-	-	(18)	-	108
Currency translation adjustment		(125)	(214)	(123)	(35)	(66)	-	(563)
December 31, 2019 as previously reported		13,205	61,390	12,832	4,672	1,094	-	93,193
Adjustments due to reclassification from Long-term Assets		-	96	-	-	-	-	96
December 31, 2019, as adjusted		13,205	61,486	12,832	4,672	1,094	-	93,289
Depreciation*		858	4,096	1,028	457	92	-	6,531
Disposals/reclassifications		(73)	76	(44)	(84)	3	-	(122)
Reclassification to/from investment property	12	-	-	-	-	(7)	-	(7)
Currency translation adjustment		(197)	(318)	(126)	(51)	(1)	-	(693)
<b>December 31, 2020</b>		<b>13,793</b>	<b>65,244</b>	<b>13,690</b>	<b>4,994</b>	<b>1,181</b>	<b>-</b>	<b>96,902</b>
<b>Carrying Amount</b>								
December 31, 2019		P9,512	P131,061	P6,448	P980	P3,068	P16,872	P167,941
<b>December 31, 2020</b>		<b>P9,705</b>	<b>P129,005</b>	<b>P6,094</b>	<b>P893</b>	<b>P2,953</b>	<b>P20,182</b>	<b>P166,831</b>

\*Depreciation expense for refinery and plant equipment for the year under the straight-line method amounted to P8,337.

ARO 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 2020 and 2019, certain property, plant and equipment were reclassified to/from investment property due to change in usage of the asset from/to used in operations to/from leased to another party under an operating lease agreement (Note 12).

No impairment loss was required to be recognized in 2020, 2019 and 2018 based on management’s assessment of impairment indicators.

The Group capitalized interest amounting to P313, P114 and nil in 2020, 2019 and 2018, respectively (Notes 15, 18, 26 and 29). The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 1.45% to 8.20% in 2020 and from 3.41% to 8.19% in 2019.

#### Capital Commitments

As of December 31, 2020 and 2019, the Group has outstanding commitments to acquire property, plant and equipment amounting to P12,506 and P20,798, respectively.

### **11. Right-of-Use Assets**

The movements in right-of-use assets as of December 31, 2020 are as follows

	Land	Buildings and Improvements and Related Facilities	Service Stations and Other Equipment	Total
<b>Cost</b>				
January 1, 2019	P -	P -	P -	P -
Adjustment due to adoption of PFRS 16	7,076	1,175	24	8,275
January 1, 2019, as adjusted	7,076	1,175	24	8,275
Additions	41	5	-	46
Disposals	(3)	-	-	(3)
Remeasurements	(1,538)	(123)	-	(1,661)
Currency translation adjustment	(50)	(2)	-	(52)
January 1, 2020	5,526	1,055	24	6,605
Additions	204	2	-	206
Remeasurements	867	39	-	906
Currency translation adjustment	(30)	(3)	-	(33)
<b>December 31, 2020</b>	<b>6,567</b>	<b>1,093</b>	<b>24</b>	<b>7,684</b>
<b>Accumulated Depreciation</b>				
January 1, 2019	-	-	-	-
Adjustment due to adoption of PFRS 16	790	-	-	790
January 1, 2019, as adjusted	790	-	-	790
Disposals	(2)	-	-	(2)
Remeasurements	(433)	-	-	(433)
Depreciation	478	221	3	702
Currency translation adjustment	39	-	-	39
January 1, 2020	872	221	3	1,096
Disposals	-	-	-	-
Remeasurements	(115)	(1)	-	(116)
Depreciation	440	225	3	668
Currency translation adjustment	(8)	(1)	-	(9)
<b>December 31, 2020</b>	<b>1,189</b>	<b>444</b>	<b>6</b>	<b>1,639</b>
<b>Carrying Amount</b>				
December 31, 2019	P4,654	P834	P21	P5,509
<b>December 31, 2020</b>	<b>P5,378</b>	<b>P649</b>	<b>P18</b>	<b>P6,045</b>

The Group recognized right-of-use assets for leases of office space, buildings, machinery and equipment, service stations and parcels of land. The leases typically run for a period of two 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. The Group recognized interest expense related to these leases amounting to P1,115 and P1,165 in 2020 and 2019, respectively (Note 29).

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 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 P251, P13 and P3, respectively, in 2020, and P62, P32 and P7, respectively, in 2019 (Note 29).

The Group had total cash outflows for leases of P2,705 and P2,293 in 2020 and 2019, respectively (Note 29).

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

## 12. Investment Property

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

	Note	Land	Land and Leasehold Improvements	Buildings and Improvements	Right-of-Use	Total
<b>Cost</b>						
January 1, 2019, as previously reported		P8,422	P2,702	P15,269	P -	P26,393
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/to property, plant and equipment	10	685	590	844	-	2,119
Currency translation adjustment		(80)	(197)	(208)	-	(485)
January 1, 2020		9,253	5,676	17,562	11,543	44,034
Additions		3	321	588	849	1,761
Disposals/reclassifications		-	-	19	(110)	(91)
Reclassifications from/to property, plant and equipment	10	69	31	236	-	336
Remeasurements		-	-	-	90	90
Currency translation adjustment		(117)	(284)	(335)	-	(736)
<b>December 31, 2020</b>		<b>9,208</b>	<b>5,744</b>	<b>18,070</b>	<b>12,372</b>	<b>45,394</b>
<b>Accumulated Depreciation</b>						
January 1, 2019, as previously reported		-	1,118	8,739	-	9,857
Adjustment due to adoption of PFRS 16		-	-	-	63	63
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/to property, plant and equipment	10	-	18	(126)	-	(108)
Currency translation adjustment		-	(70)	(197)	-	(267)
January 1, 2020		-	4,122	8,978	999	14,099
Depreciation		-	318	685	941	1,944
Disposals/reclassifications		-	-	(10)	(110)	(120)
Reclassifications from/to property, plant and equipment	10	-	(7)	-	-	(7)
Currency translation adjustment		-	(239)	(332)	-	(571)
<b>December 31, 2020</b>		<b>-</b>	<b>4,194</b>	<b>9,321</b>	<b>1,830</b>	<b>15,345</b>
<b>Carrying Amount</b>						
December 31, 2019		P9,253	P1,554	P8,584	P10,544	P29,935
<b>December 31, 2020</b>		<b>P9,208</b>	<b>P1,550</b>	<b>P8,749</b>	<b>P10,542</b>	<b>P30,049</b>

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

In 2020 and 2019, certain investment property were reclassified from/to property, plant and equipment to change in usage of the asset from/to used in operations to/from leased to another party under an operating lease agreement (Note 10).

The Group's investment property also includes a property located in Tagaytay with carrying amount of P7 and P8 as of December 31, 2020 and 2019, respectively.

No impairment loss was required to be recognized in 2020, 2019 and 2018 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 2020, 2019 and 2018.

The fair value of investment property amounting to P37,126 and P37,614 as of December 31, 2020 and 2019, 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 P20,804 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 P4,820 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 P11,502.

#### Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches below:

*Sales Comparison Approach.* The market value of land was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established through such process of comparing available data. The property being valued is then compared with sales transactions involving similar properties 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 on the property is first determined followed by the application of the proper capitalization rate is applied to arrive at its net present value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment.

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

#### Investment in Shares of Stock of Subsidiaries

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

a. *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.

As of December 31, 2020 and 2019, the Parent Company owns 85.55% of NVRC.

b. *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 of December 31, 2020 and 2019, the Parent Company's ownership interest remains at 100% after the above transactions.

c. *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.

On August 28, 2020, the Parent Company signed the Share Purchase Agreement with SMILSI, an entity under common control, for the sale by the Parent Company of its equity in PLI equivalent to 100% of PLI's outstanding shares for a total consideration of P230. The transaction was completed on September 1, 2020. The Group recognized loss on disposal of investments amounting to P1 included as part of "Other income - net" account in the 2020 consolidated statements of income (Note 26).

The following summarizes the accounts derecognized at the deconsolidation date:

	<b>2020</b>
Cash and cash equivalents	<b>P49</b>
Trade and other receivables - net	<b>37</b>
Other current assets	<b>14</b>
Property, plant and equipment - net	<b>137</b>
Right of use assets - net	<b>2</b>
Other noncurrent assets - net	<b>1</b>
Trade and other payables	<b>(7)</b>
Lease liabilities - net of current portion	<b>(2)</b>
<b>Total</b>	<b>P231</b>

#### Goodwill

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

	<b>2020</b>	2019
<b>Cost</b>		
Balance at beginning of year	<b>P8,319</b>	P8,532
Translation adjustments	<b>(288)</b>	(213)
<b>Net carrying amount at end of year</b>	<b>P8,031</b>	P8,319

#### 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, 2020 and 2019, 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 6.3% in 2020 and 6.6% in 2019 was applied based on the weighted average cost of capital using the Capital Asset Pricing Model (CAPM).
- Terminal growth rate of 3.0% in 2020 and 2019 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 2020 and 2019 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 2020, 2019 and 2018 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, 2020		December 31, 2019	
	NVRC	PMRMB	NVRC	PMRMB
<b>Non-controlling Interests Percentage</b>	<b>14.45%</b>	<b>26.60%</b>	14.45%	26.60%
<b>Carrying amount of non-controlling interest</b>	<b>P451</b>	<b>P5,972</b>	P440	P6,333
Current assets	<b>P664</b>	<b>P9,606</b>	P376	P16,038
Noncurrent assets	<b>9,317</b>	<b>25,869</b>	9,524	23,211
Current liabilities	<b>(1,211)</b>	<b>(12,446)</b>	(363)	(14,955)
Noncurrent liabilities	<b>(3,906)</b>	<b>(2,281)</b>	(4,829)	(2,249)
<b>Net assets</b>	<b>P4,864</b>	<b>P20,748</b>	P4,708	P22,045
<b>Net income (loss) attributable to non-controlling interests</b>	<b>P11</b>	<b>(P44)</b>	P9	P593
<b>Other comprehensive loss attributable to non-controlling interests</b>	<b>P -</b>	<b>(P217)</b>	P -	(P180)
<b>Sales</b>	<b>P415</b>	<b>P76,733</b>	P406	P143,205
Net income (loss)	<b>P155</b>	<b>(P376)</b>	P140	P2,193
Other comprehensive loss	-	<b>(60)</b>	-	(60)
<b>Total comprehensive income (loss)</b>	<b>P155</b>	<b>(P436)</b>	P140	P2,133
Cash flows provided by operating activities	<b>P234</b>	<b>P1,147</b>	P150	P12,328
Cash flows used in investing activities	<b>(3)</b>	<b>(4,332)</b>	(106)	(8,271)
Cash flows provided by (used in) financing activities	<b>(212)</b>	<b>2,995</b>	(101)	(3,919)
Effects of exchange rate changes on cash and cash equivalents	-	<b>(20)</b>	-	-
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>P19</b>	<b>(P209)</b>	(P57)	P138

## 14. Other Assets

This account consists of:

	Note	2020	2019
<b>Current</b>			
Prepaid taxes		<b>P22,038</b>	P17,703
Input VAT		<b>7,698</b>	7,986
Prepaid expenses	28	<b>2,101</b>	1,417
Special-purpose fund		<b>158</b>	157
Assets held for sale		<b>13</b>	-
Tax recoverable		<b>131</b>	-
Others - net		<b>198</b>	167
		<b>P32,337</b>	P27,430
<b>Noncurrent</b>			
Input VAT		<b>P588</b>	P1,061
Catalyst - net		<b>552</b>	683
Prepaid rent		<b>290</b>	212
Derivative assets designated as			
cash flow hedge	6, 34, 35	<b>6</b>	166
Noncurrent deposits	34, 35	<b>121</b>	104
Intangibles - net	4	<b>138</b>	127
Others - net	2	<b>393</b>	391
		<b>P2,088</b>	P2,744

The "Others - net" under "Noncurrent" account includes marketing assistance to dealers and other prepayments amounting to P256, P268 and P777 as of December 31, 2020, 2019 and 2018, respectively, net of amortization amounting to P75, P154 and P236 in 2020, 2019 and 2018, respectively.

In 2019 there is a reclassification to property, plant and equipment from "Others - net" under "Noncurrent" account amounting to P326. (Notes 2 and 10).

The amortization of prepaid rent amounted to P4, nil and P245 in 2020, 2019 and 2018, 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 P82, P83 and P97 in 2020, 2019 and 2018, 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 P261, P242 and P584 in 2020, 2019 and 2018, respectively (Notes 22 and 25).

As of December 31, 2020, assets held for sale pertain to two condominium properties acquired through dacion en pago.

As of December 31, 2019, assets held for sale represents the remaining 1,000 shares of Manila North Harbour Port, Inc. (MNHPI) amounting to P0.13. During 2019, 50,000 shares representing 0.17% interest was sold to a related party (Note 28).

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## 15. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 1 to 91 days and annual interest ranging from 0.92% to 6.75% in 2020, 2.30% to 8.50% in 2019 and 2.65% to 7.00% in 2018 (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 9) and working capital requirements.

Interest expense on short-term loans amounted to P3,418 in 2020, P4,065 in 2019 and P3,165 in 2018 (Note 26). Interest expense amounting to P174 was capitalized as part of property, plant and equipment in 2020 while P33 in 2019 and nil in 2018 (Note 10).

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## 16. Liabilities for Crude Oil and Petroleum Products

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

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

	<i>Note</i>	<b>2020</b>	2019
Third parties		<b>P22,301</b>	P39,361
Related parties	28	<b>19</b>	1
	<b>34, 35</b>	<b>P22,320</b>	P39,362

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## 17. Trade and Other Payables

This account consists of:

	<i>Note</i>	<b>2020</b>	2019
Trade		<b>P6,386</b>	P20,533
Specific taxes and other taxes payable		<b>4,072</b>	2,821
Accrued payroll		<b>73</b>	24
Due to related parties	28	<b>1,118</b>	1,009
Accrued interest		<b>633</b>	833
Accrued rent		<b>303</b>	288
Dividends payable	33	<b>505</b>	496
Insurance liabilities		<b>288</b>	739
Retention payable		<b>180</b>	719
Retirement benefits liability	30	<b>103</b>	90
Deferred liability on consumer loyalty program		<b>1,406</b>	867
Others	39	<b>335</b>	322
	<b>34, 35</b>	<b>P15,402</b>	P28,741

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 P1,158 and P2,017 in 2020 and 2019, respectively (Note 37).

## 18. Long-term Debt

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

	<b>Note</b>	<b>2020</b>	2019
<b>Unsecured Peso-Denominated (net of debt issue costs)</b>			
Term loan of 5.4583% due until 2022	(a)	<b>P1,998</b>	P2,995
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	(b)	<b>19,944</b>	19,906
Term loan of 5.5276% due quarterly until 2024	(d)	<b>8,008</b>	10,136
Term loan of 5.7584% due until 2022	(e)	<b>4,990</b>	7,479
Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025	(f)	<b>19,832</b>	19,799
Term loan of 4.5900% due in 2025	(i)	<b>4,970</b>	-
<b>Unsecured Foreign Currency-Denominated (net of debt issue costs)</b>			
Floating rate dollar loan - US\$1,000 million due until 2022	(c)	<b>13,530</b>	32,854
Floating rate dollar loan - US\$800 million due until 2024	(g)	<b>32,334</b>	39,908
Floating rate yen loan - JP¥15 billion due until 2025	(h)	<b>6,845</b>	-
Floating rate dollar loan - US\$150 million due until 2023	(j)	<b>7,003</b>	-
	33, 34, 35	<b>119,454</b>	133,077
Less current portion		<b>31,114</b>	16,881
		<b>P88,340</b>	P116,196

- a. 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.
- b. 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.

- c. 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\$221 million and US\$148 million in 2020 and US\$177 million and US\$118 million in 2019 against the US\$600 million and US\$400 million drawdowns, respectively.
- d. 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, 2020, the P6,964 portion of the facility has already been paid.
- e. 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 2020 and 2019, the P2,500 portion of the facility has been paid each year.
- f. 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.
- g. 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.

- h. On April 22, 2020, the Parent Company drew JP¥15 billion from a JP¥15 billion term loan facility signed and executed on March 27, 2020. The proceeds were used to partially prepay its US\$1 billion term loan facility. The JP¥ 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 March 27, 2022. It is subject to a floating interest rate based on JP¥ LIBOR plus a spread, repriced every 1, 3 or 6 months.
- i. On April 27, 2020, the Parent Company drew P5 billion from a P5 billion term loan facility which was signed and executed on April 23, 2020. The facility is subject to a fixed interest rate of 4.59% per annum and amortized over 5 years with a 12-month grace period, after which the total principal will be amortized in 16 equal quarterly payments beginning July 27, 2021. The proceeds were used for general corporate purposes.
- j. On August 26, 2020, the Parent Company availed a US\$150 million three-year long-term debt, subject to floating interest rate based on LIBOR plus a spread, repriced every 1, 3 or 6 months that will mature on August 7, 2023. The proceeds were used to prepay part of the existing US\$1.0 billion term loan facility and US\$800 million loan.

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 has two financial covenants, namely, net leverage ratio not to exceed 6.5x and ratio of consolidated gross debt to consolidated net worth not to exceed 2.75x. In November 2020, the Group secured consent to amend the testing of its net leverage ratio from semi-annual to incurrence-based, while the ratio of consolidated gross debt to consolidated net worth remained to be tested quarterly.

As at December 31, 2020 and 2019, the Group has complied with its financial covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P5,727, P6,893 and P5,198 for the years ended 2020, 2019 and 2018, respectively (Note 26). Interest amounting to P49 was capitalized in 2020 and P21 in 2019 (Note 10).

Movements in debt issue costs follow:

	<b>Note</b>	<b>2020</b>	2019
Balance at beginning of year		<b>P1,240</b>	P979
Additions		<b>731</b>	711
Amortization for the year	26	<b>(603)</b>	(450)
Balance at end of year		<b>P1,368</b>	P1,240

### Repayment Schedule

As of December 31, 2020 and 2019, the annual maturities of long-term debt are as follows (Note 34):

#### 2020

Year	Gross Amount	Debt Issue Costs	Net
2021	P31,562	P448	P31,114
2022	26,726	339	26,387
2023	30,569	375	30,194
2024	23,542	144	23,398
2025	8,423	62	8,361
	<b>P120,822</b>	<b>P1,368</b>	<b>P119,454</b>

#### 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
	<b>P134,317</b>	<b>P1,240</b>	<b>P133,077</b>

### 19. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	2020	2019
Balance at beginning of year		<b>P1,720</b>	P3,592
Effect of change in discount rate		<b>568</b>	(789)
Effect of change in estimates	4	<b>503</b>	(1,187)
Accretion for the year	26	<b>77</b>	98
Additions		<b>1</b>	11
Settlement		<b>(2)</b>	(5)
Balance at end of year		<b>P2,867</b>	P1,720

### 20. Other Noncurrent Liabilities

This account consists of:

	Note	2020	2019
Cylinder deposits		<b>P617</b>	P608
Cash bonds		<b>947</b>	750
Derivative liabilities designated as cash flow hedge		<b>292</b>	337
Others		<b>48</b>	53
	34, 35	<b>P1,904</b>	P1,748

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

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## 21. Equity

### a. Capital Stock

#### Common Shares

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Parent Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2020 and 2019, the Parent Company had 144,979 and 145,194 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 AOI 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 Parent Company's AOI. On July 6, 2015, the SEC approved the amendment of the AOI 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, 2020 and 2019, 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, 2020 and 2019 are as follows:

	<b>2020</b>	2019
Series 2B Preferred Shares	<b>30</b>	30
Series 3A Preferred Shares	<b>8</b>	8
Series 3B Preferred Shares	<b>24</b>	25
	<b>62</b>	63

b. Retained Earnings

Declaration of Cash Dividends

On various dates in 2018, 2019 and 2020, the Parent Company's BOD approved the declaration of cash dividends for common and preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
<b>2018</b>				
Common	P0.15000	March 13, 2018	March 27, 2018	April 18, 2018
Series 2A	15.75000	March 13, 2018	April 12, 2018	May 3, 2018
Series 2B	17.14575	March 13, 2018	April 12, 2018	May 3, 2018
Series 2A	15.75000	March 13, 2018	July 16, 2018	August 3, 2018
Series 2B	17.14575	March 13, 2018	July 16, 2018	August 3, 2018
Series 2A	15.75000	August 7, 2018	October 10, 2018	November 5, 2018
Series 2B	17.14575	August 7, 2018	October 10, 2018	November 5, 2018
Series 2A	15.75000	August 7, 2018	January 11, 2019	February 4, 2019
Series 2B	17.14575	August 7, 2018	January 11, 2019	February 4, 2019
<b>2019</b>				
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
<b>2020</b>				
Common	P0.10000	March 10, 2020	March 24, 2020	April 8, 2020
Series 2B	17.14575	March 10, 2020	April 7, 2020	May 4, 2020
Series 3A	17.17825	March 10, 2020	June 1, 2020	June 25, 2020
Series 3B	17.84575	March 10, 2020	June 1, 2020	June 25, 2020
Series 2B	17.14575	May 26, 2020	July 9, 2020	August 3, 2020
Series 3A	17.17825	May 26, 2020	September 2, 2020	September 25, 2020
Series 3B	17.84575	May 26, 2020	September 2, 2020	September 25, 2020
Series 2B	17.14575	August 4, 2020	October 9, 2020	November 3, 2020
Series 3A	17.17825	August 4, 2020	December 2, 2020	December 28, 2020
Series 3B	17.84575	August 4, 2020	December 2, 2020	December 28, 2020
Series 2B	17.14575	November 3, 2020	January 8, 2021	February 3, 2021
Series 3A	17.17825	November 3, 2020	March 2, 2021	March 25, 2021
Series 3B	17.84575	November 3, 2020	March 2, 2021	March 25, 2021

Total cash dividends declared by the Parent Company amounted to P2,515 both in 2020 and 2019 and P2,052 in 2018.

Appropriation for Capital Projects

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, 2020 and 2019 amounted to P15,000.

- c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint ventures and an associate amounting to P26,345, P28,791 and P26,800 as of December 31, 2020, 2019 and 2018, 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:

	2020	2019	2018
<b>Balance at beginning of year</b>	<b>(P12,195)</b>	(P11,091)	(P3,025)
Net loss on cash flow hedges, net of tax	<b>(393)</b>	(145)	(77)
Changes in fair value of investment in debt instruments	<b>464</b>	10	(8)
Cumulative translation adjustment	<b>(1,109)</b>	(969)	1,231
Share in other comprehensive loss of a joint venture	<b>10</b>	-	-
Redemption of USCS	-	-	(9,223)
Changes in ownership interests in subsidiaries	-	-	11
<b>Balance at end of year</b>	<b>(P13,223)</b>	(P12,195)	(P11,091)

- 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\$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, 2020 (P814), January 17, 2020 (P834), July 18, 2019 (P838), January 18, 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.

Distributions to holders of the RPS were made on November 27, 2020 (P3), August 27, 2020 (P3), May 27, 2020 (P3) and February 27, 2020 (P3).

On June 22, 2020, the Parent Company issued US\$130 million RPS used for general corporate purposes. Holders of the RPS are conferred a right to receive distributions on a quarterly basis every March 22, June 22, September 22 and December 22.

Payment of distributions pertaining to RPS were made on December 22, 2020 (P56) and September 22, 2020 (P57).

On August 10, 2020, the Parent Company issued additional US\$100 million RPS used for general corporate purposes. Holders of the RPS are conferred a right to receive distributions on a quarterly basis every February 10, May 10, August 10 and November 10.

Holders of the RPS were paid on November 10, 2020 (P43).

The RPS have no fixed redemption date and are redeemable in whole, or in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at the Parent Company's option on any distribution payment date after 90 days from Issuance Date.

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## 22. Cost of Goods Sold

This account consists of:

	<i>Note</i>	<b>2020</b>	2019	2018
Inventories	9	<b>P263,078</b>	P463,028	P498,117
Depreciation and amortization	25	<b>4,802</b>	8,430	8,277
Materials and supplies		<b>2,969</b>	4,099	5,498
Purchased services and utilities		<b>1,567</b>	2,101	2,211
Personnel expenses	24	<b>1,463</b>	1,771	1,979
Others	29, 31	<b>3,441</b>	4,426	6,742
		<b>P277,320</b>	P483,855	P522,824

Distribution or transshipment costs included as part of inventories amounted to P8,290, P11,380 and P10,076 in 2020, 2019 and 2018, respectively.

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

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### 23. Selling and Administrative Expenses

This account consists of:

	<b>Note</b>	<b>2020</b>	2019	2018
Depreciation and amortization	25	<b>P4,688</b>	P4,815	P3,266
Purchased services and utilities		<b>3,988</b>	4,597	4,457
Personnel expenses	24	<b>3,103</b>	3,318	4,092
Maintenance and repairs		<b>1,177</b>	1,342	1,285
Taxes and licenses		<b>340</b>	360	368
Materials and office supplies		<b>422</b>	528	605
Advertising		<b>421</b>	696	746
Rent	2, 29	<b>130</b>	38	1,753
Impairment losses on trade and other receivables	4, 8	<b>67</b>	35	261
Others	9	<b>53</b>	86	148
		<b>P14,389</b>	P15,815	P16,981

Selling and administrative expenses include research and development costs amounting to P66, P76 and P86 in 2020, 2019 and 2018, respectively (Note 9).

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### 24. Personnel Expenses

This account consists of:

	<b>Note</b>	<b>2020</b>	2019	2018
Salaries, wages and other employee costs	28	<b>P4,194</b>	P4,919	P5,446
Retirement benefits costs - defined benefit plan	28, 30	<b>289</b>	70	523
Retirement benefits costs - defined contribution plan	28	<b>83</b>	100	102
		<b>P4,566</b>	P5,089	P6,071

The above amounts are distributed as follows:

	<b>Note</b>	<b>2020</b>	2019	2018
Costs of goods sold	22	<b>P1,463</b>	P1,771	P1,979
Selling and administrative expenses	23	<b>3,103</b>	3,318	4,092
		<b>P4,566</b>	P5,089	P6,071

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## 25. Depreciation and Amortization

This account consists of:

	<b>Note</b>	<b>2020</b>	2019	2018
Cost of goods sold:				
Property, plant and equipment	10	<b>P4,363</b>	P8,081	P7,693
Right-of-use assets	11	<b>178</b>	107	-
Other assets	14	<b>261</b>	242	584
	22	<b>4,802</b>	8,430	8,277
Selling and administrative expenses:				
Property, plant and equipment	10	<b>P2,168</b>	2,254	2,225
Right-of-use assets	11	<b>490</b>	595	-
Investment property	12	<b>1,944</b>	1,883	699
Intangible assets and others	14	<b>86</b>	83	342
	23	<b>4,688</b>	4,815	3,266
	37	<b>P9,490</b>	P13,245	P11,543

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

This account consists of:

	<b>Note</b>	<b>2020</b>	2019	2018
Interest expense and other financing charges:				
Long-term debt	18	<b>P5,080</b>	P6,423	P4,867
Short-term loans	15	<b>3,244</b>	4,032	3,165
Bank charges		<b>729</b>	920	1,133
Amortization of debt issue costs	18	<b>598</b>	449	331
Accretion on ARO	19	<b>77</b>	98	189
Accretion on lease liability	29	<b>1,115</b>	1,165	-
Product borrowings		<b>218</b>	65	-
Defined benefit obligation	30	<b>241</b>	335	-
Others		<b>11</b>	3	4
	37	<b>P11,313</b>	P13,490	P9,689
Interest income:				
Advances to related parties	28	<b>P94</b>	P113	P212
Short-term placements	5	<b>507</b>	953	416
Investments in debt instruments	7	<b>18</b>	18	24
Trade receivables	8	<b>44</b>	40	47
Cash in banks	5	<b>17</b>	7	7
Plan assets	30	<b>100</b>	209	-
	37	<b>P780</b>	P1,340	P706

*Forward*

	<i>Note</i>	<b>2020</b>	2019	2018
Other income (expenses) - net:				
Foreign currency gains (losses) - net	34	<b>P2,363</b>	P2,609	(P3,476)
Changes in fair value of financial assets at FVPL	6	<b>(9)</b>	30	84
Hedging gains (losses) - net		<b>(1,121)</b>	(1,783)	218
Marked-to-market gains (losses) - net	35	<b>(2,428)</b>	(1,926)	4,326
Others - net		<b>146</b>	758	(635)
		<b>(P1,049)</b>	(P312)	P517

The Group recognized its share in the net income (loss) of PDSI amounting to nil, P0.12 and (P1) in 2020, 2019 and 2018, respectively, and its share in the net income of TBSB amounting to P4.16 in 2020, P1.69 in 2019, and P4 in 2018. These were recorded as part of "Others - net" under "Other income (expenses) - net" account in the consolidated statements of income. Bank charges amounting to P5 was capitalized as part of property, plant and equipment in 2020 while P2 in 2019 and nil in 2018 (Note 10).

Also included in "Others - net" were the following: (i) rental income amounting to P63 each in 2020, 2019 and 2018 (Note 29); (ii) 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); (iii) gain on sale of fixed asset amounting to P95 in 2020; (iv) other income due to rent concession amounting to P23 in 2020.

## 27. Income Taxes

Deferred tax assets and liabilities are from the following:

### 2020

	January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	December 31
Net retirement benefits liability	<b>P2,157</b>	<b>(P153)</b>	<b>P191</b>	P -	<b>P2,195</b>
Rental	1,364	225	-	-	1,589
NOLCO	1,286	7,561	-	-	8,847
Various allowances, accruals and others	789	66	-	13	868
Inventory differential	649	(576)	-	-	73
MCIT	491	-	-	-	491
ARO	278	20	-	-	298
Unutilized tax losses	237	121	-	-	358
Fair market value adjustments on business combination	(30)	2	-	-	(28)
Unrealized foreign exchange gains - net	(158)	(826)	-	-	(984)
Unrealized fair value losses (gains) on financial assets at FVOCI	-	30	(30)	-	-
Capitalized taxes and duties on inventories deducted in advance	(1,402)	168	-	-	(1,234)
Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others	(4,609)	302	-	-	(4,307)
Excess of double-declining over straight-line method of depreciation and amortization	(7,138)	(1,922)	-	-	(9,060)
	<b>(P6,086)</b>	<b>P5,018</b>	<b>P161</b>	<b>P13</b>	<b>(P894)</b>

## 2019

	January 1	Adjustment Due to Adoption of PFRS 16	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	December 31
Net retirement benefits liability	P1,617	P -	(P243)	P751	P -	P2,125
Rental	192	771	401	-	-	1,364
NOLCO	-	-	1,286	-	-	1,286
Various allowances, accruals and others	1,085	-	(332)	-	9	762
Inventory differential	(150)	-	799	-	-	649
MCIT	-	-	491	-	-	491
ARO	415	-	(137)	-	-	278
Unutilized tax losses	-	-	237	-	-	237
Fair market value adjustments on business combination	(32)	-	2	59	-	29
Unrealized foreign exchange gains - net	523	-	(681)	-	-	(158)
Unrealized fair value losses (gains) on financial assets at FVOCI	-	-	1	(1)	-	-
Capitalized taxes and duties on inventories deducted in advance	(863)	-	(539)	-	-	(1,402)
Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others	(4,818)	-	209	-	-	(P4,609)
Excess of double-declining over straight-line method of depreciation and amortization	(6,162)	-	(976)	-	-	(7,138)
	(P8,193)	P771	P518	P809	P9	(P6,086)

## 2018

	January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	December 31
Net retirement benefits liability	P1,337	P -	P339	P -	P1,676
Rental	188	4	-	-	192
NOLCO	-	-	-	-	-
Various allowances, accruals and others	1,116	(65)	3	(61)	993
Inventory differential	199	(349)	-	-	(150)
MCIT	-	-	-	-	-
ARO	487	(72)	-	-	415
Unutilized tax losses	220	(220)	-	-	-
Fair market value adjustments on business combination	(33)	1	-	-	(32)
Unrealized foreign exchange gains - net	(264)	787	33	-	556
Unrealized fair value losses (gains) on financial assets at FVOCI	-	-	-	-	-
Capitalized taxes and duties on inventories deducted in advance	(288)	(575)	-	-	(863)
Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others	(5,140)	322	-	-	(4,818)
Excess of double-declining over straight-line method of depreciation and amortization	(5,012)	(1,150)	-	-	(6,162)
	(P7,190)	(P1,317)	P375	(P61)	(P8,193)

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

	2020	2019
Deferred tax assets - net	<b>P2,190</b>	P262
Deferred tax liabilities - net	<b>(3,084)</b>	(6,348)
	<b>(P894)</b>	(P6,086)

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:

	2020	2019	2018
Current	<b>P220</b>	P1,952	P2,069
Deferred	<b>(5,018)</b>	(518)	1,317
	<b>(P4,798)</b>	P1,434	P3,386

As of December 31, 2020, the NOLCO and MCIT of the Parent Company 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
2020		December 31, 2025	25,205	-
			<b>P29,491</b>	<b>P491</b>

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	2020	2019	2018
Statutory income tax rate		<b>30.00%</b>	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	36	-	-	(5.14%)
Interest income subjected to lower final tax		<b>0.14%</b>	(1.84%)	(0.57%)
Nontaxable income		<b>0.33%</b>	(17.27%)	(11.13%)
Nondeductible expense		<b>1.49%</b>	4.27%	1.32%
Nondeductible interest expense		<b>(0.05%)</b>	0.61%	0.20%
Changes in fair value of financial assets at FVPL	26	-	(0.24%)	(0.24%)
Excess of optional standard deduction over deductible expenses		<b>0.07%</b>	(0.32%)	(0.10%)
Others, mainly income subject to different tax rates		<b>(2.38%)</b>	23.14%	18.04%
Effective income tax rate		<b>29.60%</b>	38.35%	32.38%

## 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. The Group requires approval of the BOD for certain limits on the amount and extent of transactions with related parties.

Amounts owed by/owed to related parties are collectible/to be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The balances and transactions with related parties as of and for the years ended December 31 follow:

	<i>Note</i>	<i>Year</i>	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	2020	P93	P -	P1,562	P -	On demand;	Unsecured;
		2019	113	-	1,971	-	long-term;	no impairment
		2018	211	-	2,399	-	interest bearing	
Intermediate Parent	b, e, g, h	2020	7	174	11	251	On demand;	Unsecured;
		2019	13	228	8	95	non-interest	no impairment
		2018	12	1,026	7	25	bearing	
Under Common Control	14, b, c, d, g, h, i, j	2020	4,764	4,445	1,157	1,918	On demand;	Unsecured;
		2019	6,246	4,904	1,296	2,015	non-interest	no impairment
		2018	6,523	4,904	2,097	889	bearing	
Joint Ventures	c, f, g, h	2020	-	-	4	-	On demand;	Unsecured;
		2019	-	52	1	-	non-interest	no impairment
		2018	7	59	1	-	bearing	
		2020	P4,864	P4,619	P2,734	P2,169		
		2019	P6,372	P5,184	P3,276	P2,110		
		2018	P6,753	P5,989	P4,504	P914		

- As of December 31, 2020 and 2019, the Parent Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" in the consolidated statements of financial position, for some investment opportunities (Notes 8 and 30).
- Sales relate to the Parent Company's supply agreements with the Intermediate Parent, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.
- The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,852 square meters with a monthly rate of P6. The lease, which commenced on June 1, 2018, is for a period of one year and was subsequently renewed on a yearly basis in accordance with the written agreement of the parties.

- 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. All of the 51,000 shares of MNHPI representing 0.17% interest was sold to a related party at a gain 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):

	2020	2019	2018
Salaries and other short-term employee benefits	<b>P752</b>	P756	P998
Retirement benefits costs - defined benefit plan	<b>26</b>	29	135
Retirement benefits costs - defined contribution plan	<b>29</b>	27	35
	<b>P807</b>	P812	P1,168

## 29. Lease Commitments

### Group as Lessee

The Group entered into commercial leases on office space, buildings, machinery and equipment, service stations and certain parcels of land for its refinery and service stations (Note 11, 12 and 31). These leases' life ranges from one to 999 years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Amounts recognized in profit or loss:

	<b>Note</b>	2020	2019
Interest on lease liabilities	11	<b>P1,115</b>	P1,165
Income from sub-leasing		<b>(1,054)</b>	(1,395)
Income from rent concession	23	<b>(23)</b>	-
Expenses relating to the variable portion of lease payments		<b>3</b>	7
Expenses relating to short-term leases		<b>251</b>	62
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		<b>13</b>	32
		<b>P305</b>	(P129)

Rent expense amounting to P13 is included in cost of goods sold - others (Note 22). Interest expense amounting to P85 was capitalized as part of property, plant and equipment in 2020, P58 in 2019 while nil in 2018 (Note 10).

Amounts recognized in consolidated statements of cashflows:

	<b>Note</b>	<b>2020</b>	2019
Interest paid under operating activities	26	<b>P344</b>	P1,165
Principal lease payments under financing activities	33	<b>2,361</b>	1,128

#### 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.

	<b>2020</b>	2019
Less than one year	<b>P794</b>	P1,304
One to two years	<b>614</b>	908
Two to three years	<b>610</b>	641
Three to four years	<b>577</b>	485
Four to five years	<b>532</b>	499
More than five years	<b>9,286</b>	7,562
	<b>P12,413</b>	P11,399

Rent income recognized in profit or loss amounted to:

	<b>Note</b>	<b>2020</b>	2019	2018
Other operating income		<b>P1,047</b>	P1,507	P1,340
Others - net	26	<b>63</b>	63	63
		<b>P1,110</b>	P1,570	P1,403

### **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, 2020. 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)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
<b>Balance at beginning of year</b>	<b>(P4,738)</b>	<b>(P5,779)</b>	<b>(P5,872)</b>	<b>P1,083</b>	<b>P3,279</b>	<b>P883</b>	<b>(P3,655)</b>	<b>(P2,500)</b>	<b>(P4,989)</b>
<b>Recognized in Profit or Loss</b>									
Current service cost	(289)	(370)	(337)	-	-	-	(289)	(370)	(337)
Past service cost - curtailment**	-	435	-	-	-	-	-	435	-
Interest expense*	(241)	(335)	(333)	-	-	-	(241)	(335)	(333)
Interest income*	-	-	-	100	209	147	100	209	147
Settlement loss**	-	(135)	-	-	-	-	-	(135)	-
	<b>(530)</b>	<b>(405)</b>	<b>(670)</b>	<b>100</b>	<b>209</b>	<b>147</b>	<b>(430)</b>	<b>(196)</b>	<b>(523)</b>
<b>Recognized in Other Comprehensive Income</b>									
Remeasurements:									
Actuarial gains (losses) arising from:									
Experience adjustments	(64)	(592)	(592)	-	-	-	(64)	(592)	(592)
Changes in financial assumptions	(64)	(54)	584	-	-	-	(64)	(54)	584
Changes in demographic assumptions	138	137	17	-	-	-	138	137	17
Return on plan asset excluding interest	-	-	-	(641)	(2,022)	(1,142)	(641)	(2,022)	(1,142)
	<b>10</b>	<b>(509)</b>	<b>9</b>	<b>(641)</b>	<b>(2,022)</b>	<b>(1,142)</b>	<b>(631)</b>	<b>(2,531)</b>	<b>(1,133)</b>
<b>Others</b>									
Benefits paid	357	1,934	777	(301)	(1,861)	(677)	56	73	100
Contributions	-	-	-	815	1,478	4,068	815	1,478	4,068
Translation adjustment	37	21	(23)	-	-	-	37	21	(23)
	<b>394</b>	<b>1,955</b>	<b>754</b>	<b>514</b>	<b>(383)</b>	<b>3,391</b>	<b>908</b>	<b>1,572</b>	<b>4,145</b>
<b>Balance at end of year</b>	<b>(P4,864)</b>	<b>(P4,738)</b>	<b>(P5,779)</b>	<b>P1,056</b>	<b>P1,083</b>	<b>P3,279</b>	<b>(P3,808)</b>	<b>(P3,655)</b>	<b>(P2,500)</b>

\*Starting 2019, interest expense on defined benefit obligation and interest income on plan assets are presented as part of Interest Expense and Other Financing Charges, and Interest Income, respectively (Note 26).

\*\*The significant reduction in the Parent Company's headcount resulted in non-routine benefit payments during the year. This led to the recognition of settlement loss and curtailment of past service cost in 2019.

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

	<b>Note</b>	<b>2020</b>	2019
Trade and other payables	17	<b>P103</b>	P90
Retirement benefits liability (noncurrent portion)		<b>3,705</b>	3,565
		<b>P3,808</b>	P3,655

Retirement benefits costs recognized in the consolidated statements of income by the Parent Company amounted to P214, (P40) and P410 in 2020, 2019 and 2018, respectively.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P75, P110 and P113 in 2020, 2019 and 2018, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2020 and 2019.

Plan assets consist of the following:

	<b>2020</b>	2019
Shares of stock:		
Quoted	<b>76%</b>	76%
Unquoted	<b>11%</b>	9%
Government securities	<b>8%</b>	9%
Cash and cash equivalents	<b>2%</b>	5%
Others	<b>3%</b>	1%
	<b>100%</b>	100%

*Investment in Shares of Stock.* As of December 31, 2020 and 2019, the Group's plan assets include 459,156,097 common shares of Petron with fair market value per share of P3.99 in 2020 and P3.86 in 2019, and 14,250,900 common shares of SMC with fair market value per share of P128.10 in 2020 and P164.00 in 2019.

The Parent Company's plan recognized a loss on the investment in marketable securities of Petron and SMC amounting to P451, P1,780 and P675 in 2020, 2019 and 2018, 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 P66 in 2020 P73 in 2019 and P122 in 2018.

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.

*Others* include receivables which earn interest. These include the uncollected balance as of December 31, 2020 of the plan's sale of investment in common shares of Petron to SMC Retirement Plan in 2018.

In 2019, the Parent Company's plan has fully withdrawn its investments in 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 P553 to its defined benefit retirement plan in 2021.

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

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

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

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

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

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

	<b>2020</b>	2019	2018
Discount rate	<b>3.95% to 5.00%</b>	5.22% to 5.73%	5.50% to 7.48%
Future salary increases	<b>4.00% to 5.75%</b>	5.00% to 6.50%	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 to 18 years as of December 31, 2020 and 2019.

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:

<b>2020</b>	<b>Defined Benefit Liabilities</b>	
	<b>1 Percent Increase</b>	<b>1 Percent Decrease</b>
Discount rate	(P319)	P339
Salary increase rate	138	(124)

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

The Parent Company has advances to PCERP amounting to P1,562 and P1,971 as of December 31, 2020 and 2019, 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 2020 and 2019 (Note 28).

In 2020 and in 2019, 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, 2020 and 2019 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, 2020 and 2019.

### **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 Petron'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 ARC Energy. On the average, around 73% of crude and condensate volume processed are from EMEPMI with balance of around 27% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the consolidated statements of financial position as of December 31, 2020 and 2019 (Note 16).

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

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

Tolling services started in 2008 on which PFC recognized revenue amounting to P97, P113 and P109 in 2020, 2019 and 2018, respectively.

*Lease Agreements with Philippine National Oil Company (PNOC).* On September 30, 2009, Petron 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 on 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 at December 31, 2020 and 2019, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 39).

### 32. Basic and Diluted Earnings (Loss) Per Share

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

	2020	2019	2018
Net income (loss) attributable to equity holders of the Parent Company	<b>(P11,380)</b>	P1,701	P6,218
Dividends on preferred shares for the year	<b>(1,578)</b>	(1,578)	(646)
Distributions to the holders of capital securities	<b>(1,816)</b>	(1,697)	(2,971)
Net income (loss) attributable to common shareholders of the Parent Company (a)	<b>(P14,774)</b>	(P1,574)	P2,601
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	<b>(P1.58)</b>	(P0.17)	P0.28

As of December 31, 2020, 2019 and 2018, 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):

	2020	2019	2018
Decrease (increase) in assets:			
Trade and other receivables	<b>P16,401</b>	(P2,977)	(P6,523)
Inventories	<b>27,456</b>	(8,569)	(7,161)
Other assets	<b>(2,260)</b>	7,940	(5,049)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	<b>(16,216)</b>	14,859	(14,071)
Trade and other payables and others	<b>(12,943)</b>	1,059	16,597
	<b>12,438</b>	12,312	(16,207)
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, and others	<b>(407)</b>	(465)	591
	<b>P12,031</b>	P11,847	(P15,616)

- b. Changes in liabilities arising from financing activities:

	Dividends Payable	Lease Liabilities	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2020	<b>P496</b>	<b>P15,749</b>	<b>P71,090</b>	<b>P133,077</b>	<b>P220,412</b>
Changes from financing cash flows:					
Payment of principal	-	(2,361)	-	-	(2,361)
Proceeds from avilment of loans	-	-	132,782	18,626	151,408
Payments of loans	-	-	(126,034)	(29,570)	(155,604)
Dividends and distributions declared	4,432	-	-	-	4,432
Dividends and distributions paid	(4,423)	-	-	-	(4,423)
Total changes from financing cash flows	9	(2,361)	6,748	(10,944)	(6,548)
New leases	-	1,689	-	-	1,689
Interest expense	-	1,115	-	-	1,115
Interest paid	-	(344)	-	-	(344)
Effects of changes in foreign exchange rates	-	(44)	5	(3,282)	(3,321)
Other charges	-	-	(139)	603	464
<b>Balance as of December 31, 2020</b>	<b>P505</b>	<b>P15,804</b>	<b>P77,704</b>	<b>P119,454</b>	<b>P213,467</b>

	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

### 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:

	2020		2019	
	US Dollar (in millions)	Phil. Peso Equivalent	US Dollar (in millions)	Phil. Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	455	21,827	491	24,841
Trade and other receivables	137	6,589	264	13,364
Other assets	18	869	13	649
	<b>610</b>	<b>29,285</b>	768	38,854
<b>Liabilities</b>				
Short-term loans	124	5,971	32	1,605
Liabilities for crude oil and petroleum products	434	20,853	743	37,645
Long-term debts (including current maturities)	1,266	60,786	1,454	73,638
Other liabilities	134	6,430	469	23,754
	<b>1,958</b>	<b>94,040</b>	2,698	136,642
<b>Net foreign currency-denominated monetary liabilities</b>	<b>(1,348)</b>	<b>(64,755)</b>	(1,930)	(97,788)

The Group incurred net foreign currency gains (losses) amounting to P2,363, P2,609 and (P3,476) in 2020, 2019 and 2018, respectively (Note 26), which were mainly countered by marked-to-market and realized hedging gains (losses) (Note 26). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of December 31 are shown in the following table:

	Php to US\$
<b>December 31, 2020</b>	<b>48.023</b>
December 31, 2019	50.635
December 31, 2018	52.580

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 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 P538 and P736 in 2020 and 2019, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

*Interest Rate Risk Table.* As of December 31, 2020 and 2019, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2020	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated Interest rate	P19,268 4.0% - 5.8%	P6,893 4.6% - 5.8%	P10,393 4.5% - 5.5%	P16,057 4.6% - 7.8%	P7,425 4.6% - 8.1%	P -	P60,036
<b>Floating Rate</b>							
US\$ denominated (expressed in Php) Interest rate*	12,294 1, 3, 6 mos. Libor + margin	17,837 1, 3, 6 mos. Libor + margin	18,180 1, 3, 6 mos. Libor + margin	5,489 1, 3, 6 mos. Libor + margin	-	-	53,800
JP¥ denominated (expressed in Php) Interest rate*	- 1, 3, 6 mos. Libor + margin	1,996 1, 3, 6 mos. Libor + margin	1,996 1, 3, 6 mos. Libor + margin	1,996 1, 3, 6 mos. Libor + margin	998	-	6,986
	P31,562	P26,726	P30,569	P23,542	P8,423	P -	P120,822

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

2019	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated Interest rate	P5,643 5.5% - 5.8%	P18,643 4.0% - 5.8%	P5,643 5.5% - 5.8%	P9,143 4.5% - 5.5%	P14,807 5.5% - 7.8%	P6,800 8.1%	P60,679
<b>Floating Rate</b>							
US\$ denominated (expressed in Php) Interest rate*	11,429 1, 3, 6 mos. Libor + margin	26,041 1, 3, 6 mos. Libor + margin	18,807 1, 3, 6 mos. Libor + margin	11,574 1, 3, 6 mos. Libor + margin	5,787 1, 3, 6 mos. Libor + margin	-	73,638
	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.

### Credit Risk

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

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

	<b>Note</b>	<b>2020</b>	2019
Cash in banks and cash equivalents	5	<b>P25,970</b>	P32,049
Derivative assets	6	<b>334</b>	746
Investments in debt instruments	7	<b>381</b>	420
Trade and other receivables - net	8	<b>27,195</b>	44,657
Noncurrent deposits	14	<b>121</b>	104
		<b>P54,001</b>	P77,976

#### *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, 2020 and 2019:

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
<b>December 31, 2020</b>				
Retail	P1,704	P2,277	P370	P4,351
Lubes	535	83	3	621
Gasul	613	111	66	790
Industrial	2,361	4,657	743	7,761
Others	3,464	2,418	899	6,781
	<b>P8,677</b>	<b>P9,546</b>	<b>P2,081</b>	<b>P20,304</b>

	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
	<b>P14,611</b>	<b>P18,135</b>	<b>P3,389</b>	<b>P36,135</b>

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 8). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P4,784 and P7,921 as of December 31, 2020 and 2019, 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.

2020						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired			
Cash in banks and cash equivalents	P25,970	P -	P -	P -	P -	P25,970
Trade and other receivables	-	27,195	995	-	-	28,190
Derivative assets not designated as cash flow hedge	-	-	-	322	-	322
Derivative assets designated as cash flow hedge	-	-	-	-	12	12
Investments in debt instruments	255	-	-	-	126	381
Long-term receivables - net	-	-	307	-	-	307
Noncurrent deposits	121	-	-	-	-	121
	<b>P26,346</b>	<b>P27,195</b>	<b>P1,302</b>	<b>P322</b>	<b>P138</b>	<b>P55,303</b>

2019						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired			
Cash in banks and cash equivalents	P32,049	P -	P -	P -	P -	P32,049
Trade and other receivables	-	44,657	942	-	-	45,599
Derivative assets not designated as cash flow hedge	-	-	-	546	-	546
Derivative assets designated as cash flow hedge	-	-	-	-	200	200
Investments in debt instruments	257	-	-	-	163	420
Long-term receivables - net	-	-	318	-	-	318
Noncurrent deposits	104	-	-	-	-	104
	<b>P32,410</b>	<b>P44,657</b>	<b>P1,260</b>	<b>P546</b>	<b>P363</b>	<b>P79,236</b>

### Liquidity Risk

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

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

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

The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2020 and 2019.

2020	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P27,053	P27,053	P27,053	P -	P -	P -
Trade and other receivables	27,195	27,195	27,195	-	-	-
Derivative assets (including non-current portion)	334	334	328	6	-	-
Proprietary membership shares	275	275	275	-	-	-
Investments in debt instruments	381	585	381	142	62	-
Noncurrent deposits	121	121	-	-	3	118
<b>Financial Liabilities</b>						
Short-term loans	77,704	77,704	77,704	-	-	-
Liabilities for crude oil and petroleum products	22,320	22,320	22,320	-	-	-
Trade and other payables*	9,402	9,402	9,402	-	-	-
Derivative liabilities (including non-current portion)	1,416	1,416	1,124	201	91	-
Long-term debts (including current maturities)	119,454	133,312	36,690	30,031	66,591	-
Lease liability (including current portion)	15,804	22,406	1,913	1,731	4,735	14,027
Cash bonds	947	947	-	931	15	1
Cylinder deposits	617	617	-	-	-	617
Other noncurrent liabilities**	48	48	-	11	19	18

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

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

2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P34,218	P34,218	P34,218	P -	P -	P -
Trade and other receivables	44,657	44,657	44,657	-	-	-
Derivative assets (including non-current portion)	746	746	580	73	93	-
Proprietary membership shares	284	284	284	-	-	-
Investments in debt instruments	420	448	123	152	173	-
Noncurrent deposits	104	104	-	-	3	101
<b>Financial Liabilities</b>						
Short-term loans	71,090	71,466	71,466	-	-	-
Liabilities for crude oil and petroleum products	39,362	39,362	39,362	-	-	-
Trade and other payables*	24,679	24,679	24,679	-	-	-
Derivative liabilities (including non-current portion)	1,075	1,075	738	248	89	-
Long-term debts (including current maturities)	133,077	152,552	23,951	49,232	72,129	7,240
Lease liability (including current portion)	15,749	22,736	1,938	1,747	4,547	14,504
Cash bonds	750	750	-	732	2	16
Cylinder deposits	608	608	-	-	-	608
Other noncurrent liabilities**	53	53	-	24	10	19

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

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

### Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For consumer (buy) hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost. While for producer (sell) hedges, if prices go down, hedge positions may show marked-to-market gains; however, any gain in the marked-to-market position is offset by the resulting lower selling price.

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

### Other Market Price Risk

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

### Capital Management

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

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

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

	<b>2020</b>	2019
Total assets	<b>P349,725</b>	P394,835
Total liabilities	<b>263,530</b>	302,405
Total equity	<b>86,195</b>	92,430
Debt to equity ratio	<b>3.1:1</b>	3.3:1
Assets to equity ratio	<b>4.1:1</b>	4.3:1

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

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

### 35. Financial Assets and Financial Liabilities

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

	Note	2020		2019	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	5	<b>P27,053</b>	<b>P27,053</b>	P34,218	P34,218
Trade and other receivables	8	<b>27,195</b>	<b>27,195</b>	44,657	44,657
Investments in debt instruments	7	<b>255</b>	<b>255</b>	257	257
Noncurrent deposits	14	<b>121</b>	<b>121</b>	104	104
FA at amortized cost		<b>54,624</b>	<b>54,624</b>	79,236	79,236
Investments in debt instruments	7	<b>126</b>	<b>126</b>	163	163
Derivative assets designated as cash flow hedge	6	<b>12</b>	<b>12</b>	200	200
FA at FVOCI		<b>138</b>	<b>138</b>	363	363
Financial assets at FVPL	6	<b>275</b>	<b>275</b>	284	284
Derivative assets not designated as cash flow hedge	6, 14	<b>322</b>	<b>322</b>	546	546
FA at FVPL		<b>597</b>	<b>597</b>	830	830
<b>Total financial assets</b>		<b>P55,359</b>	<b>P55,359</b>	P80,429	P80,429

	Note	2020		2019	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	15	<b>P77,704</b>	<b>P77,704</b>	P71,090	P71,090
Liabilities for crude oil and petroleum products	16	<b>22,320</b>	<b>22,320</b>	39,362	39,362
Trade and other payables*	17	<b>9,402</b>	<b>9,402</b>	24,679	24,679
Long-term debt including current portion	18	<b>119,454</b>	<b>119,454</b>	133,077	133,077
Derivative liabilities designated as cash flow hedge	20	<b>592</b>	<b>592</b>	724	724
Cash bonds	20	<b>947</b>	<b>947</b>	750	750
Cylinder deposits	20	<b>617</b>	<b>617</b>	608	608
Other noncurrent liabilities**	20	<b>47</b>	<b>47</b>	53	53
Other FL		<b>231,083</b>	<b>231,083</b>	270,343	270,343
Derivative liabilities not designated as cash flow hedge		<b>824</b>	<b>824</b>	351	351
<b>Total financial liabilities</b>		<b>P231,907</b>	<b>P231,907</b>	P270,694	P270,694

\*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 2020 and 2019 are 7.45% and 7.57% respectively.

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

#### Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency, interest rate and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risks. The portfolio is a mixture of instruments including forwards, swaps and options.

### Derivative Instruments Accounted for as Cash Flow Hedges

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

December 31, 2020	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
<b>Foreign Currency Risk</b>				
<b>Call Spread Swaps</b>				
Notional amount	US\$50	US\$50		US\$100
Average strike rate	P52.41 to P54.87	P52.41 to P55.02		
<b>Foreign Currency and Interest Rate Risk</b>				
<b>Cross Currency Swap</b>				
Notional amount	US\$20	US\$30	US\$30	US\$80
Average strike rate	P47.00 to 57.00	P47.00 to 56.83	P47.00 to 56.50	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.75%	
<b>Interest Rate Risk</b>				
<b>Interest Rate Collar</b>				
Notional amount	US\$15	US\$30	US\$45	US\$90
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	

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

The table below summarizes the amounts pertaining to the designated hedged item.

December 31, 2020	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
<b>Foreign Currency Risk</b>			
US dollar-denominated loan	P85	P -	(P40)
<b>Foreign Currency and Interest Rate Risks</b>			
US dollar-denominated loan	467	(187)	94
<b>Interest Rate Risks</b>			
US dollar-denominated loan	28	(20)	-

December 31, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
<b>Foreign Currency Risk</b>			
US dollar-denominated loan	P200	P -	(P139)
<b>Foreign Currency and Interest Rate Risks</b>			
US dollar-denominated loan	331	(206)	118
<b>Interest Rate Risks</b>			
US dollar-denominated loan	7	5	-

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, 2020 and 2019.

December 31, 2020	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of The Hedging Instrument Recognized in OCI	Cost of Hedging Recognized in OCI	Amount Reclassified from Hedging Reserve to Profit or Loss	Amount Reclassified from Cost of Hedging Reserve to Profit or Loss	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign Currency Risk Call spread swaps	US\$100	P11	P96	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(P85)	(P23)	P28	P166	Other income (expenses) - net
Foreign Currency and Interest Rate Risks Cross currency swap	US\$80	-	467	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(467)	(234)	129	200	Interest Expense and other financing charges, and Other income (expenses) - net
Interest Rate Risk Interest rate collar	US\$90	-	28	Other noncurrent assets, Derivative liabilities	(28)	(9)	-	9	Interest Expense and other financing charges
December 31, 2019	Notional Amount	Carrying Amount Assets	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	-	-	-	

No hedging ineffectiveness was recognized in the 2020 and 2019 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, 2020		December 31, 2019	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of year	(P201)	(P21)	P -	(P77)
Changes in fair value:				
Foreign currency risk	(28)	(23)	-	(344)
Foreign currency risk and interest rate risk	(102)	(234)	(499)	104
Interest rate risk	(35)	(9)	7	-
Amount reclassified to profit or loss:				
Foreign currency risk	28	166	-	254
Foreign currency risk and interest rate risk	129	200	205	65
Interest rate risk	-	9	-	-
Income tax effect	2	(34)	86	(23)
Balance at end of year	(P207)	P54	(P201)	(P21)

#### 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:

*Call Spread Swaps.* As of December 31, 2020, the Group has outstanding call spread swaps US\$50 million maturing on June 2021. As of December 31, 2020 and 2019, the net negative fair value of these call spread swaps amounted to P26 and nil, respectively.

*Cross Currency Swaps.* As of December 31, 2020, the Group has outstanding cross currency swaps with a notional amount US\$20 million maturing on May 2021 and June 2021. As of December 31, 2020 and 2019, the net negative fair value of these cross currency swaps amounted to P96 and nil, respectively.

*Interest Rate Collar.* As of December 31, 2020, the Group has outstanding interest rate collar with a notional amount US\$15 million maturing on May 2021. As of December 31, 2020 and 2019, the net negative fair value of this interest rate collar amounted to P0.92 and nil in 2019.

#### *Freestanding Derivatives*

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Group.

*Currency Forwards.* As of December 31, 2020 and 2019, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$395 million and US\$680 million, respectively, and with various maturities in 2021 and 2020. As of December 31, 2020 and 2019, the net negative fair value of these currency forwards amounted to P48 and P160, respectively.

**Commodity Swaps.** The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2021 and 2020. 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 32.8 million barrels and 12.5 million barrels for 2020 and 2019, respectively. The estimated net receipts (payouts) for these transactions amounted to (P754) and P355 as of December 31, 2020 and 2019, respectively.

**Commodity Options.** As of December 31, 2020 and 2019, the Group has no outstanding 3-way options entered as hedge of forecasted purchases of crude oil.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

**Embedded Derivatives**

Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of the Parent Company. Under the sales and purchase contracts, the peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of December 31, 2020 and 2019, 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, 2020 and 2019, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2020, 2019 and 2018, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P2,428), (P1,926) and P4,326, 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 2020 and 2019 are as follows:

	<b>Note</b>	<b>2020</b>	2019
Fair value at beginning of year		<b>P195</b>	P387
Net changes in fair value during the year	26	<b>(2,428)</b>	(1,926)
Fair value of settled instruments		<b>1,309</b>	1,734
Fair value at end of year		<b>(P924)</b>	P195

**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, 2020 and 2019. The different levels have been defined as follows:

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

	<b>2020</b>	2019
	<b>Level 2</b>	Level 2
Financial Assets:		
FVPL	<b>P275</b>	P284
Derivative assets	<b>334</b>	746
Investments in debt instruments	<b>126</b>	163
Financial Liabilities:		
Derivative liabilities	<b>(1,416)</b>	(1,075)

The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2020 and 2019. 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) and the Authority of the Freeport Area of Bataan (AFAB)**

#### 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.

Certificate of entitlement has been timely obtained by the Parent Company to support its ITH credits in 2018. 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.

The Parent Company did not avail of the ITH in 2020 and 2019. The RMP-2 entitlement period ended in June 2020.

#### AFAB

In December 2020, Bataan Refinery was granted approval as a registered enterprise by the AFAB. FAB-registered enterprises are entitled to avail of fiscal incentives under Special Economic Zone Act of 1995 or Omnibus Investment Code of 1987.

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### **37. Segment Information**

Management identifies segments based on business and geographic locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The CEO (the chief operating decision maker) reviews management reports on a regular basis.

The Group's major sources of revenues are as follows:

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.
- c. Lease of acquired real estate properties and equipment for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.
- e. Export sales of various petroleum and non-fuel products to other countries such as China, Taiwan, Cambodia, Malaysia, South Korea, Singapore, USA, Vietnam, Thailand, Indonesia, Bangladesh and UAE.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.
- g. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

Revenues are mainly derived from the sale of petroleum products to retail and commercial customers in various geographical locations.

The Group has no significant remaining performance obligations as it mainly recognized revenues in amounts that correspond directly to the value of completed performance obligations.

#### Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

#### Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

#### Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Group.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the years ended December 31, 2020, 2019 and 2018.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
<b>2020</b>						
Revenue:						
External sales	P283,885	P -	P1,150	P674	P324	P286,033
Inter-segment sales	86,363	76	415	-	(86,854)	-
Operating income (loss)	(5,401)	53	266	79	375	(4,629)
Net income (loss)	(10,628)	104	155	74	(1,118)	(11,413)
Assets and liabilities:						
Segment assets*	387,619	3,353	9,981	659	(54,077)	347,535
Segment liabilities*	274,483	1,907	4,949	147	(21,040)	260,446
Other segment information:						
Property, plant and equipment	168,289	-	-	109	433	168,831
Depreciation and amortization	9,565	-	9	(90)	6	9,490
Interest expense	11,416	-	316	1	(420)	11,313
Interest income	853	30	232	5	(340)	780
Income tax expense	(4,841)	6	61	8	(32)	(4,798)

\*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
2019						
Revenue:						
External sales	P511,921	P -	P1,100	P961	P380	P514,362
Inter-segment sales	228,613	102	406	-	(229,121)	-
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

\*\*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.

Inter-segment sales transactions amounted to P87,967, P230,220 and P284,934 for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2020, 2019 and 2018

	Retail	Lube	Gasul	Industrial	Others	Total
<b>2020</b>						
Revenue	<b>P149,406</b>	<b>P3,577</b>	<b>P20,259</b>	<b>P57,889</b>	<b>P52,754</b>	<b>P283,885</b>
Property, plant and equipment	<b>9,057</b>	<b>37</b>	<b>258</b>	<b>13</b>	<b>158,924</b>	<b>168,289</b>
Capital expenditures	<b>2,382</b>	<b>1</b>	<b>12</b>	<b>-</b>	<b>22,234</b>	<b>24,629</b>
<b>2019</b>						
Revenue	249,210	4,474	25,745	125,314	107,178	511,921
Property, plant and equipment	9,949	40	303	100	156,868	167,260
Capital expenditures	1,892	2	5	-	14,951	16,850
<b>2018</b>						
Revenue	270,760	4,883	27,810	132,397	119,108	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

a. revenues from the use of loaned equipment are presented as part of "Retail", "Gasul" and "Industrial"

b. revenues from provisions of technical support are presented as part of "Retail" and "Industrial"

c. revenues from consumer loyalty program are presented as part of "Others"

### Geographical Segments

The following table presents segment assets of the Group as of December 31, 2020 and 2019.

	2020	2019
Local	<b>P282,871</b>	P323,518
International	<b>64,664</b>	71,055
	<b>P347,535</b>	P394,573

### Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the years ended December 31, 2020, 2019 and 2018.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
<b>2020</b>						
Local	<b>P165,139</b>	<b>P -</b>	<b>P1,565</b>	<b>P674</b>	<b>(P558)</b>	<b>P166,820</b>
Export/international	<b>205,109</b>	<b>76</b>	<b>-</b>	<b>-</b>	<b>(85,972)</b>	<b>119,213</b>
<b>2019</b>						
Local	299,668	60	1,506	961	(750)	301,445
Export/international	440,865	42	-	-	(227,990)	212,917
<b>2018</b>						
Local	311,951	44	1,803	P923	(979)	313,742
Export/international	527,139	72	-	-	(283,567)	243,644

\*\*revenues from the use of loaned equipment are presented as part of leasing while revenues from consumer loyalty program and provisions of technical support are presented as part of others.

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### 38. Events After the Reporting Date

#### a. Dividend Declaration and Distributions

On January 15, 2021, the Parent Company paid distributions amounting to US\$11.50 million (P789) to the holders of the US\$500 million SPCS.

On February 10, 2021, the Parent Company paid distributions amounting to US\$906.25 thousand (P4) to the holders of the US\$100 million RPS

On February 26, 2020, the Parent Company paid distributions amounting to US\$60 thousand (P3) to the holders of the US\$6 million RPS.

On March 9, 2021, the BOD of the Parent Company approved the declaration of cash dividends for Series 2B and Series 3 preferred shareholders with the following details:

Type	Per Share	Record Date	Payment Date
Series 2B	17.14575	April 7, 2021	May 3, 2021
Series 3A	17.17825	June 2, 2021	June 25, 2021
Series 3B	17.84575	June 2, 2021	June 25, 2021

#### b. Acquisition of the Treats Convenience Store Business

On February 22, 2021, the Asset Purchase Agreement with San Miguel Foods, Inc. and Foodcrave Marketing, Inc. for the acquisition by the Parent Company of the Treats convenience store business was executed with completion date of March 1, 2021, for an aggregate purchase price of P64.

#### c. Petrogen's Dividend Declaration to the Parent Company

On October 21, 2020, the BOD of Petrogen declared 25,000 stock dividend in favor of the Parent Company with a total amount of P25 to be issued out of the unissued capital stock of Petrogen by December 31, 2020, subject to the approval by the Insurance Commission (IC). The application for stock dividend declaration was approved by the IC on January 4, 2021. On February 5, 2021, the corresponding stock certificate was issued to the Parent Company.

The Parent Company's ownership interest in Petrogen remains at 100% after the transaction.

#### d. Deconsolidation of Petrogen from the Parent Company

On December 3, 2020, the BOD of Petrogen approved the increase in its authorized capital stock from P750, divided into 750,000 shares, to P2,250, divided into 2,250,000 shares, with shares at a par value of P1,000 per share. On the same date, the BOD of Petrogen also approved the subscription of SMC to 1,494,973 shares at a book value of about P2,007 per share for an aggregate subscription price of P3,000. Petrogen received on February 8, 2021, the SEC approval on Petrogen's increase in authorized capital stock dated February 4, 2021 and issued 1,494,973 common shares with an aggregate par value of P1,495 to SMC for a total subscription price of P3,000. On March 1, 2021, the corresponding stock certificate was issued to SMC.

As a result, the Parent Company's ownership interest in Petrogen decreased from 100% to 25.06% and Petrogen was deconsolidated from the Parent Company effective February 4, 2021.

- e. On March 9, 2021, the BOD of the Parent Company approved the reversal of P8,000 of the P15,000 appropriated retained earnings of the Parent Company since majority of the 2016 and 2017 capital projects were already completed while others were deferred. The remaining P7,000 is maintained for the Power plan project.

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### 39. Other Matters

- a. Lease Agreements with PNOC

On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the 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 Petron of the conveyed lots for its business operation. Thus, PNOC and the Parent company executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, the Parent company, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint 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 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's of all such properties, and (iii) the payment by the Parent company to PNOC of the amount of P143, 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.

Following the trial court's denial of their separate motions for reconsideration, both PNOG and the Parent company filed their respective notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. The Parent company filed its appellant's brief in October 2020 while PNOG filed its appellant's brief on November 5, 2020.

The motions for reconsiderations were pending as at March 9, 2021.

b. Swakaya Dispute

In 2015, a disputed trade receivable balance of RM25 (P307) in favor of POMSB was reclassified to long-term receivables.

The dispute arose from the supply by POMSB of diesel to Swakaya. In 2013, POMSB entered into an agreement to supply diesel to Swakaya who subsequently sold the product to an operator of power plants in Sabah. In 2013, due to a government investigation, Swakaya's bank accounts were frozen which 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, correspondingly, pay POMSB directly. Unknown to POMSB, Swakaya had a financing arrangement with Sabah Development Bank (SDB) which obligated the power plants operator to remit to SDB payments due to Swakaya. Due to some administrative issues, the moneys due to POMSB were remitted by power plants operator into a joint Swakaya/SDB Bank account. Despite SDB's earlier promise to remit the moneys to POMSB once it is established that the payment was indeed for a direct supply to the power plants operator, SDB subsequently refused and set off the moneys against Swakaya's debt to the bank. The sum involved was RM25 (P307). POMSB sued Swakaya and SDB before the Kota Kinabalu High Court 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 POMSB and a judgment sum inclusive of interest amounting to RM28 (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 RM0.015 (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 preparing to file for a review by the Federal Court (to set aside its own decision).

Considering the length of time of litigation matters, a discount of RM8 (P95) was computed based on the original effective interest rate. Part of the discount, amounting to RM2 (P20) was unwound in 2019 and recognized as interest income.

The balance amounting to RM23 (P282) was provided full impairment in 2019.

As of March 9, 2021, an application for review was filed by POMSB at Federal Court and hearing date has yet to be scheduled.

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. Parent company has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. Parent company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the RTC 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 amounted to P292. The cases were pending as at December 31, 2020. 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 (CA). On January 9, 2020, the CA issued a Resolution granting plaintiffs’ motion for reconsideration of the earlier resolution denying their petition and ordering the Parent Company to file its comment on plaintiffs’ petition within 10 days. On February 6, 2020, the Parent Company filed a motion for reconsideration of said Resolution which remains pending to date. In the meantime, proceedings before the trial court continues. Less than 200 of the plaintiffs have testified so far.

e. Effect of COVID-19

The Group, being engaged in the fuel business, has been affected by the implementation of Enhanced Community Quarantine (ECQ) in the National Capital Region and other key cities in the Philippines and Movement Control Order (MCO) in Malaysia. The reduced economic activities and travel restrictions due to lockdowns in many countries significantly affected volumes of both the Philippine and Malaysia operations.

Global oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand destruction caused by the COVID-19 pandemic. Dubai crude plunged from US\$64/bbl in January to US\$20/bbl in April, posting record low levels in 26 years, which resulted in successive rollbacks in pump prices and reflected in the nearly P15 billion net inventory loss incurred in the 1st semester of 2020. With Organization of Petroleum Exporting Countries (OPEC) and Russia agreeing to output cuts, recovery in oil prices was also seen in May and June as Dubai crude rose by about \$10/bbl per month, stabilized at around \$44/bbl in the second semester resulting in net inventory gains of almost P5 billion for the Group in the 2nd semester of 2020.

The Group saw optimism after the easing of some restrictions and start of mass vaccinations in Europe and US. With the Philippine and Malaysia governments' efforts to re-open the economy, fuel consumption began to pick up as shown by the gradual improvement in sales volume in the second semester.

The modest gain in second half, however, were not enough to mitigate the substantial losses during the early months of pandemic. The Group's consolidated revenues in 2020 declined by 44% from the previous year to ending the year with a net loss of P11,413.

The extent to which the COVID-19 pandemic impacts the Group will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19 both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted.

f. Philippines Ratified the Corporate Recovery and Tax Incentives for Enterprise (CREATE) Act

On November 26, 2020, the Senate approved on third and final reading Senate Bill No. 1357, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act or CREATE, which seeks to reduce the corporate income tax (CIT) rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performance-based.

One of the key provisions of the bill that may affect the consolidated financial statements of the Group is an immediate 5% point cut in the CIT rate starting July 2020.

The bill is not considered substantively enacted as of December 31, 2020.

The bicameral committee approved the bill on February 1, 2021.

As at March 9, 2021, the bill is yet to be approved by the President of the Philippines.

Current and deferred taxes are measured using the applicable income tax rates as of December 31, 2020.

g. 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.

h. The Group has unused letters of credit totaling approximately P14,847 and P21,041 as of December 31, 2020 and 2019, respectively.

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