

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended
Dec 31, 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 or organization
Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office
San Miguel Head Office Complex, 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, and former fiscal year, 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 3A (PRF3A) | 13,403,000 |
| PREFERRED SERIES 3B (PRF3B) | 6,597,000 |
| 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 |

| | |
|--|---------|
| PCOR SERIES E BONDS DUE 2025 (IN MIL PESO) | 9,000 |
| PCOR SERIES F BONDS DUE 2027 (IN MIL PESO) | 9,000 |
| TOTAL DEBT AS OF DEC. 31, 2021 (IN MIL PESO-CONSO) | 211,841 |

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes No

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

Philippine Stock Exchange-Common, and Series 3A and 3B Preferred Shares;
Philippine Dealing & Exchange Corp. - Series B, C, D, E and F Bonds

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

Yes No

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

Yes No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

As of March 31, 2022 (total of 2,514,320,488 common shares at P3.30 per share):
P8,297,257,610.40

**APPLICABLE ONLY TO ISSUERS INVOLVED IN
INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS
DURING THE PRECEDING FIVE YEARS**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes No

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

N/A

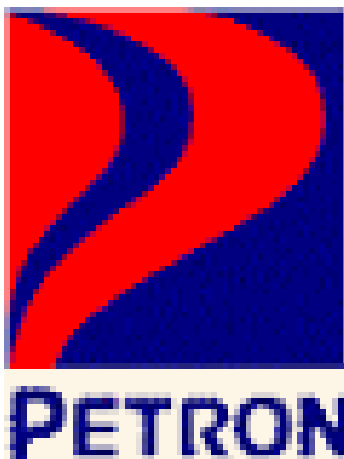
(b) Any information statement filed pursuant to SRC Rule 20

N/A

(c) Any prospectus filed pursuant to SRC Rule 8.1

N/A

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 Corporation
PCOR

PSE Disclosure Form 17-1 - Annual Report
References: SRC Rule 17 and
Section 17.2 and 17.8 of the Revised Disclosure Rules

| | |
|----------------------------------|--------------------|
| For the fiscal year ended | Dec 31, 2021 |
| Currency | Peso (in Millions) |

Balance Sheet

| | Year Ending | Previous Year Ending |
|----------------------------|--------------------|-----------------------------|
| | Dec 31, 2021 | Dec 31, 2020 |
| Current Assets | 188,035 | 132,294 |
| Total Assets | 407,420 | 349,725 |
| Current Liabilities | 190,052 | 149,069 |

| | | |
|--------------------------------------|---------|---------|
| Total Liabilities | 269,507 | 263,530 |
| Retained Earnings/(Deficit) | 30,232 | 29,799 |
| Stockholders' Equity | 110,913 | 86,195 |
| Stockholders' Equity - Parent | 103,588 | 79,772 |
| Book Value Per Share | 8.75 | 5.94 |

Income Statement

| | Year Ending | Previous Year Ending |
|---|--------------|----------------------|
| | Dec 31, 2021 | Dec 31, 2020 |
| Gross Revenue | 439,330 | 287,080 |
| Gross Expense | 422,115 | 291,709 |
| Non-Operating Income | 572 | 780 |
| Non-Operating Expense | 10,490 | 12,362 |
| Income/(Loss) Before Tax | 7,297 | -16,211 |
| Income Tax Expense | 1,161 | -4,798 |
| Net Income/(Loss) After Tax | 6,136 | -11,413 |
| Net Income/(Loss) Attributable to Parent Equity Holder | 5,369 | -11,380 |
| Earnings/(Loss) Per Share (Basic) | 0.05 | -1.58 |
| Earnings/(Loss) Per Share (Diluted) | - | - |

Financial Ratios

| | Formula | Fiscal Year Ended | Previous Fiscal Year |
|---|---|-------------------|----------------------|
| | | Dec 31, 2021 | Dec 31, 2020 |
| Liquidity Analysis Ratios: | | | |
| ; ; Current Ratio or Working Capital Ratio | Current Assets / Current Liabilities | 0.99 | 0.89 |
| ; ; Quick Ratio | (Current Assets - Inventory - Prepayments) / Current Liabilities | 0.47 | 0.37 |
| ; ; Solvency Ratio | Total Assets / Total Liabilities | 1.37 | 1.33 |
| Financial Leverage Ratios | | | |
| ; ; Debt Ratio | Total Debt/Total Assets | 0.52 | 0.56 |
| ; ; Debt-to-Equity Ratio | Total Debt/Total Stockholders' Equity | 1.91 | 2.29 |
| ; ; Interest Coverage | Earnings Before Interest and Taxes (EBIT) / Interest Charges | 1.73 | -0.43 |
| ; ; Asset to Equity Ratio | Total Assets / Total Stockholders' Equity | 3.67 | 4.06 |
| Profitability Ratios | | | |
| ; ; Gross Profit Margin | Sales - Cost of Goods Sold or Cost of Service / Sales | 0.07 | 0.03 |
| ; ; Net Profit Margin | Net Profit / Sales | 0.01 | -0.04 |
| ; ; Return on Assets | Net Income / Total Assets | 0.02 | -0.03 |
| ; ; Return on Equity | Net Income / Total Stockholders' Equity | 0.06 | -0.13 |

| | | | |
|-----------------------------|--|------|-------|
| Price/Earnings Ratio | Price Per Share / Earnings Per Common Share | 63.4 | -2.53 |
|-----------------------------|--|------|-------|

Other Relevant Information

Please find attached Annual Report (SEC Form 17-A) of the Company for 2021, together with (i) the Company's 2021 audited separate and consolidated financial statements and (ii) the Company's 2021 Sustainability Report.

For purposes of computing the "debt ratio" and "debt-to-equity ratio" as set out in this PSE EDGE template for SEC Form 17-A, "debt" covers interest-bearing debt and excludes lease liabilities.

Filed on behalf by:

| | |
|--------------------|---|
| Name | Jhoanna Jasmine Javier-Elacio |
| Designation | OIC General Counsel, Corporate Secretary and Compliance Officer |

COVERSHEET

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S. E. C. Registration Number

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(Company's Full Name)

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(Business Adress: No. Street City / Town / Province)

ATTY. JHOANNA JASMINE M. JAVIER-ELACIO
 Contact Person

8884-9200
 Company Telephone Number

| | | | | |
|--|--|---|---|---|
| <div style="border: 1px solid black; padding: 2px; display: inline-block;">1 2</div> Month Fiscal Year | <div style="border: 1px solid black; padding: 2px; display: inline-block;">3 1</div> Day Fiscal Year | <div style="border: 1px solid black; padding: 5px; display: inline-block;"> ANNUAL REPORT 2021 (SEC FORM 17-A) </div> FORM TYPE | <div style="border: 1px solid black; padding: 2px; display: inline-block;">0 5</div> Month Annual Meeting (for 2022) | <div style="border: 1px solid black; padding: 2px; display: inline-block;">1 7</div> Day Annual Meeting (for 2022) |
|--|--|---|---|---|

Certificates of Permit to Offer Securities for Sale dated 1994, 1995, 1996, 2010, 2014, 2016, 2018 and 2019
 Secondary License Type, if Applicable

| | | |
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Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

144,753 (as of December 31, 2021)

Total No. of Stockholders

Total Amount of Debt Outstanding: P211,841 Million (as of December 31, 2021-CONSO)

| | |
|----------|---------|
| | |
| Domestic | Foreign |

To be accomplished by SEC Personnel concerned

| | | | | | | | | | |
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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended December 31, 2021
Date of Report (Date of earliest event reported)
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. PETRON CORPORATION (“Petron” or the “Company”)
Exact name of issuer as specified in its charter
5. Philippines Province, country or other jurisdiction of incorporation
6. (SEC Use Only)
Industry Classification Code:
7. SMC Head Office Complex, #40 San Miguel Avenue, Mandaluyong City Address of principal office 1550 Postal Code
8. (0632) 8.886-3888; 8.884-9200
Issuer’s telephone number, including area code
9. None
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Number of Shares of Stock Outstanding and
Amount of Debt Outstanding
(as of December 31, 2021)

| Title of Each Class | Number of Shares Outstanding |
|----------------------------|------------------------------|
| Common Stock | 9,375,104,497 shares |
| Series 3A Preferred Shares | 13,403,000 shares |
| Series 3B Preferred Shares | 6,597,000 shares |
| Total Liabilities | ₱ 211,841 million |
| Series B Bonds due 2023 | ₱ 7.0 billion |
| Series C Bonds due 2024 | ₱ 13.2 billion |
| Series D Bonds due 2025 | ₱ 6.8 billion |
| Series E Bonds due 2025 | ₱ 9.0 billion |
| Series F Bonds due 2027 | ₱ 9.0 billion |

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

Yes No

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

| | |
|-------------------------------------|---|
| Philippine Stock Exchange | Common Shares Series 3A Preferred Shares Series 3B Preferred Shares |
| Philippine Dealing & Exchange Corp. | Series B Bonds due 2023 Series C Bonds due 2024 Series D Bonds due 2025 Series E Bonds due 2025 Series F Bonds due 2027 |

12. Check whether the registrant:

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

Yes No

The SEC Form 17-Q for the first quarter of 2022 will be filed by the Company by May 12, 2022.

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

Yes No

13. The aggregate market value of the voting stock held by non-affiliates of the Company (*i.e.*, other than San Miguel Corporation, SEA Refinery Corporation, Petron Corporation Employees' Retirement Plan and the directors and officers of Petron Corporation from Vice President and up as of December 31, 2021 totaling 2,514,322,488 common shares was ₱7,970,402,286.96 based on the price of ₱3.17 per share as of December 20, 2021, the last trading day of 2021. Petron had a public ownership of 26.72% as of December 31, 2021. The aggregate market value of the voting stock held by non-affiliates of the Company as of March 31, 2022 totaling 2,514,320,488 common shares was ₱8,297,257,610.40 based on the price of ₱3.30 per share as of March 31, 2022, the last trading day of March 2022. Petron had a public ownership of 26.72% as of March 31, 2022. Attached as Annexes A and B are the public ownership reports of the Company as of December 31, 2021 and March 31, 2022.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I - BUSINESS AND GENERAL INFORMATION

(A) Description of Business

(1) Business Development

(i) The Company

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

As of March 22, 2022 (the record date for the 2022 annual stockholders’ meeting), the three (3) principal common shareholders of the Company holding at least 5% of its common stock were SEA Refinery Corporation (“SEA Refinery”) (50.10%), PCD Nominee Corporation - Filipino (19.78%) and San Miguel Corporation (“SMC”) (18.16%). SEA Refinery is wholly-owned by SMC. SMC thus holds an aggregate 68.26% ownership of the common shares of the Company.

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

(ii) Subsidiaries

The direct subsidiaries of the Company as of December 31, 2021 are listed below:

- **New Ventures Realty Corporation** (“NVRC”) is a realty firm established on August 24, 1995. NVRC is authorized to acquire and develop land but it does not engage in the subdivision business. Land suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC, which are then leased to Petron for use in the latter’s operation. NVRC’s wholly owned subsidiary, Las Lucas Development Corporation, which was acquired in 2003, was later renamed “Las Lucas Construction and Development Corporation” upon approval by the SEC in September 2009 (“LLCDC”). In 2012, NVRC acquired 100% of Parkville Estates and Development Corporation and 60% of Mariveles Landco Corporation. In 2013, NVRC further acquired 100% of South Luzon Prime Holdings Incorporated, MRGVeloso Holdings, Inc. (which was merged into LLCDC effective June 1, 2018) and Abreco Realty Corp.
- **Overseas Ventures Insurance Corporation Ltd.** (“Ovincor”) was incorporated on November 16, 1995 under the laws of Bermuda for the purpose of expediting the reinsurance of Petron’s insurable interests as covered by Petrogen. Reinsurance includes the insurance cover for the refinery of Petron in Bataan (the “Petron Bataan Refinery”), the bulk plants and service station properties, petroleum and cargo insurance and performance bonds for Petron contractors and haulers as well.

- **Petron Freeport Corporation** (“PFC”; formerly, “Petron Treats Subic, Inc.”) was incorporated on November 6, 2003. The company is registered with the Subic Bay Metropolitan Authority (“SBMA”) as a Subic Bay Freeport (“SBF”) enterprise. PFC is engaged in the business of importing, transporting, trading and retailing petroleum products and related products. As a registered SBF enterprise, PFC is entitled to tax-free and duty-free importation of raw materials and capital equipment for use solely within SBF. PFC has two (2) divisions - retail and manufacturing. The retail division handles the service station operations (*i.e.*, forecourt, quick-service restaurant, and locators). The manufacturing division is engaged in refining, distilling and manufacturing any and all kinds of petroleum products, oil, gas and other vehicle substances. Direct operations of the retail facilities and the manufacturing plant of PFC allows Petron to deal in the business of purchasing, marketing, distributing and trading petroleum, oil, gas, and related products.
- **Petron Marketing Corporation** (“PMC”) was incorporated on January 27, 2004 with the same business purpose as PFC but operated outside the SBF. PMC is a wholly-owned subsidiary of Petron. PMC turned over to Petron the operation of service stations that PMC held and the operation of Treats stores, effective August 1, 2016 and November 30, 2016, respectively. PMC also terminated its franchises to the fastfood stores.
- **Petron Singapore Trading Pte. Ltd.** (“PSTPL”) was established in 2010 as Petron’s trading subsidiary in Singapore. The subsidiary aims to optimize crude procurement and participate in Singapore’s Global Trader Program, which allows the Company access to a wider selection of crude alternatives, resulting in further optimization of Petron’s crude selection.
- **Petron Global Limited** (“Petron Global”) is a holding company incorporated under the laws of the British Virgin Islands acquired by the Company on February 24, 2012.
- **Petron Finance (Labuan) Limited** (“Petron Finance”) is a holding company incorporated under the laws of Labuan, Malaysia acquired by the Company on March 2, 2012.
- **Petrochemical Asia (HK) Limited** (“PAHL”) is a holding company incorporated under the laws of Hong Kong over which the Company obtained control in January 2013 and 100% ownership in July 2016.
- **Petron Oil & Gas Mauritius Ltd.** (“POGM”) is a holding company incorporated under the laws of Mauritius acquired by the Company on February 8, 2012.

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

PMRMB, PFISB and POMS B (collectively, the “Petron Malaysia Companies”) are companies incorporated under the laws of Malaysia and are engaged in the downstream oil business in Malaysia. The Petron Malaysia Companies’ distribution network (including in the state of Sabah) is comprised of 12 product terminals and facilities. The Petron Malaysia Companies have a network of more than 720 retail service stations in the country. PMRMB owns and operates the 88,000 bpd Port Dickson Refinery (“PDR”). The PDR produces a range of products, including LPG, naphtha, gasoline, diesel, jet fuel, and low sulfur waxy residue (“LSWR”).

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

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

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

Operating Highlights

Sales

For the whole of 2021, the Company’s consolidated sales volume stood at 82.2 million barrels, 5% higher than 2020’s 78.6 million barrels.

Refining

The Petron Bataan Refinery Master Plan Phase-2 Upgrade (“RMP-2”) upgraded the Petron Bataan Refinery to a full conversion refining complex, where all fuel oil is converted to higher value products (gasoline, diesel, and petrochemicals), making it comparable to other highly complex refineries worldwide. RMP-2 started its full commercial operation in January 2016.

The closure of the Shell Refinery since May 2020 leaves the Petron Bataan Refinery as the only remaining refining facility in the country.

In December 2021, the Petron Bataan Refinery renewed its registration with the AFAB as a registered enterprise. 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 such as (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 Bureau of Internal Revenue and AFAB requirements. Further, VAT will only be imposed on the Company as a FAB Registered Enterprise upon the withdrawal of products from the refinery instead of the VAT being payable upon importation of crude oil.

Product Supply and Distribution

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

Human Resources

In 2021, the Company aimed at providing learning opportunities to support the increasingly dynamic business conditions. The training programs were centered on fueling career growth through developing both hard and soft skills of the Company's talents. Capitalizing on online learning platforms such as MS Teams and Zoom, Petron dedicated 49,074.65 training hours for all employees or an average of 19.58 hours of training per employee.

In strengthening the leadership pipeline, leadership development programs were the top priority as Petron maximized the learning opportunities offered by SMC. This is supported by Petron's coaching program composed of 60 coachees and 40 coaches which generated 790 coaching hours in 2021.

Health, Safety and Environment (“HSE”)

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

All 30 terminals are certified under the new ISO 9001:2015 (QMS), ISO 14001:2015 (EMS) standards and ISO 45001:2018 (Occupational Health and Safety (OH&S) Management System). Furthermore, all 15 Petron pier facilities are compliant with the International Ship and Port Facility Security Code (“ISPS Code”) and certified by the Office of the Transport Security under the DOTC. 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.

The Terminal Operations Division of the Company implemented the Loss Prevention System (“LPS”). LPS is a system to prevent or reduce losses using behavior-based tools and proven management techniques. With this new system, the Company aims to improve the over-all safety culture of the division to prevent all types of loses, and eventually apply the same system throughout the organization

From January to December 2021, a total of 10.6 million safe man hours were achieved by the Head Office, the Petron Bataan Refinery and the Terminals.

Corporate Social Responsibility (“CSR”)

Through Petron Foundation, Inc. (“PFI”), the Company remains in the consciousness of the Filipino public and in the process, support the Company’s business growth. The Company continues to add value to the business by actively engaging with its host communities through relevant and strategic CSR programs that focus on education, environment, entrepreneurship and livelihood, and community engagement, as well as strengthening ties with its stakeholders.

Among the CSR and sustainability activities of Petron in 2021 were the following:

Education

- Tulong Aral ng Petron. In partnership with the Department of Social Welfare and Development (“DSWD”) and the Department of Education (“DepEd”), the Company continued to implement its flagship education program Tulong Aral ng Petron (“Tulong Aral”) in sending deserving children and youth through elementary, high school and college.

By the end of school year 2020-2021, Tulong Aral had a total of 2,752 scholars from elementary to college in 129 partner schools in the National Capitol Region and in provinces where the Company’s terminals are located. A total of 690 Tulong Aral scholars from elementary to college graduated at the end of School year 2020-2021 (596 elementary, 91 high school and three college scholars).

An internal Christmas campaign among Petron employees generated additional support for Tulong Aral scholars.

- Bataan scholarships. Graduates of the Company’s Bataan engineering scholarship program joined the Petron Bataan Refinery work force in 2021, bringing the number of Bataan scholars presently employed by the Petron Bataan Refinery to 86.
- Brigada Eskwela. The Company provided financial assistance to nearly 100 partner schools located in fence-line communities nationwide, benefitting at least 100,000 students and educators.

In October 2021, the Company renewed its partnership with the DepEd supporting DepEd’s Basic Education Learning Continuity Plan.

Environment

- Bataan Integrated Coastal Management Program (“BICMP”). The Company continued to support the implementation of the BICMP in 2021. It sustained its partnership with the Provincial Government of Bataan in the hosting of the virtual annual Pawikan Festival in December 2021 that had an online audience of at least 2,700 public school students and teachers and DepEd officials from Bataan.
- Participation in the National Greening Program. The Company continued to help reduce its environmental footprint, comply with government regulations, contribute to operational efficiency, and maintain its sustainable practices.
- Reforestation and Tree-Planting. In the first half of 2021, the Company secured approval from the local government units for the planting by the Bawing Terminal of about 2,500 new mangrove propagules and by the Tagaloan Terminal of bamboo and other seedlings. The Subic and Davao Terminal conducted tree-planting activities in the fourth quarter of 2021 in celebration of International Coastal Cleanup Month.

Health and Human Services

- Petron Clinic. The Petron Clinics in Rosario, Pandacan and Limay are intended to complement government health centers with specialized medical services, such as x-ray, ultrasound, ECG and other laboratory services. The Covid-19 pandemic has however kept these clinics closed to the community as part of health protocols. The Company though has accommodated the request of the Rosario, Cavite local government unit for the temporary use of a room at the Petron Rosario Clinic to perform elective surgery one day each weekend, as the few government health facilities in the municipality have prioritized their available beds for Covid-related cases.
- Responding to Crises. The Company continued to assist the workforce and stakeholders during the pandemic. Throughout 2021, the Company funded the RT-PCR tests of Petron employees and third party personnel nationwide. The Company also joined SMC's Ligtas Lahat Core Team handling the coordination with external partners for the vaccination of Petron employees, with Petron acting as the lead for the SMC Bataan Vaccination Site. By end-2021, more than 5,000 SMC Group employees, third party service personnel, endorsed individuals, and Limay residents were vaccinated.

The Company, through San Miguel Foundation, provided food packs to a total of 3,700 families from the Petron fence-line communities in Mandaue and Mactan affected by the Super typhoon Odette in December 2021.

- Engaging employees and partners. Petron employees continued actively participate in the Volunteers In Action Program through their support to those affected by the Super typhoon Odette and the Covid-19 pandemic. Also, through the generosity of Petron employees in Manila, Malaysia and Singapore, Petron was able to distribute tablet computers to more than 280 Tulong Aral scholars.
- Adopt-a-School Program. Petron continued to invest its resources in support of education. DepEd continues to recognize Petron as one of its longest and strongest supporters of this public-private partnership arrangement.

Petron Malaysia

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

(2) Business of Petron

(i) Principal products or services and their markets

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

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

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

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

Below is the summary of the percentage of sales or revenues of domestic and foreign sales of the Company and its subsidiaries from 2019 to 2021:

| | Domestic | Exports/International | Total |
|------------------------|-----------------|------------------------------|--------------|
| 2019, in million pesos | 301,445 | 212,917 | 514,362 |
| 2019, in percentage | 59% | 41% | 100% |

| | | | |
|------------------------|---------|---------|---------|
| 2020, in million pesos | 166,820 | 119,213 | 286,033 |
| 2020, in percentage | 58% | 42% | 100% |
| | | | |
| 2021, in million pesos | 223,222 | 214,835 | 438,057 |
| 2021, in percentage | 51% | 49% | 100% |
| | | | |

(iii) Distribution methods of products or services

From the Petron Bataan Refinery, Petron moves its products, mainly by sea, to depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network is comprised of 36 terminals and sales offices across the country. Through this nationwide network, Petron supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines through its 12 into-plane facilities.

Petron sells gasoline, diesel, and kerosene to motorists and to the public transport sector through its network of close 2,000 retail service stations in the Philippines as of December 31, 2021. Petron continues to evaluate its station network to ensure sustainability of operations amidst the demand decline brought about by the COVID-19 pandemic. Petron also sells its LPG brands *Gasul* and *Fiesta Gas* to households and other consumers through its extensive dealership network.

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

(iv) New products or services

The Company's 2021 new products and approvals from accredited global industry certifying bodies and original equipment manufacturers ("OEMs") are described below.

For 2021, Petron was able to secure the renewal of licenses and approvals for industry standards such as the International Lubricant Specification Advisory Committee, Association des Constructeurs Européens d'Automobiles/Association European Automobile Manufacturers Association, and the National Marine Manufacturers Association and OEM approvals from Mercedes-Benz, MTU, Porsche, Cummins, MAN, Scania, Volvo, Mack, Renault, and Wartsila.

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

- Registration with Association des Constructeurs Européens d’Automobiles/Association European Automobile Manufacturers Association (“ACEA”)

In 2021, Petron renewed the registration for its Blaze Racing, Rev-X and Ultron automotive lubricants with ACEA in compliance with the European Engine Lubricant Quality Management System.

- License with American Petroleum Institute (“API”)

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

| Product | API Quality Level |
|---|---|
| Blaze Racing Fully Synthetic 0W-20 | API SP/SN PLUS Resource Conserving, ILSAC GF-6A |
| Blaze Racing Fully Synthetic 0W-20 | API SN Resource Conserving |
| Blaze Racing Fully Synthetic 5W-30 | API SN |
| Blaze Racing Fully Synthetic 5W-30 | API SN Resource Conserving |
| Blaze Racing Fully Synthetic 5W-40 | API SN |
| Blaze Racing Premium Multi-Grade 20W-50 | API SL |
| Blaze Racing Synthetic Blend 5W-30 | API SN Resource Conserving |
| Petron Blaze Racing HTP 0W-40 | API SN |
| Rev-X All Terrain 5W-40 | API CJ-4 / SM |
| Rev-X Fully Synthetic 5W-40 | API CJ-4 / SN |
| Rev-X Fully Synthetic 5W-40 | API CJ-4 / SM |
| Rev-X Premium Multi-grade 15W-40 | API CI-4 / SL |
| Rev-X Trekker 15W-40 | API CI-4 / SL |
| Rev-X Turbo HTP | API CJ-4 / SN |
| Ultron Fully Synthetic 5W-40 | API SN |
| Ultron Premium Multi-Grade 20W-50 | API SL |
| Ultron Race 5W-40 | API SN |

- OEM Approval Renewals

The following OEM approvals were renewed in 2021:

- Blaze Racing HTP SAE 0W-40: Mercedes Benz MB-Approval 229.3 and MB-Approval 229.5
- Blaze Racing Fully Synthetic SAE 5W-40: Mercedes Benz MB-Approval 229.31
- Rev-X Turbo HTP: Volvo VDS-4, Mack EO-O Premium Plus and Renault VI RLD-3; Cummins CES 20081
- Rev-X Premium Multi-Grade SAE 15W-40: Volvo VDS-3, Mack EO-N and Renault VI RLD-2; Mercedes Benz MB-Approval 228.3
- Petron Regatta 2T Outboard: NMMA TC-W3

(v) Competition

Petron operates in a deregulated oil industry along with more than 300 other industry players. With several players sharing in the market, competition is intense. Retail and depot network expansion, pricing, and various marketing programs are being employed to gain a bigger share of the domestic market. However, Petron's wider retail and depot network allows it to expand its reach in the domestic market more effectively. Moreover, with its upgraded refinery, Petron now produces more fuels, namely, gasoline, diesel and jet fuel.

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

In 2021, Petron purchased all its term and spot crude requirements through its wholly-owned subsidiary, PSTPL. Majority of the crude purchases were sourced under a term contract with a supplier and various spot suppliers for the balance of the crude slate. For its 2022 crude requirements, Petron, through PSTPL, will continue to source from both term and spot suppliers.

Petron purchased its finished product import requirements in 2021 also through PSTPL. For 2022, aviation gasoline, asphalt, LPG, high RON gasoline and base oil contracts were renewed for the period January to December 2022 through PSTPL.

For its requirements for ethanol, Petron continued to support the directive of the DOE on prioritization of locally produced ethanol, complying with the required monthly allocation. About 67.5% of the total ethanol requirement of the Company in 2021 was sourced from various local ethanol producers.

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

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

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

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

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

On January 11, 2021, upon the recommendation of the Related Party Transaction Committee of the Board of Directors and pursuant to the Policy on Related Party Transactions of the Company, the Board Executive Committee approved the proposed transactions for 2021 between the Company and PSTPL and the Board of Directors ratified such action of the Executive Committee at the board meeting held on February 16, 2021.

On November 9, 2021, also upon the recommendation of the Related Party Transaction Committee of the Board of Directors and pursuant to the Policy on Related Party Transactions of the Company, the Board of Directors approved the proposed transactions for 2022 between the Company and PSTPL.

The transactions of Petron with related parties in 2021 include the following:

1. Supply agreements with various SMC subsidiaries. Under these agreements, Petron supplies the fuel and lube requirements of selected SMC plants and subsidiaries.
2. Purchase of goods and services, such as those related to construction, information technology, shipping and terminaling, from various SMC subsidiaries.
3. Lease agreements with San Miguel Properties, Inc. for office space covering 6,683 square meters and certain parcels of lands where service stations are located.
4. Lease agreements with SMC covering certain parcels of lands where service stations are located.
5. Payment to SMC for its share in common expenses such as utilities and management fees.
6. Long-term lease agreements with NVRC covering certain parcels of lands where the Petron Bataan Refinery and some of its depots, terminals and service stations are located.
7. Retail of its fuel products through its subsidiary PFC as well as lubes through PFISB.
8. Insurance coverage from Petrogen which, in turn, obtains reinsurance coverage from Ovincor and other local reinsurers.
9. Certain advances to PCERP for investment opportunities.
10. Trading agreement with PSTPL for the procurement of crude oil, and trading of finished petroleum products and other materials such as ethanol, coal, catalysts and additives.
11. Engagement of PSTPL to perform the chartering function such as the renewal and negotiation of contract of affreightments and commodity risk management via hedging transactions.
12. General management services to PFISB.
13. NVRC and SMC subsidiaries entered into various lease agreements for portion of lands located at Limay, Bataan.
14. Logistics and freight forwarding agreement with PLI.
15. Purchase from San Miguel Foods, Inc. and Foodcrave Marketing, Inc. of the Treats convenience store business in February 2021.

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

The Company's intellectual property registrations and applications as of December 31, 2021 are described below.

Trademark. Petron has registered the following trademarks for a term of 10 years: Petron (word mark), Petron (logo), P logo (color), P logo (black and white), Petron Canopy Fascia, Petron Canopy Fascia (color), Petron Canopy Fascia (black and white), Blaze, Diesel Max, Petron Blaze 100, Blaze 100 Octane Euro 6, Petron XCS3, Xpert Diesel Oils, Petron Super Xtra Gasoline, Xtra Advance (inside a rectangle device), Tri-Action, Blaze Racing, Tri Plus, Petron XCS3 Triple Action Premium Unleaded, Thermal Control System, Tri-Action Advantage, Petron XCS3, Triangle Device, Boomerang Device, Gasul, Gasul (stylized), Gasulette, Gasulite, Gasulgrille, Gasulite, Gasulgrille, LPG Gasul Cylinder 50 kg, Gasul and Device, LPG Gasul Cylinder 11 kg, Petron Gasul 11-kg POL-VALVED Cylinder, Gasulito (word mark), New Gasulito (word mark), Petron Gasul Elite, Petron Gasul Elite, Petron Gasul Elite Blue Pantone 298, Fiesta Gas with device, Xtra, Fiesta Gas 2.7kg cylinder, Fiesta Gas 5kg cylinder, Fiesta Gas 5kg POL-VALVED, Fiesta Gas 11kg cylinder, Fiesta Gas 11kg POL-VALVED, Fiesta Gas 22kg POL-VALVED, Fiesta Gas 50kg POL-VALVED, REV-X, Rev-X Trekker, Rev-X Hauler, Rev-X HD, Rev-X Turbo, Rev-X Power, Ultron Rallye, Ultron Extra, Ultron Race, Ultron Touring, Sprint 4T, Clean 'n Shine, Rider, Racer Maximum Performance, Rider 4T, ADVANSTRASSE MOTO (word mark), ADVANSTRASSE MOTO (logo), 3D Engine Oil Lubricant Bottle 1L and 6L (black), 3D Engine Oil Lubricant Bottle 1L and 6L (red), 3D Engine Oil Lubricant Bottle 1L and 6L (silver), 3D Engine Oil Lubricant Bottle 1L and 6L (blue), 3D Specialty Lubricant Bottle 1L (silver), 3D Specialty Lubricant Bottle 1L (black), Petron Value Card and Device, Petron Super Driver, Petron Fleet Card & device, e-fuel, Miles Better (word mark), Pshop, Car Care Center & Logo, Treats (word mark), Treats & device, Treats & device with blue background, Petron Laser Wash, Petron Car Wash, Lakbay Alalay (word mark), Lakbay Alalay (logo), Lakbay Alalay, Lakbay Ligtas, Lakbay Alalay Para sa Kalikasan, Sagip Alalay, Tulong Aral ng Petron & Device, Puno ng Buhay, Fuel Hope, Fuel Trust, Fuel Experience, Fuel Drive, Fuel Excellence, Fuel Efficiency, Everyone's Vision & device, I fuel (logo), I Fuel Hope, I Fuel Communities, Petron Blaze Spikers, Petron Lakbay Pinoy, Petron! Get Rewards & Benefits, Ultimate Release from Engine Stress, Your friend on the Road, Super Tsuper, Road Safety & device, Miles, Extra with a car device against a red background, Gift and App Device, Footprints Inside a Sphere & Device, Petron Ronnie Mascot in Seatbelt & device, Ronnie Mascot, Seat Belts Save Lives, Pay with Points Save your Cash, Thermal Stress Stabilizing System, Dynamic Cleaning Technology, Your Fleet Your Rules, Blu & Device, Blu with Gasul Tank, Gas Padala, Performance Run, Petron Best Day, Super Saya, Resibo Blowout, Power that Persists, Mean Clean Machine, Petron Motorsports, Fuel Wise (long form), Fuel Wise (flag type), Fuel Wise (long form in black), Fuel Wise (flag type in black), Fuel Wise, Fuel Wisely, Choose Quality Fuel Wisely, Fuel Wisely with Petron (word mark), Be Sure to Fuel Wisely (word mark), Kalakbay (word mark), Kasabay sa Lakbay (word mark), Kasabay sa Paglakbay (word mark), Kasabay sa Paglalakbay (word mark), #Beastmode, Kalmakina (colored), Kalmakina (word mark), Kalmakina (black and white), Hypex, 2T, Turnol, Petrogrease EP-2, Gearfluid, Petron STM, Petron Autokote, GEP, Petrokote, Marinekote, Petron 2040, Penetrating Oil, Solvent 3040, Pchem, Xtend, HTP, Petrolene, PCHEM DEF (Diesel Exhaust Fluid), Petromate, TCS and Device, TDH50 (word mark), Econo, Elite, Pantra, Petron Pinoy Fuels & Device, Petron Pinoy Diesel & Device, Petron Pinoy Regular & Device, Go, Maxi Gas, Xtra Exceed, Xtra Ultra, Xtra Prime, Xtra Miles, Pinoy HP Gasoline, Xtra Excel, UnliPower Saver Gasoline, Ultramax Gasoline, Ecomax Gasoline, PMax Gasoline, Carbon Buster, Petron PMB, Reyna (logo), and Reyna (word mark).

Spinol, Petrokut, Petron Railroad Extra, Rubbex, Dust Stop Oil, Oil Saver, Milrol, Petron GST, Petron with XCS, With XCS, Super DC, Petromul CSS-1, Power Booster, Automatic Transmission Fluid, Petrotherm, Petrosine, Petron HDX, Petron TF, Ropgriz, Ultron and Device, 2T Motorcycle Oil, Molygrease and Petron GX are registered for a term of 20 years.

Pending Trademark Applications. Petron has pending applications for registration of the following trademarks: Miles Better, Turbo Diesel, Turbo Diesel (logo), Vision Petron, Automotive Fuels Specialist, 3D Gasul 2.7kg, 3D Fiesta 2.7kg, 3D Gasul 2.7kg (colored), 3D Fiesta 2.7kg (colored), 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (black), 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (dark grey), 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (blue), 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (red), 3D Petron Engine Oil Jerry Can Bottle 1L and 800ml (silver), AUTO ADVANSTRASSE, AUTO ADVANSTRASSE logo, REV-X HD4X, REV-X HD, Sprint 4T (logo), ELITE (logo), Fe Dela Fiesta (logo), Vision Petron (logo), 2T (logo), EXPRESS (logo), CCC Automotive Fluids Specialist, New Petron Logo, Puno ng Buhay, and Petron PMB.

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

Copyright. Petron has copyrights for its seven (7)-kg LPG container, Gasulito with stylized letter “P” and two (2) flames, Powerburn 2T, Petron New Logo (22 styles), Philippine Card Designs and Malaysian Card Designs, and Petron font. Copyrights are protected during the lifetime of the creator and for 50 years after the creator’s death.

Pending Industrial Design Applications. Petron has pending applications for registration of the following industrial designs: Petron Specialty Lubricant Bottle (1Liter container), Petron Engine Oil Bottles (1L and 800ML Jerry can bottle container), Petron Engine Oil Bottles (4L and 6L container), Petron Fiesta 2.7kg LPG Cylinder, and Petron Gasul 2.7kg LPG cylinder.

(x) Government Approval of Principal Products or Services

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

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

- Corporate Recovery and Tax Incentives for Enterprise Act (“CREATE Act”). Republic Act No. 11534 or the CREATE Act was signed into law by the President of the Philippines on March 26, 2021 and is expected to take effect on April 12, 2021. The CREATE Act lowers corporate income taxes and rationalizes fiscal incentives.

The corporate income tax rate for domestic corporations and resident foreign corporations has been reduced to 25% effective July 1, 2021 and on January 1, 2021 for non-resident foreign corporations. Domestic corporations and resident foreign corporations no longer have an option to be taxed at 15% on gross income and the rate of the minimum corporate income tax shall be lowered to 1%. Under the CREATE Act, persons that directly import petroleum products for resale in the Philippine customs territory and/or in free zones will 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.

The CREATE Act also provides for the rationalization of tax incentives that may be granted by investment promotion agencies (such as the AFAB) to qualified registered business enterprises. 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 will 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, will 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.

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

Under the tax regime prior to the effectivity of the CREATE Act, domestic refiners are disadvantaged because they are made to pay VAT upon importation of crude oil which they cannot recover until the finished products refined from them are sold. Compared to non-refiners, which pay VAT upon importation of finished products, domestic refiners are unable to recover the VAT for a longer period. 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.

- LPG Industry Regulation Act. Republic Act No. 11592 or the “LPG Industry Regulation Act”, enacted into law on October 14, 2021, aims to ensure health, safety, security, environmental and quality standards in the LPG industry by instituting reforms in the existing standards and practices. The law defines prohibited acts such as engaging in LPG industry activities without the required licenses, certificates, and permits; selling, fabricating, or refilling unfilled LPG cylinders without the approval of the trademark owner; selling, exchanging, possessing empty LPG cylinders that belong to another trademark owner; and non-compliance with standards such as those relating to safety, materials, and markings. It also provides for the establishment of an LPG Cylinder Exchange and Swapping Program for the exchange, swapping or buy back of LPG cylinders among industry participants and the establishment of accredited swapping centers. The implementing rules and regulations of the law are expected to be finalized in 2022.

- Tax Reform for Acceleration and Inclusion (the “TRAIN Law”). Republic Act No. 10963 or the TRAIN Law, which took effect on January 1, 2018, imposed a phased increase in excise taxes on petroleum products from 2018 to 2020. The schedule of increase for this three (3)-year period was P2.65-P2-P1 per liter (“/li”) per year for gasoline, P2.50-P2-P1.50/li for diesel and fuel oil, P1-P1-P1/kg for LPG, and P0.33-P0-P0/li for jet fuel. The incremental excise tax is further subject to 12% VAT. Higher excise taxes can potentially constrain demand growth, especially for LPG given there are substitutes such as charcoal, kerosene and electric, and gasoline with public transportation as alternative.

The TRAIN law also mandates the implementation of a fuel marking program for diesel, gasoline and kerosene to help curb illicit trading of fuel products. While the cost for the fuel marker would be shouldered by the government in the initial year of implementation, this cost was eventually passed on to oil companies beginning 2020 which resulted in higher fuel prices.

- Biofuels Act of 2006 (the “Biofuels Act”). The Biofuels Act and its implementing circulars mandate that gasoline and diesel volumes contain 10% bioethanol and 2% biodiesel/cocomethyl ester (“CME”) components, respectively. To produce compliant fuels, the Company invested in CME injection systems at the Petron Bataan Refinery and the depots. On the bioethanol component, the DOE issued in June 2015 its Circular No. 2015-06-0005 entitled “Amending Department Circular No. 2011-02-0001 entitled Mandatory Use of Biofuel Blend” which currently exempts premium plus gasoline from the 10% blending requirement.
- Renewable Energy Act of 2008 (the “Renewable Energy Act”). The Renewable Energy Act aims to promote development and commercialization of renewable and environment-friendly energy resources (e.g., biomass, solar, wind, hydro, geothermal) through various tax incentives such as seven (7)-year income tax holiday and duty-free importation of renewable energy equipment and machinery. The sale of power generated from these sources is also exempt from value-added tax under the TRAIN Law. The growth in renewable energy may displace or reduce use of oil-based power plants affecting the Company’s sales to the power sector.
- Clean Air Act of 1999 (the “Clean Air Act”). The Clean Air Act established air quality guidelines and emission standards for stationary and mobile equipment. It also included the required specifications for gasoline, diesel and IFO to allow attainment of emission standards. Petron invested in a gasoil hydrotreater plant and an isomerization plant to enable it to produce diesel and gasoline compliant with the standards set by law.
- Laws on Controlled Chemicals (Presidential Decree No. 1866 as amended by Republic Act No. 9516). The implementing rules and regulations for this amended law were approved on June 9, 2016 and listed the chemicals under the control of the Philippine National Police. These rules reduced the controlled list from 101 to 32 chemicals and further classified 15 chemicals as high-risk and 17 as low-risk substances. The rules also outline the procedures for regulating, storing, handling and transporting chemicals.
- Compliance with Euro 4 standards. In September 2010, the DENR issued Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. In June 2015, the DOE issued Circular 2015 - 06-0004 entitled “Implementing the Corresponding Philippine National Standard Specifications (PNS) for the Euro 4/IV PH Fuels Complying with the Euro 4/IV Emissions” directing all oil companies to adopt Euro4-compliant fuels. With its RMP-2, Petron is now producing Euro 4-compliant fuels ahead of the 2016 mandate.

- Department Circular 2014-01-0001. The DOE issued Department Circular 2014-01-0001 directed at ensuring safe and lawful practices by all LPG industry participants as evidenced by standards compliance certificates. The circular also mandates that all persons engaged or intending to engage as a refiller of LPG shall likewise strictly comply with the minimum standards requirements set by the DTI and the DOE. The circular imposes penalties for, among others, underfilling, illegal refilling and adulteration.
- Laws on Oil Pollution. To address issues on marine pollution and oil spillage, the Maritime Industry Authority (“MARINA”) mandated the use of double-hull vessels for transporting black products beginning end-2008 and white products by 2011. Petron has been using double-hull vessels in transporting all its products.
- Oil Marine Pollution Circulars. The Philippine Coast Guard has memorandum circulars prescribing the rules and regulations on the prevention, containment, abatement and control of oil marine pollution by all marine vessels, coastal and offshore facilities and other facilities utilizing or storing petroleum products. The circulars identify the prohibited acts and provide the penalties.
- Anti-Competition Law (the “Philippine Competition Act”). The Philippine Competition Act, approved in July 2015, prohibits anti-competitive agreements, abuses of dominant positions, and mergers and acquisitions that limit, prevent, and restrict competition. To implement the national competition policy and attain the objectives and purposes of the law, the Philippine Competition Commission (“PCC”) was created. Among the powers of the PCC is the review of mergers and acquisitions based on factors it may deem relevant. The PCC, after due notice and hearing, may impose administrative fines on any entity found to have violated the provisions of the law on prohibited arrangements or to have failed to provide prior notification to the PCC of certain mergers and acquisitions. The PCC is empowered to impose criminal penalties on an entity that enters into any anti-competitive agreement and, when the entities involved are juridical persons, on its officers, directors, or employees holding managerial positions who are knowingly and willfully responsible for such violation. Currently pending with the House of Representatives are two bills to amend the Philippine Competition Act to, among others, legislate competition policy, amend requirements for PCC notification, and strengthen the powers of the PCC.
- Amended Price Freeze Act of 2013. This law mandates the implementation of a 15-day price freeze of basic necessities, including LPG and kerosene, for areas declared under a state of emergency or calamity.
- Executive Order 890: Removing Import Duties on All Crude and Refined Petroleum Products. After the ASEAN Trade in Goods Agreement was implemented in 2010, the tariff rate structure in the oil industry was distorted with crude and product imports from ASEAN countries enjoying zero tariff while crude and product imports from outside the ASEAN were levied 3% tariff. To level the playing field, Petron filed a petition with the Tariff Commission to apply the same tariff duty on crude and petroleum product imports, regardless of source. In June 2010, the government approved Petron’s petition and issued Executive Order 890 which eliminated import duties on all crude and petroleum products regardless of source. The reduction of duties took effect on July 4, 2010.
- Department Circular 2019-05-008. This DOE circular requires oil companies to submit a detailed computation, with corresponding explanation and supporting documents, of the cost components of liquid fuel and LPG on a per liter and per product basis. The circular has not been implemented following the temporary restraining orders and writs of preliminary injunction issued by the Regional Trial Courts of Taguig and Mandaluyong.

- Department Circular 2021-06-0014. The DOE issued the “Revised Circular for the Accreditation and Submission of Notices and Reports of the Philippine Downstream Oil Industry Pursuant to the Biofuels Act” on July 2, 2021 requiring oil companies to submit notices, accreditation and reportorial requirements using revised templates in relation to the utilization of biofuels. The new circular provides for more stringent penalties and additional monthly and quarterly reports for DOE to monitor compliance with regard to the utilization of biofuels, including compliance to local monthly allocation for ethanol.
- Department Circular 2021-09-0029. The “Revised Guidelines on Notices and Reportorial Requirements Pursuant to the Oil Deregulation Law”, published on November 5, 2021, requires the submission of monthly and annual reports using revised templates for DOE to monitor importation and/or production of oil companies (and for Petron as a refiner) and includes additional reportorial requirements for lubes and blending plants, with more stringent penalties for non-compliance.
- Department Circular 2021-07-0023. The DOE issued this circular on July 2, 2021 providing for a framework for the adoption and development of electric vehicles (“EVs”) and electric charging stations (“EVCs”) in the Philippines, including installation of EVCs in retail stations. While there is no current law on EVs and EVCs, a bill on these has already passed the Bicameral Conference Committee in Congress and is for the signature of the President of the Philippines.
- House Bill No. 10483. In light of rising fuel prices, House Bill No. 10483 was filed with the House Committee Ways and Means on November 3, 2021 seeking to amend the TRAIN Law by reducing excise taxes for diesel, gasoline, kerosene and LPG for the period December 2021 to June 2022. The bill is pending in Congress.

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

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

Petron R&D spent a total of ₱61.71 million in 2021, lower than the ₱65.55 million in 2020. Expenses in 2019 totaled the ₱76.31 million.

(xiii) Costs and effects of compliance with environmental laws

Compliance with the various environmental laws like the Renewable Energy Act, the Biofuels Act, the Clean Air Act, and the Clean Water Act entails costs and additional investments on the part of the Company, resulting in higher production costs and operating expenses. In 2021, the Company spent a total of ₱39.52 million for treatment of wastes, monitoring and compliance, permits, and personnel training at the Petron Bataan Refinery while in 2020, it spent a total of ₱28.42 million.

(xiv) Total number of employees

As of December 31, 2021, the Company and its subsidiaries had 2,665 employees, with 2,033 employees in the Company (comprising one president, one general manager, 28 vice presidents and assistant vice presidents, 1,424 managerial, professional and technical employees, and 579 rank-and-file employees); 600 employees of the Company’s Malaysian operations; 19 in PSTPL; and 13 in PFC.

Petron has CBAs with its three (3) labor unions, namely: (i) Bataan Refiners Union of the Philippines (“BRUP”), which is affiliated with the Philippine Transport and General Workers Organization; (ii) Petron Employees Labor Union (“PELU”), affiliated with the Philippine Transport and General Workers Organization, and (iii) Petron Employees Association (“PEA”), which is affiliated with the National Association of Trade Unions. The CBAs with BRUP and PELU were for the period from January 1, 2019 to December 31, 2021. PEA’s CBA covers the period from January 1, 2020 to December 31, 2022. In the meantime that negotiations and the finalization of the renewal of the CBAs with BRUP and PELU are ongoing, the expiring CBAs remain effective pursuant to their respective terms that provide for a carry-over of the CBA provisions until their renewals have been signed by the parties.

In addition to the statutory benefits, the Company provides medical and life insurance, vacation, sick and emergency leaves, computer and emergency loans to employees, and a savings plan program.

(xv) Major Risks Involved

(i) Risk Management Framework and Process

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

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

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

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

(ii) Major Risks

The Company classifies a risk as a major risk if it assesses the risk event to both have a relatively high probability of occurring and a substantial adverse impact on the Company if the risk would occur. The major risks that the Company managed in 2021 were substantially the same as those in the previous year since there were no fundamental changes in the nature of the Company’s operations. These risks were the following:

- (a) Foreign exchange risk arises from the difference in the denomination of majority of revenues, which is in Philippine Pesos, against that for the bulk of costs; *i.e.* crude oil and petroleum products imports, which is in US Dollars. Further, for the Petron Malaysia Companies, whose transactions are in Malaysian Ringgit which is subsequently converted into US Dollar before

ultimately being translated to equivalent Philippine Peso amount using applicable rates for the purpose of consolidation, changes in the foreign exchange rates of the Malaysian Ringgit and the US Dollar would result in the revaluation of key assets and liabilities.

- (b) The risk of substantial disruptions in the Company's operations caused by accidents, process or machinery failure, human error, natural disasters, weather conditions, geopolitical events, and other unforeseen circumstances. These disruptions may result in injury or loss of life, delays in implementation of capital projects, slowdown or shutdown of refinery operations, product run-outs, interruptions in supply or product distribution, equipment repair or replacement, and other such outcomes.
- (c) Profit margin and cash flow risk arising from volatility in the prices of crude oil, and fluctuations in the relative prices of crude oil and petroleum products.
- (d) Regulatory risk, arising from changes in national and local government policies and regulations affecting product standards, tax policies, environmental, health and safety regulations, and licensing and permitting requirements, among others.

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

(iii) Management of Major Risks

(a) Foreign exchange risk

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

(b) Risk of operational disruptions

- The Company maintains insurance whose coverage includes property, marine cargo and third-party liability, as well as personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption. One of the main insurance policies of the Company, the Industrial All Risk policy, covers the Petron Bataan Refinery for material damages and machinery breakdown.
- The Company continuously implements effective preventive maintenance programs, process improvements, health, safety and environmental programs and standards and technical trainings to ensure operational reliability and prevent operational disruptions. Additionally, Company facilities are compliant with internationally recognized management systems and facility standards.

- All 30 terminals are certified under the new ISO 9001:2015 (QMS), ISO 14001:2015 (EMS) standards and ISO 45001:2018 (Occupational Health and Safety (OH&S) Management System).
- All 15 Petron pier facilities are compliant with the International Ship and Port Facility Security Code (“ISPS Code”) and certified by the Office of the Transport Security under the DOTC. 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.
- The Company implements a Loss Prevention System (“LPS”) to prevent or reduce losses using behavior-based tools and proven management techniques. With this system, the Company aims to improve the overall safety culture of the organization. From January to December 2021, a total of 10.6 million safe man hours were achieved by the Head Office, the Petron Bataan Refinery and the Terminals.
- The Company also has an inter-depot support system that ensures continued product supply to areas affected by natural disasters or other unforeseen circumstances. Sourcing from other nearby Petron terminals to serve tributary areas of an affected terminal is immediately implemented whenever necessary.

(c) Profit margin and cash flow risk

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

(d) Regulatory risk

- The Company monitors developments in government policies and regulations, and maintains strong lines of communication with its counterparties in the public arena at local and national levels. This enables the Company to anticipate potential risk factors and plan proactively for any necessary expenditure.
- The Company remains materially compliant with the various environmental standards set by the government.

(B) Description of Property

Petron operates an extensive network of terminals, depots, and LPG and aviation plants which are located in Luzon, Visayas and Mindanao. As of December 31, 2021, its bulk fuel terminals were in Limay, Bataan; Mabini, Batangas; Mandaue City, Cebu; Poro Point, San Fernando, La Union; Navotas, Metro Manila; Rosario, Cavite; Puerto Princesa, Palawan; Culasi, Roxas City; Lapuz, Iloilo City; Bacolod City, Negros Occidental; Ormoc City, Leyte; Anibong, Tacloban City; Isabel, Leyte; Tagoloan, Misamis Oriental; Sasa, Davao City; Iligan City, Lanao del Norte; Jimenez, Misamis Occidental; Bawing, General Santos City; Nasipit, Agusan del Norte; and Zamboanga City. It has third party facilities at Harbor Center, Tondo, Manila; Limay, Bataan; Subic, Zambales, and PHIVIDE, Tagoloan, Misamis Oriental. Its sales offices are located in Calapan, Oriental Mindoro; San Jose in Occidental Mindoro; Odiongan, Romblon; Pasacao, Camarines Sur; Mobo, Masbate; Amlan, Negros Oriental; and Tagbilaran City, Bohol. Petron has LPG bulk refilling plants in Ugong, Pasig City; San Fernando, Pampanga; San Pablo City, Laguna; and Legazpi City, Albay. Among its other installations were the aviation depots at JOCASP-NAIA, Pasay City and Mactan, Cebu; airport installations at Laoag City, Davao City and Laguindingan, Misamis Oriental; an additive plant in Subic, Zambales, a grease plant in Pandacan Manila, and a lube oil blending plant in Harbor Center, Tondo, Manila.

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

The Company entered into commercial leases with the PNOC for parcels of land occupied by the Petron Bataan Refinery, depots, terminals and some of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, the Company renewed its lease with PNOC (through NVRC) for the continued use of the Petron Bataan Refinery for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). In 2015, the Company also entered into another 25-year lease agreement with PNOC effective August 1, 2014 for additional lots near the Petron Bataan Refinery for its expansion projects. Expenses relating to the PNOC leases amounted to ₱311.4 million in 2021.

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. 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 from possession of the subject properties until the case is decided. The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. The Company also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13, 2019, the trial court granted the 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 P142 million, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. The Company also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to the Company all lease payments the latter had paid to PNOC since 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 in November 2020. In a decision dated December 13, 2021, the Court of Appeals dismissed both appeals of PNOC and the Company and affirmed the resolution of the trial court as described above. The Court of Appeals upheld the Company's position that PNOC committed a substantial breach of its contractual obligation under the lease agreements when it dishonored the automatic renewal clause in the lease agreements and threatened to terminate the Company's lease thereby depriving the Company a long-term lease consistent with its business requirements, which was the primordial consideration in the Deeds of Conveyance. The Court of Appeals ruled, however, that, consistent with jurisprudence, while rescission repeals the contract from its inception, it does not disregard all the consequences that the contract has created and that it was therefore only proper that the Company paid PNOC the rentals for the use and enjoyment of the properties which PNOC could have enjoyed by virtue of the Deeds of Conveyance were it not for the lease agreements. On January 11, 2022, the Company filed its motion for reconsideration insofar as the decision dismissed the Company's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration. The parties await the order of the Court Appeals on the motions filed.

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

(C) Contingent Liabilities

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

1. Guimaras Oil Spill

a. In the Matter of the Sinking of the MT Solar I SBMI No. 936-06 Special Board of Marine Inquiry

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

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

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

On November 21, 2006, Petron filed a memorandum of appeal with the Department of Transportation (“DOTr”) (then “Department Transportation and Communication (“DOTC”), elevating the disputed ruling of the SBMI for review. The appeal to the DOTr of the finding of the SBMI that Petron was negligent and responsible for overloading the MT Solar I remained pending as of December 31, 2021.

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

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

Status: The matter was still pending with the DOTr as of December 31, 2021.

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

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

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

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

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

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

PART II - SECURITIES OF THE REGISTRANT

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

(1) Market Information and Voting Rights of Shares

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

Each common share is entitled to one vote.

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

As of March 22, 2022 (the record date for the Company’s 2022 annual stockholders’ meeting), the Company had 144,650 common stockholders. As of December 31, 2021, the total number of common stockholders of the Company was 144,720.

Common Shares

The price of the common shares of the Company as of March 22, 2022, the record date for the 2022 annual stockholders’ meeting, was ₱3.37 per share. The price of the common shares of the Company on December 31, 2021, the last trading day of 2021, was ₱3.17 per share. And the price of the common shares of the Company on December 20, 2020, the last trading day of 2020, was ₱3.99 per share.

The high and low prices of the common shares for each quarter of the last two (2) fiscal years and for the period ended March 22, 2022 (the record date of the 2022 annual stockholders’ meeting) are indicated in the table below:

| Period | Highest Close | | Lowest Close | |
|------------------------------------|--------------------|------------|--------------------|---------------|
| | Price (in Peso) | Date | Price (in Peso) | Date |
| 2022 | | | | |
| For period ended March 22, 2022 | 3.94 | March 8 | 3.17 | January 4 |
| 2021 | | | | |
| 1 st Quarter | 3.98 | January 4 | 3.00 | March 23 & 24 |
| 2 nd Quarter | 3.50 | May 4 | 2.93 | May 27 |
| 3 rd Quarter | 3.64 | July 8 | 3.03 | August 31 |
| 4 th Quarter | 4.02 | October 20 | 3.11 | December 1 |

| 2020 | | | | |
|-------------------------|------|-------------|------|----------------------------|
| 1 st Quarter | 4.27 | January 7 | 2.04 | March 23 |
| 2nd Quarter | 3.39 | June 8 | 2.56 | April 1 |
| 3rd Quarter | 3.19 | July 6 | 3.02 | September 4 & 23, August 3 |
| 4th Quarter | 4.27 | November 27 | 2.99 | October 7-9 |
| | | | | |

Preferred Shares

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

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

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

The Series 2B Preferred Shares were redeemed by the Company on November 3, 2021.

Series 2B Preferred Shares

The high and low prices of the Series 2B preferred shares for each quarter of the last two (2) fiscal years until their redemption on November 3, 2021 are indicated in the table below:

| Period | Highest Close | | Lowest Close | |
|-------------------------|--------------------|----------------------------------|--------------------|-------------------------|
| | Price (in Peso) | Date | Price (in Peso) | Date |
| 2021 | | | | |
| 1 st Quarter | 1,051.00 | January 25 | 1,001.00 | January 5 |
| 2nd Quarter | 1,039.00 | April 27; May 7, 11, 14, 17 & 18 | 1,020.00 | April 7 & 8 |
| 3rd Quarter | 1,053.00 | July 2 | 1,000.00 | July 30; August 2 & 3 |
| 4th Quarter | 1,027.00 | October 1 | 1,027.00 | October 1 |
| 2020 | | | | |
| 1 st Quarter | 1,115.00 | January 31 | 1,000.00 | February 19 |
| 2nd Quarter | 1,040.00 | May 26 | 990.00 | April 2 |
| 3rd Quarter | 1,080.00 | September 3, 14 & 15 | 1,001.00 | September 17 |
| 4th Quarter | 1,054.00 | October 5, 7 & 8 | 1,002.00 | October 29 & December 9 |

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

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

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

Series 3A Preferred Shares

The price of the Series 3A Preferred Shares as of March 21, 2022, the last day they traded prior to March 22, 2022, the record date for the 2022 annual stockholders’ meeting, was ₱1,050.00 per share. The price of the Series 3A Preferred Shares on December 31, 2021, the last trading day of 2021, was ₱1,000.00 per share. And the price of the Series 3A Preferred Shares on December 29, 2020, the last trading day of 2020 the shares were traded was ₱1,010.00 per share.

The high and low prices of the Series 3A preferred shares for each quarter of the last two (2) fiscal years and for the period ended March 22, 2022 (the record date of the 2022 annual stockholders’ meeting) are indicated in the table below:

| Period | Highest Close | | Lowest Close | |
|------------------------------------|--------------------|------------------|--------------------|-----------------|
| | Price (in Peso) | Date | Price (in Peso) | Date |
| 2022 | | | | |
| For period ended March 22, 2022 | 1,080.00 | March 14 | 1,040.00 | January 12 & 25 |
| 2021 | | | | |
| 1 st Quarter | 1,019.00 | March 8 & 22 | 1,061.00 | March 19 |
| 2 nd Quarter | 1,119.00 | April 22 | 1,068.00 | April 6 & 14 |
| 3 rd Quarter | 1,135.00 | September 30 | 1,045.00 | September 16 |
| 4 th Quarter | 1,045.00 | October 22 | 1,000.00 | December 31 |
| 2020 | | | | |
| 1 st Quarter | 1,070.00 | February 20 & 21 | 1,002.00 | March 24 & 25 |
| 2 nd Quarter | 1,065.00 | June 25 | 993.00 | May 27 |
| 3 rd Quarter | 1,062.00 | August 24 | 1,021.00 | July 13 |
| 4 th Quarter | 1,072.00 | December 16 & 17 | 1,010.00 | December 29 |

Series 3B Preferred Shares

The price of the Series 3B Preferred Shares as of March 28, 2022, the last day they traded prior to March 22, 2022, the record date for the 2022 annual stockholders’ meeting, was ₱1,080.00 per share. The price of the Series 3B Preferred Shares on December 31, 2021, the last trading day of 2021, was ₱1,119.00 per share. And the price of the Series 3B Preferred Shares on December 29, 2020, the last trading day of 2020, was ₱1,114.00 per share.

The high and low prices of the Series 3B preferred shares for each quarter of the last two (2) fiscal years and for the period ended March 22, 2022 (the record date of the 2022 annual stockholders' meeting) are indicated in the table below:

| Period | Highest Close | | Lowest Close | |
|------------------------------------|--------------------|-------------------------|--------------------|---|
| | Price (in Peso) | Date | Price (in Peso) | Date |
| 2022 | | | | |
| For period ended March 22, 2022 | 1,140.00 | January 18 & 19 | 1,052.00 | January 31 & Feb 1 |
| 2021 | | | | |
| 1 st Quarter | 1,150.00 | March 30 | 1,080.00 | January 6 & 7 |
| 2nd Quarter | 1,159.00 | March 25 & June 25 | 1,120.00 | June 29 |
| 3rd Quarter | 1,170.00 | July 9 | 1,102.00 | July 29 & 30 |
| 4th Quarter | 1,199.00 | November 9 | 1,070.00 | December 3 |
| 2020 | | | | |
| 1 st Quarter | 1,085.00 | February 21 | 1,003.00 | March 19 |
| 2nd Quarter | 1,075.00 | June 29 & 30 | 1,006.00 | April 8 & 13 |
| 3rd Quarter | 1,100.00 | July 22, 23, 24 & 29 | 1,065.00 | July 6 & 8 |
| 4th Quarter | 1,119.00 | December 17 | 1,075.00 | October 1, 2, 5, 6, 7, 8, 9, 15, 22 & 26 |

(2) Holders

The lists of the top 20 stockholders of the common shares and preferred shares of the Company as of March 22, 2022 (the record date of the 2022 annual stockholders' meeting) are as follows:

Common Shares

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2022-03-24
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Petron Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Mar 22, 2022

PAGE

| RANK | STOCKHOLDER NAME | Common | TOTAL SHARES | % OF O/S |
|--------------------------------------|---|---------------|---------------|-------------|
| 1 | SEA REFINERY CORPORATION | 4,696,885,564 | 4,696,885,564 | 50.099554 % |
| 2 | PCD NOMINEE CORP. (FILIPINO) | 1,854,435,077 | 1,854,435,077 | 19.780420 % |
| 3 | SAN MIGUEL CORPORATION | 1,702,870,560 | 1,702,870,560 | 18.163750 % |
| 4 | PETRON CORPORATION EMPLOYEES RETIREMENT PLAN | 459,156,097 | 459,156,097 | 4.897610 % |
| 5 | PCD NOMINEE CORP. (NON-FILIPINO) | 211,077,104 | 211,077,104 | 2.251464 % |
| 6 | F. YAP SECURITIES INC. | 15,704,918 | 15,704,918 | 0.167517 % |
| 7 | ERNESTO CHUA CHIACO &/OR MARGARET SY CHUA CHIACO | 6,000,000 | 6,000,000 | 0.063999 % |
| 8 | SYSMART CORP. | 4,000,000 | 4,000,000 | 0.042666 % |
| 9 | MARGARET S. CHUACHIACO | 3,900,000 | 3,900,000 | 0.041600 % |
| 10 | MARY FELICCI B. ONGCHUAN | 2,950,100 | 2,950,100 | 0.031467 % |
| 11 | GENEVIEVE S. CHUACHIACO | 2,735,000 | 2,735,000 | 0.029173 % |
| 12 | ERNESSON S. CHUACHIACO | 2,732,000 | 2,732,000 | 0.029141 % |
| 13 | Q - TECH ALLIANCE HOLDINGS, INC. | 2,648,500 | 2,648,500 | 0.028250 % |
| 14 | GENEVIEVE S. CHUA CHIACO | 2,490,000 | 2,490,000 | 0.026560 % |
| 15 | BENEDICT CHUA CHIACO | 2,365,000 | 2,365,000 | 0.025226 % |
| 16 | ANTHONY CHUA CHIACO | 2,008,000 | 2,008,000 | 0.021418 % |
| 17 | MANUEL AWITEN DY | 2,000,000 | 2,000,000 | 0.021333 % |
| 18 | SHAHRAD RAHMANIFARD | 2,000,000 | 2,000,000 | 0.021333 % |
| 19 | KRISTINE CHUA CHIACO | 1,956,000 | 1,956,000 | 0.020864 % |
| 20 | CHING HAI GO &/OR MARTINA GO | 1,500,000 | 1,500,000 | 0.016000 % |
| | | 8,979,413,920 | 8,979,413,920 | 95.779348 % |
| TOTAL NO. OF SHARES : | | 9,375,104,497 | | |
| TOTAL NO. OF DISTINCT STOCKHOLDERS : | | 144,650 | | |
| TOTAL NO. OF ACCOUNTS : | | 144,650 | | |

Series 3A Shares

ssst823 Petron Corporation (PREFERRED) PAGE 1
 2022-03-24 STOCK TRANSFER MODULE
 11:20:12 AM List of Stockholders
 As of Mar 22, 2022

| RANK | STOCKHOLDER NAME | Preferred 3-A | TOTAL SHARES | % OF O/S |
|--------------------------------------|--|---------------|--------------|--------------|
| 1 | PCD NOMINEE CORPORATION (FILIPINO) | 13,336,710 | 13,336,710 | 99.505409 % |
| 2 | PCD NOMINEE CORPORATION (NON-FILIPINO) | 60,890 | 60,890 | 0.454301 % |
| 3 | MILA LEONINA DIAZ JUSTINIANO | 2,000 | 2,000 | 0.014922 % |
| 4 | LUZ DELA CRUZ CANLAPAN | 1,500 | 1,500 | 0.011192 % |
| 5 | CAROLINA N. DIONISIO | 1,000 | 1,000 | 0.007461 % |
| 6 | ANA UY GAN OR ALBERT DAVID UY GAN, EDWIN FERDINAND UY GAN OR PHILIP BENJAMIN UY GAN | 500 | 500 | 0.003731 % |
| 7 | ALMA FLORENCE A. LOGRONIO | 300 | 300 | 0.002238 % |
| 8 | NSJS REALTY & DEVELOPMENT CORPORATION | 50 | 50 | 0.000373 % |
| 9 | ENRICO DELA LLANA YUSINGCO | 50 | 50 | 0.000373 % |
| | | ----- | ----- | ----- |
| | | 13,403,000 | 13,403,000 | 100.000000 % |
| | | ===== | ===== | ===== |
| TOTAL NO. OF SHARES : | | 13,403,000 | | |
| TOTAL NO. OF DISTINCT STOCKHOLDERS : | | 9 | | |
| TOTAL NO. OF ACCOUNTS : | | 9 | | |

Series 3B Shares

ssst823 Petron Corporation (PREFERRED) PAGE 1
 2022-03-24 STOCK TRANSFER MODULE
 11:24:24 AM List of Stockholders
 As of Mar 22, 2022

| RANK | STOCKHOLDER NAME | Preferred 3-B | TOTAL SHARES | % OF O/S |
|--------------------------------------|---|---------------|--------------|-------------|
| 1 | PCD NOMINEE CORPORATION (FILIPINO) | 6,523,360 | 6,523,360 | 98.883735 % |
| 2 | PCD NOMINEE CORPORATION (NON-FILIPINO) | 46,340 | 46,340 | 0.702441 % |
| 3 | CAN ASIA INC RETIREMENT PLAN | 5,000 | 5,000 | 0.075792 % |
| 4 | SMHC MULTI-EMPLOYER RETIREMENT PLAN | 5,000 | 5,000 | 0.075792 % |
| 5 | DISTILERIA BAGO INCORPORATED RETIREMENT PLAN | 5,000 | 5,000 | 0.075792 % |
| 6 | JOIE TINSAY &/OR IRENE TINSAY | 4,500 | 4,500 | 0.068213 % |
| 7 | G. D. TAN & CO. INC. | 2,000 | 2,000 | 0.030317 % |
| 8 | ROMUALDO ESTACIO FRANCO OR VIRGINIA M. FRANCO | 1,000 | 1,000 | 0.015158 % |
| 9 | AGNES LOGRONIO BANIQUED | 1,000 | 1,000 | 0.015158 % |
| 10 | ANTONIO M. OSTREA | 500 | 500 | 0.007579 % |
| 11 | ENRIQUE LL YUSINGCO | 500 | 500 | 0.007579 % |
| 12 | CONCHITA PEREZ JAMORA | 500 | 500 | 0.007579 % |
| 13 | ENRIQUE NOEL L YUSINGCO | 500 | 500 | 0.007579 % |
| 14 | ENRIQUE MIGUEL L YUSINGCO | 500 | 500 | 0.007579 % |
| 15 | MA. TERESA L YUSINGCO | 500 | 500 | 0.007579 % |
| 16 | ANGELO DE GUZMAN MACABUHAY OR MARITESS SIGUA MACABUHAY | 400 | 400 | 0.006063 % |
| 17 | MICHELLE MARIE Y. SAN JUAN | 100 | 100 | 0.001516 % |
| 18 | JOSE MANUEL R. SAN JUAN | 100 | 100 | 0.001516 % |
| 19 | HENRY P. YUSINGCO IV | 100 | 100 | 0.001516 % |
| 20 | MYRA P. VILLANUEVA | 60 | 60 | 0.000910 % |
| | | ----- | ----- | ----- |
| | | 6,596,960 | 6,596,960 | 99.999394 % |
| | | ===== | ===== | ===== |
| TOTAL NO. OF SHARES : | | 6,597,000 | | |
| TOTAL NO. OF DISTINCT STOCKHOLDERS : | | 24 | | |
| TOTAL NO. OF ACCOUNTS : | | 24 | | |

(3) Dividends

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

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

On November 3, 2014, the Company issued 7,122,320 Series 2A Preferred Shares and 2,877,680 Series 2B Preferred Shares. The dividend on the Series 2A Preferred Shares was at the fixed rate of 6.30% per annum and on the Series 2B Preferred Shares at the fixed rate of 6.8583% per annum, each as calculated based on the offer price of ₱1,000 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Cash dividends have been paid out on the Series 2 Shares in February 2015 since their listing in November 2014. The Series 2A Preferred Shares and the Series 2B Preferred Shares were redeemed on November 4, 2019 and November 3, 2021, respectively.

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

Dividend Declarations and Payments

2021

On March 9, 2021, the Board of Directors approved cash dividends of (i) ₱17.14575 per Series 2B Preferred Share to shareholders of such shares for the second quarter of 2021, with a record date of April 7, 2021 and a pay-out date of May 3, 2021; (ii) ₱17.17825 per Series 3A Preferred Share to shareholders of such shares for the second quarter of 2021, with a record date of June 2, 2021 and a pay-out date of June 25, 2021; and (iii) ₱17.84575 per Series 3B Preferred Share to shareholders of such shares for the second quarter of 2021, with a record date of June 2, 2021 and a pay-out date of June 25, 2021.

On May 4, 2021, the Board of Directors approved cash dividends of (i) ₱17.14575 per Series 2B Preferred Share to shareholders of such shares for the third quarter of 2021, with a record date of July 8, 2021 and a pay-out date of August 3, 2021; (ii) ₱17.17825 per Series 3A Preferred Share to shareholders of such shares for the third quarter of 2021, with a record date of September 2, 2021 and a pay-out date of September 27, 2021 (with September 25, 2021 falling on a Saturday); and (ii9) ₱17.84575 per Series 3B Preferred Share to shareholders of such shares for the third quarter of

2021, with a record date of September 2, 2021 and a pay-out date of September 27, 2021 (with September 25, 2021 falling on a Saturday).

On August 3, 2021, the Board of Directors approved cash dividends of (i) ₱17.14575 per Series 2B Preferred Share to shareholders of such shares for the fourth quarter of 2021, with a record date of October 7, 2021 and a pay-out date of November 3, 2021; (ii) ₱17.17825 per Series 3A Preferred Share to shareholders of such shares for fourth quarter of 2021, with a record date of November 29, 2021 and a pay-out date of December 27, 2021 (with December 25, 2021 being a holiday and falling on a Saturday); and (iii) ₱17.84575 per Series 3B Preferred Share to shareholders of such shares for the fourth quarter of 2021, with a record date of November 29, 2021 and a pay-out date of December 27, 2021 (with December 25, 2021 being a holiday and falling on a Saturday).

On November 9, 2021, the Board of Directors approved cash dividends of (i) ₱17.17825 per Series 3A Preferred Share to shareholders of such shares for the fourth quarter of 2021 and the first quarter of 2022, with a record date of March 3, 2022 and June 3, 2022, respectively; and a pay-out date of March 25, 2022 and June 27, 2022 (with June 25, 2022 falling on a Saturday); and (ii) ₱17.84575 per Series 3B Preferred Share to shareholders of such shares for the for the fourth quarter of 2021 and the first quarter of 2022, with a record date of March 3, 2022 and June 3, 2022, respectively; and a pay-out date of March 25, 2022 and June 27, 2022 (with June 25, 2022 falling on a Saturday).

2020

On March 10, 2020, the Board of Directors approved a cash dividend of ₱0.10 per share to all common shareholders with a record date of March 24, 2020 and a pay-out date of April 8, 2020.

On the same date, the Board of Directors also approved cash dividends of (i) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the second quarter of 2020 with a record date of April 7, 2020 and a pay-out date of May 4, 2020 (with May 3 falling on a Sunday); (ii) ₱17.17825 per share to the shareholders of the Series 3A Preferred Shares for the second quarter of 2020, with a record date of June 1, 2020 and a pay-out date of June 25, 2020; and (iii) of ₱17.84575 per share to the shareholders of the Series 3B Preferred Shares for the second quarter of 2020, with a record date of June 1, 2020 and a pay-out date of June 25, 2020.

On May 26, 2020, the Board of Directors approved cash dividends of (i) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the third quarter of 2020 with a record date of July 9, 2020 and a pay-out date of August 3, 2020; (ii) ₱17.17825 per share to the shareholders of the Series 3A Preferred Shares for the third quarter of 2020, with a record date of September 2, 2020 and a pay-out date of September 25, 2020; and (iii) of ₱17.84575 per share to the shareholders of the Series 3B Preferred Shares for the third quarter of 2020, with a record date of September 2, 2020 and a pay-out date of September 25, 2020.

On August 4, 2020, the Board of Directors approved cash dividends of (i) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the fourth quarter of 2020 with a record date of October 9, 2020 and a pay-out date of November 3, 2020; (ii) ₱17.17825 per share to the shareholders of the Series 3A Preferred Shares for the fourth quarter of 2020, with a record date of December 2, 2020 and a pay-out date of December 28, 2020; and (iii) of ₱17.84575 per share to the shareholders of the Series 3B Preferred Shares for the fourth quarter of 2020, with a record date of December 2, 2020 and a pay-out date of December 28, 2020.

On November 3, 2020, the Board of Directors approved cash dividends of (i) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the first quarter of 2021 with a record date of January 8, 2021 and a pay-out date of February 3, 2021; (ii) of ₱17.17825 per share to the shareholders of the Series 3A Preferred Shares for the first quarter of 2021, with a record date of

March 2, 2021 and a pay-out date of March 25, 2021; and (iii) of ₱17.84575 per share to the shareholders of the Series 3B Preferred Shares for the first quarter of 2021, with a record date of March 2, 2021 and a pay-out date of March 25, 2021.

Distributions

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

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

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

The securities discussed below were offered and/or sold for the past three (3) years (from 2018) in the Philippines to institutional lenders not exceeding 19 or to not more than 19 non-qualified buyers and/or to any number of qualified buyers as defined in the Code. Thus, the offer and sale of the subject securities qualified as exempt transactions pursuant to Sections 10.1 (k) and 10.1(l) of the Code. A confirmation of exemption from the SEC that the offer and sale of the securities in the Philippines qualified as an exempt transaction under the Code was not required to be, and had not been, obtained. In compliance with existing rules, no notice of exemption was filed after the issuance below which qualified as an exempt transaction.

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

US\$500 Million Undated Unsubordinated Capital Securities

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

securities were listed with the Singapore Exchange Securities Trading Limited on January 22, 2018.

US Dollar Redeemable Perpetual Securities

- a. On November 27, 2019, June 22, 2020, and August 10, 2020, the Company issued redeemable perpetual securities (the “Redeemable Perpetual Securities”) to SMC in the amounts of US\$6 million, US\$130 million, and US\$100 million, respectively.
- b. As the Redeemable Perpetual Securities were offered only SMC, the issuance of such securities was considered an exempt transaction and no confirmation or notice of exemption from the registration requirements of the Code was required to be filed with the SEC pursuant to the Code and the 2015 SRC rules.

US\$550 Million Undated Unsubordinated Capital Securities

- a. On April 19, 2021, the Company issued US\$550 million undated unsubordinated capital securities (the “2021 Capital Securities”).
- b. The sole global coordinator for the transaction was The Hongkong and Shanghai Banking Corporation Limited and the joint lead managers were DBS Bank Ltd., HSBC, MUFG Securities Asia Limited, SMBC Nikko Capital Markets Limited, Standard Chartered Bank and UBS AG Singapore Branch.
- c. The offer price for the 2021 Capital Securities was at 100%.
- d. As the 2021 Capital Securities were offered to qualified buyers in the Philippines, the issuance of such securities was considered an exempt transaction and no confirmation or notice of exemption from the registration requirements of the Code was required to be filed with the SEC pursuant to the Code and the 2015 SRC rules. The capital securities were listed with the Singapore Exchange Securities Trading Limited on April 20, 2021.

(B) Description of Petron’s Shares

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

As of the date of this Annual Report, the outstanding capital stock of the Company is comprised of 9,375,104,497 common shares, 13,403,000 Series 3A Preferred Shares, and 6,597,000 Series 3B Preferred Shares. The Company has 90,000,000 treasury shares.

The Series 2 Preferred Shares, with an aggregate issue value of P10 billion, were offered during the period October 20-24, 2014 pursuant to the order of registration and the permit to sell issued by the SEC on October 17, 2014. The Series 2 Preferred Shares were issued and listed on the PSE on November 3, 2014. The Series 2A Preferred Shares were redeemed by the Company on November 4, 2019. The Series 2A Preferred Shares and the Series 2B Preferred Shares were redeemed by the Company on November 4, 2019 and November 3, 2021, respectively.

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

Each common share is entitled to one vote.

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

(C) Stock Ownership Plan

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

(D) Public Ownership

Based on the report provided by SMC Stock Transfer Services Corporation, the stock transfer agent of the Company, 26.72% of the outstanding common shares of the Company was owned by the public as of December 31, 2021 and March 31, 2022 in compliance with the minimum public ownership set by the PSE and the SEC. Attached as Annexes A and B are the public ownership reports of the Company as of December 31, 2021 and March 31, 2022.

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"Part III - Management's Discussion and Analysis of Financial Position
and Financial Performance" follows on next page]*

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

Financial Performance

2021 vs 2020

As global vaccination rate continued to improve, pandemic restrictions were relaxed and more economic activities were resumed. This supported the continued recovery in global demand towards its pre-pandemic level. This rebound was complemented by the OPEC's managed approach in increasing crude supply back in the market which allowed the oil sector to regain momentum and enjoy improved margins. With this as the backdrop, Petron Corporation's consolidated net income for 2021 reached **₱6.14 billion**, a turnaround from ₱ 11.41 billion net loss suffered in the previous year.

Consolidated Sales volume grew by 5% to **82.24 million barrels (MMB)** from 78.58 MMB in prior year. Through the Company's volume-generating programs, retail volumes in the Philippines managed to grow despite granular lockdowns. Petrochemical sales and PSTPL trading volume were also up. However, growth in commercial sales remained subdued largely due to the slowdown in the aviation industry.

Net Sales more than doubled to **₱ 438.06 billion** from ₱ 286.03 billion in prior year traced to the steady rise in regional reference MOPS prices during the year.

Cost of Goods Sold (CGS) likewise surged by 47% to **₱ 407.56 billion** from ₱ 277.32 billion mainly due to higher cost per liter. Benchmark crude Dubai breached the \$80/bbl-mark in the 4th quarter and averaged US\$69/bbl for the year, up by 64% from US\$42/bbl average in 2020. **Gross profit** climbed up to **₱ 30.50 billion** traced to the absence of inventory losses and improved refining cracks.

Selling and Administrative Expenses (OPEX), net of Other Operating Income at **₱ 13.28 billion** was the same level as previous year. Savings on terminalling and storage expenses, outsourced services and increase in rent income were offset by higher maintenance and repairs related to service stations, depot and information technology as well as higher LPG cylinder purchases.

Net Financing Costs and Other Charges declined by 14% to **₱ 9.92 billion** largely due to reduced borrowing level and interest rates as well as lower unrealized losses on commodity hedges.

Income tax expense amounted to **₱ 1.16 billion** in contrast to last year's ₱ 4.80 billion tax benefit from huge loss before tax.

2020 vs. 2019

The year 2020 was marked with the adverse impact of the COVID-19 pandemic to the global economy. The unprecedented destruction in worldwide fuel demand caused oil prices to crash at record-low levels in the second quarter. The lockdowns implemented in most parts of the Philippines and Malaysia pulled down sales volume while the historic slump in prices resulted in substantial inventory losses. Despite the moderate recovery in the second semester, Petron ended the year with a consolidated net loss of P11.4 billion, a reversal from its 2019 net income of P2.3 billion. Aside from the impact of the volume contraction and inventory loss, the prevailing weak refining cracks also continued to challenge the Company's financial performance.

Consolidated Sales volume dropped by 27% to **78.58 million barrels (MMB)**, from 106.96 MMB in previous year (PY) primarily due to reduced economic activities and travel restrictions from worldwide lockdowns.

Net sales dropped by 44% to **₱ 286.03 billion** from **₱ 514.36 billion** in 2019 due to reduced volume and lower average selling price, compounded by the impact of **₱ 2.18** appreciation of the peso against the US dollar, partly offset by incremental excise taxes with the implementation of the last tranche of the TRAIN law.

Cost of Goods Sold declined to **₱ 277.32 billion** from PY's **₱ 483.86 billion** traced to lower sales volume and average cost per liter as benchmark crude Dubai plunged from an average of US\$64/bbl in 2019 to US\$42/bbl, partly offset by higher excise taxes. **Gross profit** fell to **₱ 8.71 billion** from the **₱ 30.51 billion** in 2019 largely on account of the volume drop, inventory losses and product cracks narrowing, which partly mitigated by improved marketing margins.

Continuous cost reduction measures led to the 7% dip in **Selling and Administrative Expenses (OPEX), net of Other operating Income**, to **₱ 13.34 billion** compared to previous year's 14.31 billion. The OPEX savings mainly came from outsourced services, advertising and promotional expenses, service station & depot maintenance & repairs, and employee costs, but were partly offset by decrease in rent income.

Net Financing Costs and Other Charges was also down by 7% from **₱ 12.46 billion** to **₱ 11.58 billion** attributed to the decline in interest expense at the back of lower average borrowing rates, partly offset by higher marked-to-market losses on commodity hedges and lower interest income.

Income tax benefit amounted to **₱ 4.80 billion** owing to the loss before tax position, as against the **₱ 1.43 billion** income tax expense in the previous year.

2019 vs. 2018

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

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

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

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

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

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

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

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

Financial Position

2021 vs 2020

The **Consolidated assets** of Petron Corporation and its Subsidiaries as of end-2021 amounted to **₱ 402.42 billion**, 16% or ₱ 57.69 billion higher than end-2020 balance of ₱ 349.73 billion. The increase in total assets can be traced to higher inventories, trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents increased by 35% to **₱ 36.41 billion** from ₱ 27.05 billion mainly from the proceeds of perpetual securities issuance and availment of loans, reduced by cash dividend and distribution payments, spending for capital projects and increase in working capital requirements during the year.

Financial assets at fair value went up to **₱ 1.01 billion** from ₱ 603 million due to higher gains on outstanding currency hedges.

Investments in debt instruments (current and non-current) became **nil** from the ₱ 381 million balance as of end-2020 with the deconsolidation of Petrogen Insurance Corporation (PIC) from the Petron Group.

Trade and other receivables - net rose by 90% to **₱ 51.75 billion** attributable to the increase in trade receivables owing to higher prices, further elevated by the increase in government receivables of Petron Malaysia, partly countered by the decrease in non-trade receivables of the Parent Company.

Inventories increased by ₱ 22.76 billion to **₱ 67.68 billion** mainly from higher prices partly offset by lower volume of finished products versus the end 2020 level.

Investment in shares of stock of an associate amounting to **₱ 1.01 billion** is a result of the decrease in ownership interest of the Parent Company in PIC from 100% to 25.06% effective February 2021.

Right of Use asset declined by 7% or ₱ 398 million to **₱ 5.65 billion** due to depreciation for the period.

Other noncurrent assets - net declined to **₱ 1.54 billion** from ₱ 2.09 billion mostly from the amortization of deferred input tax.

Short-term loans increased to **₱ 109.20 billion** from end-2020 level of ₱ 77.70 billion due to borrowings to support the increase in working capital requirements.

Liabilities for crude oil and petroleum products stood higher at **₱ 42.64 billion** compared to end-2020 level of ₱ 22.32 billion owing primarily to the continuous increase in prices during the period.

Trade and other payables declined by 9% or ₱ 1.40 billion to **₱ 14.00 billion** due to lower outstanding liabilities to contractors and vendors.

Derivative liabilities decreased by 11% to **₱ 997 million** with the lower expected payout on outstanding commodity hedges, as well as currency hedges under hedge accounting.

Income tax payable grew by 86% from ₱ 162 million to **₱ 302 million** as tax liabilities of Petron Malaysia increased.

Long-term debt (including current portion) declined to **₱ 102.65 billion** from end-2020 balance of ₱ 119.45 billion as a result of the Parent Company's prepayment and amortization of existing peso and dollar loans partly offset by the issuance of retail bonds.

Retirement benefits liability -net decreased by 10% to **₱ 3.33 billion** after considering the contributions made to the retirement fund during the year.

Deferred tax liabilities - net went up to **₱ 3.78 billion** from ₱ 3.08 billion due to Petron Malaysia's temporary differences with respect to depreciation of qualifying assets.

Other noncurrent liabilities stood at **₱ 1.20 billion**, 37% lower than end-2020 level due to lower customer deposits and liabilities from cash flow hedges.

Capital Securities moved up by 72% to **₱ 62.71 billion** traced to the issuance of the US\$550 million Senior Perpetual Capital Securities.

Treasury Stock increased by 19% to **₱ 18.00 billion** attributed to redemption of preferred shares.

Non-controlling interests rose by 14% to **₱ 7.33 billion** mainly from its proportionate share in net income during the period.

2020 vs 2019

The consolidated assets of Petron Corporation and its Subsidiaries as of end-2020 amounted to **₱ 349.73 billion**, 11% or ₱ 45.11 billion lower than end-2019 balance of ₱ 394.84 billion primarily due to the decrease in inventories and trade receivables from lower prices and volume.

Cash and cash equivalents was reduced by 21% from ₱ 34.22 billion to **₱ 27.05 billion** as available cash was used to finance capital projects.

Financial assets at fair value decreased to **₱ 603 million** from ₱ 864 million due to lower gains on outstanding commodity and currency hedges.

Investments in debt instruments (current and non-current) went down by 9% to **₱ 381 million** from the end-2019 level of ₱ 420 million with the maturity of some government securities and bonds partly offset by the new investment in government securities by the insurance subsidiary.

Trade and other receivables - net dropped by 39% to **₱ 27.20 billion** attributed to the decrease in sales volume and prices of fuel products.

Inventories was cut by ₱ 27.29 billion to **₱ 44.92 billion** mainly from lower prices and volume of crude and finished products on hand compared to the end-2019 level.

Other current assets increased by 18% to **₱ 32.34 billion** from higher excise tax claims and unused creditable withholding taxes.

Right of Use assets went up by 10% or **₱ 536 million** to **₱ 6.05 billion** with the remeasurement of the related asset retirement obligation for the refinery.

The change in net tax position of the Parent Company due to the additional Net Operating Loss Carry-Over (NOLCO) in 2020 led to the increase in **Deferred tax assets - net** to **₱ 2.19 billion** from **₱ 262 million** as of end 2019 and consequently resulted in the reduction in **Deferred tax liabilities - net** from **₱ 6.35 billion** to **₱ 3.08 billion**.

Other noncurrent assets - net declined to **₱ 2.09 billion** from **₱ 2.74 billion** on account of the amortization of deferred input tax, usage of catalysts as well as drop in currency hedges under hedge accounting.

Short-term loans increased from **₱ 71.09 billion** to **₱ 77.70 billion** traced to net loan availment during the year.

Liabilities for crude oil and petroleum products at **₱ 22.32 billion** was lower by 43% compared to end-2019 level of **₱ 39.36 billion** owing primarily to lower prices and lesser number of outstanding importations as of end 2020.

Trade and other payables was reduced by 46% to **₱ 15.40** due to lower outstanding liabilities to contractors and vendors.

Derivative liabilities grew by 52% to **₱ 1.12 billion** with the increase in the expected payout on outstanding commodity hedges, as well as currency hedges under hedge accounting, partly offset by the decrease in marked-to-market (MTM) losses on currency forwards.

Income tax payable fell 39% to **₱ 162 million** as tax liabilities of foreign subsidiaries declined.

Long-term debt (including current portion) decreased to **₱ 119.45 billion** from end-2019 balance of **₱ 133.08 billion** following the Parent Company's prepayment and amortization of dollar and peso loans, partly offset by availment of new loans, i.e. USD 150 million, JPY 15 billion and **₱ 5 billion** loan.

Asset retirement obligation increased by more than half to **₱ 2.87 billion** from **₱ 1.72 billion** traced to the reassessment/re-measurement of future liability.

Other noncurrent liabilities stood at **₱ 1.90 billion**, 9% higher than end-2019 level due to additional cash bonds received from customers.

Capital securities grew by **₱ 11.30 billion** to **₱ 36.48 billion** with the issuance of USD 230 million Redeemable Perpetual Securities in the 2nd and 3rd quarters of 2020.

Retained earnings at **₱ 29.80 billion** was 35% down versus end-2019 level primarily due to the **₱ 11.38 billion** net loss incurred by the equity holders of the Parent Company further reduced by the cash dividends and distributions declared during the period.

The **negative balance of Equity reserves** increased from **₱ 16.90 billion** to **₱ 18.37 billion** mainly from the translation loss on its investments in foreign subsidiaries as a result of the strengthening of the peso against the US dollar.

Consequently, **Non-controlling interests** slipped from **₱ 6.77 billion** to **₱ 6.42 billion**, proportionate to its share in net loss during period, the cash dividends declared to minority shareholders coupled by currency translation adjustments.

2019 vs 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash Flows

2021 vs 2020

As of end-2021, cash and cash equivalents stood at **₱ 36.41 billion**. Cash generated from internal operations of **₱ 28.45 billion** and the issuance of Capital securities amounting to **₱ 26.23 billion** were used to finance the increase in working capital requirements of **₱ 30 billion**, payment of interest and taxes amounting to **₱ 8.96 billion**, and settlement of maturing loans, dividends and distributions. During the year, the Company also spent **₱ 9.89 billion** for various capital projects at the refinery, service stations and terminals.

| In Million Pesos | December 31, 2021 | December 31, 2020 | Change |
|--------------------------------|-------------------|-------------------|----------|
| Operating (outflows) / inflows | (10,668) | 2,533 | (13,201) |
| Investing outflows | (9,759) | (8,437) | (1,322) |
| Financing inflows | 28,098 | 318 | 27,780 |

2020 vs 2019

The Company ended 2020 with Cash and cash equivalents at **₱ 27.05 billion**. The 21% reduction from previous year's balance and the remaining cash generated from internal operations were used to finance the various capital expenditures at the refinery, service stations and terminals amounting to **₱ 8.44 billion**. Funds from the net issuance of capital securities amounting to **₱ 11.30** were largely spent to pay the matured loans and dividends and distribution to stakeholders.

| In Million Pesos | December 31, 2020 | December 31, 2019 | Change |
|--------------------|-------------------|-------------------|----------|
| Operating inflows | 2,533 | 25,362 | (22,829) |
| Investing outflows | (8,437) | (20,467) | 12,030 |
| Financing inflows | 318 | 13,116 | (12,798) |

2019 vs 2018

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

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

Discussion of the Company's key performance indicators:

| Ratio | December 31, 2021 | December 31, 2020 | December 31, 2019 |
|------------------------------|-------------------|-------------------|-------------------|
| Current Ratio | 1.0 | 0.9 | 1.1 |
| Debt to Equity Ratio | 2.7 | 3.1 | 3.3 |
| Return on Equity (%) | 6.2 | (12.8) | 2.6 |
| Interest Rate Coverage Ratio | 1.7 | (0.4) | 1.3 |
| Assets to Equity Ratio | 3.7 | 4.1 | 4.3 |

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

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

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

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

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

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

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

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

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

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

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Philippine Economy

The 2021 Philippine economy posted a growth of 5.6%, a rebound from last year's 9.6% slump. The rebound was attributed to the reopening of the economy with accelerated vaccination. Although new variants continued to pose risks to the economy, demand continued to improve as daily Covid-19 cases declined leading to easing of movement restrictions and increased operational capacities for various businesses and establishments. The resumption of construction, growth of remittances of overseas Filipino workers, and increased trade with global recovery also supported growth.

The peso strengthened by 0.72% to average Php49.28/\$ in 2021, from P49.64/\$ in 2020. Strength in the Philippine peso was due to BSP's all-time low interest rates, balance-of-payments surplus, and rising international reserves.

Inflation averaged 4.5% in 2021, much higher than the 2.6% in 2020. Continuous increase in electricity rates, prices of key food items, and global crude prices, aggravated by the prolonged pandemic, pushed up inflation.

Oil Market

Oil demand¹ in the country grew by 10.9% to 70,505 thousand barrels ("MB") in the first half 2021 from 63,563 MB in the first half of 2020. Growth in demand was mainly due to the transition to less stringent travel restrictions implemented nationwide during the first half of 2021, resulting to increased economic activity.

Crude price benchmark, Dubai, averaged \$69.2 per barrel ("/bbl") in 2021, much higher than the 2020 average of \$42.2/bbl due to continued managed production increases by OPEC+ amid higher crude demand. Recorded improvement in gasoline and kero-jet cracks is due to an improvement in demand arising from increased mobility with the wider vaccine roll-out. Diesel cracks remained weak due to relatively low demand and ample stocks.

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

Guimaras Oil Spill Incident

On August 11, 2006, MT Solar I, a third party vessel contracted by the Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Department of Justice ("DOJ") and the Special Board of Marine Inquiry ("SBMI"), both agencies found the owners of MT Solar I liable. The DOJ found the Company not criminally liable, but the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the DOTr (then DOTC) and is awaiting its resolution. The Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amount to P292 million. The cases were still pending as of December 31, 2021.

¹ Information as of the first half of 2021; only includes gasoline, kerosene, aviation turbo, diesel, industrial fuel and liquified petroleum gas ("LPG") and does not include direct imports by end-users of naphtha, condensate, aviation turbo, LPG, diesel, asphalt, and petcoke

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

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

Seasonal aspects that has material effect on the financial statement

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

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

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

Financial Statements

The 2021 separate and consolidated audited financial statements of Petron and the Statements of Management Responsibility are attached hereto as Annex C.

Audit and Audit-Related Fees

The Company paid KPMG the fees set out below for 2020 and 2021:

| | 2020 (in Pesos) | 2021 (in Pesos) |
|--|----------------------------|----------------------------|
| Audit fees for professional services - Annual Financial Statement (tax-exempt and exclusive of out-of-pocket expenses) | 7,197,000 | 6,744,200 |
| Professional fees for due diligence and study on various internal projects | - | 7,000,000 |
| Professional fees for tax consulting services | - | - |

KPMG, the external auditor of SMC, was first appointed by the Company in 2010. With a common external auditor, the consolidation of results of operations and account balances among the subsidiaries of SMC using a uniform audit approach was facilitated.

The Audit Committee, at its meetings held on March 9, 2021 and May 4, 2021, endorsed the re-appointment of KPMG as external auditor of the Company for 2021 and the approval of KPMG's proposed fees, respectively. At its meetings held later on such days, the Board of Directors, finding the recommendations of the Audit Committee to be in order, endorsed the re-appointment of KPMG as external auditor of the Company for 2021 and approved its fees for 2021 the approval and ratification, respectively, of the stockholders at the 2021 annual stockholders' meeting. These matters were approved and ratified by the stockholders at the 2021 annual stockholders' meeting.

With the engagement partner of KPMG, Mr. Darwin P. Virocel, assigned to the Company only beginning with the 2015 audited financial statements, the rule on the rotation for the signing partner under the Revised Securities Regulation Code Rule 68 and other applicable rules in respect of the Company's engagement of KPMG does not yet apply.

Set out in the next page is the report of the Audit Committee for the year 2021.

AUDIT COMMITTEE REPORT

The Board of Directors
Petron Corporation

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

In the performance of our responsibilities, we report that in 2021:

- We reviewed and discussed with Controllers management the quarterly and annual financial statements of Petron Corporation and Subsidiaries and endorsed these for approval by the Board;
- We endorsed the re-appointment of R.G. Manabat & Co./KPMG as the Company's independent auditors for 2021;
- We reviewed with R.G. Manabat & Co./KPMG the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements;
- We reviewed with R.G. Manabat & Co./KPMG, the audit observations and recommendations on the Company's internal controls and management's response to the issues raised;
- We reviewed with the Internal Audit Asst. Vice President the annual internal audit plan, approved the same, and satisfied ourselves on the independence of the internal audit function; and
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.

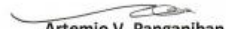
The Board Audit Committee is satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2021.



Margarito B. Teves
Chairperson
Independent Director



Estelito P. Mendoza
Director



Artemio V. Panganiban
Independent Director



Aurora T. Calderon
Director



Carlos Jericho L. Petilla
Independent Director

Commitments for Capital Expenditure

In 2021, the Company spent ₱7.71 billion in capital investments, majority of which was spent for Petron Bataan Refinery-related projects, including those that were incurred for the Refinery Solid Fuel Fired Boilers (“RSFFFB”) Phase 3, amounting to ₱6.74 billion. In addition, expenditures incurred for projects in depots amounted to ₱468 million, service-station related expenditures totaled ₱417 million and ₱80 million for other commercial, maintenance and miscellaneous projects.

In 2020, Petron spent ₱4.4 billion in capital projects, ₱3.1 billion of which were spent for Petron Bataan Refinery-related projects, including the expenditures for RSFFB Phase 3 amounting to ₱2.2 billion. In addition, plant and other depot projects totaled ₱646 million, ₱419 million for service station-related expenditures, and ₱272 million for other commercial, maintenance and miscellaneous projects.

Trends, Events or Uncertainties with Material Impact on Liquidity and Net Sales or Revenues or Income

The Company is in a healthy liquidity position with ample cash balances, and strong support from domestic and international banks for its working capital lines. The Company is not in default or breach of any loans or other financing arrangements, does not anticipate any cash flow or liquidity problems, and does not have a significant amount of trade payables that has not been paid within agreed trade terms. The expected increase in working capital requirements stemming from currently elevated oil prices is sufficiently addressed by the Company’s healthy cash balances, available credit lines from financial institutions, and continuous and prudent management of the Company’s cash position.

Crude oil accounts for more than 30% of the Company’s total cost of goods sold. Because of the commodity nature of oil, the cost of the Company’s refined products is highly dependent on international crude oil and product prices. Fluctuations in the price of crude oil and finished products in the global market arise from factors that are beyond the Company’s control, such as changes in global oil supply and demand. The Company’s financial results are primarily affected by the differential 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., geopolitical factors (such as the current Russia-Ukraine conflict), global economic conditions, weather, and government regulations. The Company holds approximately two months of crude oil and finished petroleum products inventory in the Philippines, which is accounted for using the first in-first-out method. Thus, a sharp drop in crude oil prices, for example, will result in losses, as the Company sells products produced from higher-priced crude oil, at lower prices.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

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“Part IV - Management and Certain Security Holders” follows on next page]*

PART IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS

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

(i) Director and Executive Officers

Listed below are the directors and officers of the Company from Vice President and up (including the Assistant Corporate Secretary) as of December 31, 2021, with their respective ages, citizenships, and current and past positions held and business experience for at least the past five (5) years until the date of this Annual Report.

Directors

| Name | Age | Position | Year Appointed as Director |
|---------------------------|-----|---------------------------------------|----------------------------|
| Ramon S. Ang | 67 | President and Chief Executive Officer | 2009 |
| Lubin B. Nepomuceno | 70 | Director and General Manager | 2013 |
| Ron W. Haddock | 80 | Director | 2008 |
| Estelito P. Mendoza* | 91 | Director | 2009 |
| Aurora T. Calderon | 66 | Director | 2010 |
| Francis H. Jardeleza | 71 | Director | 2020 |
| Mirzan Mahathir | 62 | Director | 2010 |
| Virgilio S. Jacinto | 64 | Director | 2010 |
| Nelly F. Villafuerte | 84 | Director | 2011 |
| Jose P. de Jesus | 86 | Director | 2014 |
| Horacio C. Ramos | 76 | Director | 2018 |
| John Paul L. Ang | 41 | Director | 2021 |
| Artemio V. Panganiban | 84 | Independent Director | 2010 |
| Margarito B. Teves | 77 | Independent Director | 2014 |
| Carlos Jericho L. Petilla | 58 | Independent Director | 2018 |

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

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

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 of SEA Refinery Corporation ("SEA Refinery"), Petron Marketing Corporation ("PMC"), New Ventures Realty Corporation ("NVRC"), Petron Freeport Corporation ("PFC"), Petron Fuel International Sdn. Bhd. (Malaysia) ("PFISB"), Petron Malaysia Refining & Marketing Bhd. (Malaysia) ("PMRMB"), Petron Oil (M) Sdn. Bhd. ("POMSB") (Malaysia), and Philippine Polypropylene Inc. ("PPI"); Chairman and President of Mariveles Landco Corporation ("MLC"), Petrochemical Asia (HK) Ltd. ("PAHL"), and Robinson International Holdings Ltd. (Cayman Islands); 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 Chief Executive Officer and President and Chief Operating Officer of SMC Global Power Holdings Corp., Chairman and President of San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc. and Privado Holdings Corporation; Chairman of San Miguel Brewery Inc. ("SMB"), San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation ("SMYPC"), Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Petrogen

Insurance Corporation (“Petrogen”), and Philippine Diamond Hotel and Resort, Inc.; President and Chief Executive Officer of Integrated Geo Solutions, Inc. and Northern Cement Corporation. He is also the sole director and shareholder of Master Year Limited. Mr. Ang formerly held the following positions, among others: Chairman of Cyber Bay Corporation and Liberty Telecoms Holdings, Inc.; President and Chief Operating Officer of PAL Holdings, Inc., and Philippine Airlines, Inc.; Director of Air Philippines Corporation; 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. He holds a doctoral degree in Business Engineering (Honoris Causa, 2018) from the Far Eastern University and a Ph.D. in Humanities (Honoris Causa, October 1, 2006) from the National 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”) and San Miguel Food and Beverage, Inc. (“SMFB”); President and Chief Executive Officer of Top Frontier Investment Holdings Inc. (“Top Frontier”); Chairman of PMRMB (a company publicly listed in Malaysia), San Miguel Brewery Hongkong Limited (a company publicly listed in Hong Kong) and Eagle Cement Corporation; and President of Ginebra San Miguel, Inc. (“GSMI”).

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”); and Chairman of Overseas Ventures Insurance Corporation Ltd. (“Ovincor”). Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with SMC as a furnace engineer at the Manila Glass Plant in 1973 and rose to the ranks to become the General Manager of the San Miguel Packaging Group in 1998. He was also formerly the Senior Vice President and General Manager of the Company (September 2009 - February 2013) and the President of the Company (February 2013 - February 2015). He also served as 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; and lead independent director of the board of Delek Logistics Partners LP. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman of Safety-Kleen Systems; Chairman and Chief Executive Officer of Prisma Energy International and FINA, and held various management positions in Exxon Mobil Corporation including as Manager of Baytown Refinery, Corporate Planning Manager, Vice President for Refining, and Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc. He holds a degree in Mechanical Engineering from Purdue University.

Mr. Haddock does not hold 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, and Philippine National Bank (“PNB”). He has now been engaged in the practice of law for more than 60 years, and presently

under the firm name Estelito P. Mendoza and Associates. He has been consistently listed for several years as a “Leading Individual in Dispute Resolution” among lawyers in the Philippines in the following directories/journals: “The Asia Legal 500”, “Chambers of Asia” and “Which Lawyer?” yearbooks. He was also 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 Executive Committee, 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; President of Petrogen; Director of SMC, PMRMB, POGM, POGI, PMC, PFC, PSTPL, SEA Refinery, NVRC, LLCDC, SMYPC, Thai San Miguel Liquor Co., Ltd., SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp., and various subsidiaries of SMC; and Director and Treasurer of Petron-affiliate Top Frontier. She has served as a Director of the Manila Electric Company (“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). She is a certified public accountant and is a member of the Capital Market Development Committee of the Financial Executives Institute of the Philippines and the Philippine Institute of Certified Public Accountants. She is also a director of the Market Governance Board of the Philippine Dealing System Holdings. 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.

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 is also a director of MORE Electric and Power Corporation. 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 and Betamek Electronics (M) Sdn Bhd. He holds directorships in several public and private companies. He was formerly the Executive Chairman of SBI Offshore Ltd., which is listed on the Singapore Stock Exchange (2017 - 2020) and the Executive Chairman and President of Konsortium Logistik Berhad (1992 - 2007). Mr. Mirzan graduated with a Bachelor of Science (Honours) degree in Computer Science from Brighton Polytechnic, United Kingdom and obtained his master's degree in Business Administration from the Wharton School, University of Pennsylvania, USA.

Mr. Mirzan does not hold 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. Atty. 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 was 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 was a columnist of the Manila Bulletin for more than 34 years and resigned recently. She was also 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) and a Director of Bicol Broadcasting Systems, Inc. (also 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), and Undersecretary for the Regional Operations Group of the DTI (May 2000 - 2005). 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 seventh place 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 the Chairman of Converge Information and Communications Technology Solutions, Inc. He was the Chairman of Clark Development Corporation (March 2017 - November 2020), the President and Chief Executive Officer of Nationwide Development Corporation (September 2011 - June 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 SMC Skyway Corporation, SMC TPLEX Corporation, and SMC SLEX, Inc. He is a Trustee of Automotive Association of the Philippines, 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.

Of the companies in which Mr. de Jesus currently holds directorships, Converge Information and Communications Technology Solutions, Inc. is also listed with the PSE.

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, SMC Global Power Holdings Corp. since June 1, 2021, SMFB since June 2, 2021 and Top Frontier since July 9, 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 KB 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, parent companies Top Frontier and SMC, Petron affiliate SMFB, and Eagle Cement Corporation are 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 Related Party Transaction Committee and a member of the Audit and Corporate Governance Committees. He is a columnist of the Philippine Daily Inquirer, and an officer, adviser or consultant to several other business, civic, educational and religious organizations. He was the Chief Justice of the Supreme Court of the Philippines in 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 authored over a dozen books and 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, Chief Justice Panganiban is an Independent Director of the following listed companies: MERALCO, JG Summit Holdings, Inc., Philippine Long Distance Telephone Co., Metro Pacific Investment Corp., RL Commercial REIT, Inc., GMA Network, Inc., GMA Holdings, Inc., and Asian Terminals, Inc. and is 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 and currently sits as the Lead Independent Director of the Company. He is the Chairman of the Audit Committee and is a member of the Corporate Governance, the Related Party Transaction, and the Risk Oversight Committees of the Company. He is also an Independent Director of SMC and Atok Big Wedge Corporation, as well as Alphaland Corporation, Alphaland Balesin Island Club, Inc., and Atlantic Atrium Investments Philippines Corporation. He is also the Managing Director of The Wallace Business Forum. He was the Secretary of the Department of Finance of the Philippine government (2005 - 2010), and was previously the President and Chief Executive Officer of the Land Bank of the Philippines (2000 - 2005), among others. He was awarded as “2009 Finance Minister of Year/Asia” by the London-based *The Banker Magazine*. He holds a Master of Arts degree in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Of the companies in which Mr. Teves currently holds directorships 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 Chairman of the Risk Oversight and Corporate Governance Committees and is a member of the Audit Committee of the Company. He is the founder in 2001, and President and Chief Executive Officer of International Data Conversion Solutions, Inc. (2015 - present; 2001 - 2004); 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 the Company.

Board Attendance and Trainings/Corporate Governance Seminars in 2021

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

The Board of Directors was therefore advised of the schedule of the board meetings for 2021 at the board meeting held on November 9, 2021. Similarly for 2021, the schedules of the meetings for this year was approved by the Board of Directors on November 3, 2020. Should any matter requiring immediate approval by the Board of Directors arise in between meetings, such matters are reviewed, considered and approved at meetings of the Executive Committee, subject to the Company’s by-laws. Special meetings of the Board of Directors may also be called when necessary in accordance with the Company’s by-laws.

In keeping abreast of the latest best practices in corporate governance and complying with applicable legal requirements, including SEC Memorandum Circular No. 13 (Series of 2013), all the directors of the Company (including all its executive officers, the Assistant Corporate Secretary and the Internal Auditor) attended a corporate governance seminar in 2018 conducted by providers duly accredited by the SEC and conducted in accordance with SEC Memorandum Circular No. 20, Series of 2013.

The list of the directors of the Company and the directors' attendance at meetings held in 2021 are set out below.

| Director's Name | February 16 Special Board Meeting | March 9 Regular Board Meeting | May 4 Regular Board Meeting | May 18 Annual Stockholders' Meeting | May 18 Organizational Board Meeting | August 3 Regular Board Meeting | November 9 Regular Board Meeting | Attendance at Corporate Governance Seminar in 2021 |
|-------------------------------|--------------------------------------|----------------------------------|--------------------------------|--|--|-----------------------------------|-------------------------------------|--|
| 1. Ramon S. Ang | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 2. Lubin B. Nepomuceno | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 3. Estelito P. Mendoza | ✓ | ✓ | ▼ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 4. Jose P. De Jesus | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5. Ron W. Haddock | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 6. Mirzan Mahathir | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 7. Aurora T. Calderon | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 8. Francis H. Jardeleza | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 9. Virgilio S. Jacinto | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 10. Nelly Favis-Villafuerte | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 11. Horacio C. Ramos | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 12. John Paul L. Ang* | N/A | N/A | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 13. Artemio V. Panganiban | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 14. Margarito B. Teves | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 15. Carlos Jericho L. Petilla | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Legend: ✓ - Present ▼ - Absent
* - Elected as Director at the March 9, 2021 Board Meeting

Officers

The following were the officers from Vice President and up (including the Assistant Corporate Secretary) of the Company as of December 31, 2021:

| Name | Age | Nationality | Position | Year Appointed as Officer |
|----------------------|-----|-------------|---|--|
| Ramon S. Ang | 68 | Filipino | President and Chief Executive Officer | as President: 2015; as Chief Executive Officer: 2009 |
| Lubin B. Nepomuceno | 70 | Filipino | General Manager | 2015 |
| Emmanuel E. Eraña | 61 | Filipino | Senior Vice President and Chief Finance Officer | 2009 |
| Susan Y. Yu | 45 | Filipino | Vice President - Procurement | 2009 |
| Albertito S. Sarte | 55 | Filipino | Vice President and Treasurer | 2009 |
| Maria Rowena Cortez | 57 | Filipino | Vice President - Supply | 2009 |
| Joel Angelo C. Cruz* | 61 | Filipino | Vice President - General Counsel & Corporate Secretary and Compliance Officer | as General Counsel, Corporate Secretary and Compliance Officer: 2010; as Vice President: 2013 |

| | | | | |
|----------------------------------|----|----------|---|---|
| Jaime O. Lu | 58 | Filipino | Vice President and Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects | 2018 |
| Rolando B. Salonga** | 61 | Filipino | Vice President - Operations and Technical Services Group | 2017 |
| Maria Rosario D. Vergel de Dios | 58 | Filipino | Vice President - Human Resources | 2018 |
| Myrna C. Geronimo | 55 | Filipino | Vice President and Controller | as Controller: 2019; as Vice President: 2020 |
| Allister J. Go | 57 | Filipino | Vice President, Refinery | 2020 |
| Reynaldo V. Velasco, Jr. | 56 | Filipino | Vice President, Refinery Plant Operations | 2020 |
| Magnolia Cecilia D. Uy | 55 | Filipino | Vice President, Retail Sales | 2021 |
| Virgilio V. Centeno | 52 | Filipino | Vice President, Commercial Sales | 2021 |
| Mark Tristan Caparas | 39 | Filipino | Vice President and Chief Finance Officer, Petron Malaysia | 2022 |
| Jhoanna Jasmine M. Javier-Elacio | 49 | Filipino | Assistant Corporate Secretary | 2021 |

* Retired effective April 1, 2022; positions of Officer-in-Charge of the Office of the General Counsel, Corporate Secretary and Compliance Officer assumed by Jhoanna Jasmine M. Javier-Elacio

** Retired effective April 1, 2022; No officer has been elected yet by the Board of Directors to replace Mr. R.B. Salonga to head the Operations Division and the Technical Services Group of the Company

Set out below are the profiles of the officers of the Company from Vice President and up (including the Corporate Secretary) as of December 31, 2021 and who are not directors.

Emmanuel E. Eraña, Filipino, born 1960, has served as the Senior Vice President and Chief Finance Officer of the Company since January 2009. He holds the following positions, among others: Chairman, President and Chief Executive Officer of LLCDC and NVRC; President of PFI and SEA Refinery; Deputy Chairman of Ovincor; and Director of PFC, POGM, PFISB, POMSB, and Petron Finance (Labuan) Limited. 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 Corporate Procurement Head of San Miguel Corporation since June 2021 and Vice President for Procurement of San Miguel Infrastructure since November 2016. She is also a Director of Petrogen 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 Treasurer of the Company since August 2009 and the Treasurer and Deputy Chief Finance Officer of the Company since May 4, 2021. 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 November 2013, and concurrently the Executive 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, University of Oxford in Oxfordshire, UK and ExecOnline-Columbia University. She has attended local and foreign trainings and seminars on leadership, market research, supply chain, commodity risk management, petroleum, petrochemicals and energy oil trading.

Joel Angelo C. Cruz, Filipino, born 1961, served as the Vice President of the Office of the General Counsel of the Company from March 2013 and the Corporate Secretary and Compliance Officer of the Company from April 2010 until he retired on March 31, 2022. He held 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, served as Vice President for Operations and Corporate Technical Services Group from May 1, 2017 until he retired on March 31, 2022. 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.

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 LLCDC, NVRC, PMC, PFC, MLC and PPI; and director, Controller 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 Head of Refinery Plant Operations (February 2018 - November 2019), Assistant Vice President for Refinery Production A (January 2018), Officer-in-Charge of Refinery Production A (April 2017 - December 2017), Operations Manager of Refinery Production B (July 2014 - March 2017), Project Manager of RMP2 Project (December 2010 - June 2014), Supply Head, Supply Division (June 2010 - November 2010), Manager of Production Division B Expansion Facilities (June 2009 - May 2010), Manager of Refinery Planning and Quality Control (January 2007 - May 2009), Refinery Engineering Technology Manager (April 2003 - Dec 2006), and Assistant Manager of Business Development, Corporate Planning (June 2001 - March 2003), Business Development Officer, Corporate Planning (March 1995 - May 2001). He joined the Company as a Refinery Process Design Engineer in May 1988 and has handled several positions in the refinery, including Linear Program Engineer, prior to his assignment in Corporate Planning. He graduated from Adamson University in 1987 with a Bachelor of Science degree in Chemical Engineering and placed Top 2 in the November 1987 Chemical Engineering Licensure Exam. He has attended the Management Development Program of the Asian Institute of Management in 2002 as well as several foreign and local trainings and seminars, including an Engineering Design Course at UOP in Illinois, USA in 1993.

Reynaldo V. Velasco, Jr., Filipino, born 1965, has served as Vice President for Refinery Plant Operations since February 13, 2020. He was formerly Assistant Vice President - Technical Services Refinery (November 2018 - January 2020), Assistant Vice President - Production B Refinery (January 2018 - October 2018), Officer-in-Charge - Production B Refinery (April 2017 - December 2017), Manager - Technical Services B Refinery (July 2014 - March 2017), Project Manager - Block B RMP 2 Refinery (December 2010 - June 2014), Manager - PBR SPG Technology Operations (November 2009 - November 2010), Area Manager - Operations Process Block 1 (January 2007 - November 2009), Area Manager - Operations Process Block 2 (July 2005 - December 2006), Area Manager - Operations Process Block 1 (July 2003 - June 2005), Process Specialist (January 2002 - June 2003), Senior Process Engineer (April 2000 - December 2001), Shift Supervisor - PBR Operations (November 1998 - March 2000), Operations Engineer - PBR Engineering (September 1993 - October 1998), Process Design Engineer - PBR Engineering (July 1990 - August 1993). He has a Bachelor of Science degree in Chemical Engineering from the University of Sto. Tomas.

Magnolia Cecilia D. Uy, Filipino, born 1966, has served as Vice President for Retail Sales since October 1, 2021. She was formerly the Vice President for Management Services Division of the Company from February 13, 2020 to September 30, 2021. 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.

Virgilio V. Centeno, Filipino, born 1969, has served as Vice President for Industrial Sales since October 1, 2021. Other positions he has held include Vice President for LPG and Strategic Business Development (May 1, 2021 - September 30, 2021), Assistant Vice President - LPG Business Group (September 2019 - April 2021), Assistant Vice President - LPG, Lubes & Greases/Commercial Sales (June 2018 - August 2019), Assistant Vice President - Lubes & Greases/National Sales (September 2016 - May 2018), Lubes & Greases Trade Manager/National Sales (March 2016 - August 2016), Card Sales Manager/Reseller Trade/National Sales (August 2013 - February 2016), Card Sales Manager/LPG, Lubes & Greases, and Cards/National Sales (July 2012 - July 2013), National Accounts Manager/Industrial Trade (June 2009 - June 2012), Fleet Cards Sales Manager/Cards Business Group (August 2006 - June 2009), Business Development Coordinator/Direct Retail/Convenience Retail (November 2005 - July 2006), IMD Account Executive/Industrial Trade (February 2003 - October 2005), Special Projects Engineer/Technical Services (April 2002 - January 2003), Field Technical Services Engineer/Technical Services (February 1993 - March 2002) and Analyst, EDD/Geothermal (February 1992 - January 1993). Mr. Centeno has a BS Mechanical Engineering degree from the Bulacan College of Arts and Trades (*magna cum laude*).

Jhoanna Jasmine M. Javier-Elacio, Filipino, born 1972, was the Assistant Corporate Secretary and Alternate Compliance Officer of the Company from May 15, 2012 until March 31, 2022. From April 1, 2022, she assumed the position of the Officer-in-Charge of the Office of the General Counsel, Corporate Secretary and Compliance Officer of the Company and the Corporate Secretary of the domestic subsidiaries of the Company vice Atty. Cruz upon his retirement from the Company. Atty. Javier-Elacio was also the Legal Manager of Petron Corporation and the Assistant Corporate Secretary of Petron Foundation, Inc. and a number of the domestic subsidiaries of the Company. She previously held the positions of Associate General Counsel of San Miguel Yamamura Packaging Corporation (January 2010-February 2012), Manager for Corporate Restructuring and Reorganization of San Miguel Corporation (December 2007-December 2009) and legal counsel of San Miguel Corporation (October 2005-November 2007). She has also acted as Corporate Secretary and Assistant Corporate Secretary of various subsidiaries of San Miguel Corporation. She was a former associate at the law firm SyCip Salazar Hernandez & Gatmaitan. Atty. Javier-Elacio holds a Bachelor of Arts degree in English (*cum laude*) and a Bachelor of Laws degree from the University of the Philippines, and a master's degree in law from the Kyushu University in Fukuoka, Japan.

Officer Trainings in 2021

All the executive officers of the Company, including the Assistant Corporate Secretary and the Assistant Vice President for Internal Audit, completed a corporate governance seminar for year 2021 conducted in accordance with SEC Memorandum Circular No. 20, Series of 2013.

(ii) Board Committees; Board and Committee Charters

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

Their respective members were appointed at the organizational meeting held on May 18, 2021.

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

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

As of the date of this Annual Report, the members of the Executive Committee are Mr. Ramon S. Ang, Ms. Aurora T. Calderon, and Mr. Lubin B. Nepomuceno. Mr. John Paul S. Ang and Atty. Virgilio S. Jacinto are the two (2) alternate members of the Executive Committee.

The Executive Committee held 11 meetings in 2021, with attendance as shown below. The resolutions approved by the Executive Committee were passed with the unanimous vote of the committee members in attendance (whether regular members or alternate members) and later presented to and ratified by the Board of Directors at the board meeting held after each approved resolution.

| Members | January 11 | February 22 | March 2 | April 8 | May 19 | June 22 | July 5 | November 17 | November 24 | December 9 | December 21 |
|-------------------------|------------|-------------|---------|---------|--------|---------|--------|-------------|-------------|------------|-------------|
| Ramon S. Ang - Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Lubin B. Nepomuceno | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Aurora T. Calderon* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

* Alternate member until May 18, 2021 and regular member thereafter

- **Corporate Governance Committee.** The Corporate Governance Committee, created on May 8, 2017, is composed of at least three (3) independent directors as members. The Chairperson of the committee is an independent director.

The Corporate Governance Committee is tasked to assist the Board of Directors in the performance of its corporate governance, nomination and remuneration responsibilities and ensure compliance with and proper observance of corporate governance principles and practices.

As of the date of this Annual Report, the Corporate Governance Committee is chaired by independent director Mr. Carlos Jericho L. Petilla, with independent directors former Chief Justice Artemio V. Panganiban and Mr. Margarito B. Teves, Atty. Estelito P. Mendoza, and Atty. Virgilio S. Jacinto as members.

In 2021, the Corporate Governance Committee held two (2) meetings, with the following members in attendance:

| Members | March 9 | May 4 |
|---|---------|-------|
| Carlos Jericho L. Petilla* (Independent Director; Chairperson) | ✓ | ✓ |
| Margarito B. Teves** (Independent Director) | ✓ | ✓ |
| Artemio V. Panganiban (Independent Director) | ✓ | ✓ |
| Estelito P. Mendoza | ✓ | ▼ |
| Virgilio S. Jacinto | ✓ | ✓ |

*Chairperson from May 18, 2021 **Chairman until May 18, 2021 ▼ Absent

- **Audit Committee.** The Audit Committee is composed of at least three (3) appropriately qualified non-executive directors, majority of whom are independent directors. The Chairperson is an independent director and is not the Chairperson of the Board of Directors or of any other board committee. The members of the Audit Committee are required to have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.

The Audit Committee is responsible for overseeing the senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. The Audit Committee ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

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

As of the date of this Annual Report, the Audit Committee is chaired by independent director Mr. Margarito B. Teves, and its members are independent directors former Chief Justice Artemio V. Panganiban and Mr. Carlos Jericho L. Petilla, Atty. Estelito P. Mendoza, and Ms. Aurora T. Calderon (who is also an accountant). Mr. Ferdinand K. Constantino acted as advisor to the committee.

In 2021, the Audit Committee held four (4) meetings, with attendance as indicated below.

| Members | March 9 | May 4 | August 3 | November 9 |
|--|----------------------------------|----------------------------------|----------|------------|
| Margarito B. Teves* (Independent Director; Chairperson) | ✓ | ✓ | ✓ | ✓ |
| Artemio V. Panganiban (Independent Director) | ✓ | ✓ | ✓ | ✓ |
| Carlos Jericho L. Petilla** (Independent Director) | Not yet a committee member | Not yet a committee member | ✓ | ✓ |
| Estelito P. Mendoza | ✓ | ✓ | ✓ | ✓ |
| Aurora T. Calderon | ✓ | ✓ | ✓ | ✓ |
| Ferdinand K. Constantino (Advisor) | ✓ | ✓ | ✓ | ✓ |

*Chairperson from May 18, 2021; **Member from May 18, 2021

- **Risk Oversight Committee.** The Risk Oversight Committee, created on May 8, 2017, is composed of at least three (3) members, the majority of whom are independent directors. The Chairperson is an independent director and is not the Chairperson of the Board of Directors or any other board committee. At least one member of the committee has relevant thorough knowledge and experience on risk and risk management.

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

As of the date of this Annual Report, the Risk Oversight Committee is chaired by independent director Carlos Jericho L. Petilla, with independent director Mr. Margarito B. Teves and Ms. Aurora T. Calderon as members. No meeting was held by the Risk Oversight Committee in 2021.

- **Related Party Transaction Committee.** The Related Party Transaction Committee, created on May 8, 2017, is composed of least three (3) non-executive directors, two (2) of whom are independent directors. The Chairperson is an independent director.

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

Until May 18, 2021 (the date of the organizational board meeting), the Related Party Transaction Committee was chaired by independent director Mr. Carlos Jericho L. Petilla, with Ms. Aurora T. Calderon as a member. From May 18, 2021 until the date of this Annual Report, the Related Party Transaction Committee has been chaired by independent director Retired Chief Justice Artemio V. Panganiban, with independent director Mr. Margarito B. Teves and Ms. Aurora T. Calderon as members.

In 2021, the Related Party Transaction Committee held two (2) meetings, with attendance indicated below:

| Members | January 11 | November 9 |
|---|-------------------------------|---------------------------------|
| Carlos Jericho L. Petilla (Independent Director; Chairperson and member until May 18, 2021) | ▼ | No longer a committee member |
| Artemio V. Panganiban (Independent Director; Chairperson and member from May 18, 2021) | Not yet a committee member | ✓ |
| Margarito B. Teves (Independent Director) | ✓ | ✓ |
| Aurora T. Calderon | ✓ | ✓ |

▼ Absent

(3) Significant Employees

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

(4) Family Relationships

Director John Paul L. Ang is the son of Director Ramon S. Ang. Other than this, the Company has no director or executive officer related to any other director or executive officer up to the fourth degree of consanguinity or affinity.

(5) Involvement in Certain Legal Proceedings

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

(B) Executive Compensation

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

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

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

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

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

The aggregate compensation paid or estimated to be paid to the executive officers and the aggregate fees and *per diem* allowances paid or estimated to be paid to the directors of the Company during the periods indicated below are as follows (in million pesos):

| (a) Name & Principal Position | | (b) Year | (c) Salary (including Fee and Per Diem Allowance of Directors) | (d) Bonus | (e) Other Annual Compensation |
|---|--|------------|--|-----------|-------------------------------|
| Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Ma. Rowena O. Cortez Susan Y. Yu | President & CEO General Manager SVP / Chief Finance Officer Vice President - Supply Vice President -Procurement | 2022 (est) | 108.83 | 18.14 | 2.44 |
| Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Ma. Rowena O. Cortez Susan Y. Yu | President & CEO General Manager SVP / Chief Finance Officer Vice President - Supply Vice President -Procurement | 2021 | 108.33 | 22.57 | 2.97 |
| Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Archie B. Gupalor Susan Y. Yu | President & CEO General Manager SVP / Chief Finance Officer Vice President - Retail Sales Vice President - Procurement | 2020 | 109.30 | 18.22 | 5.81 |
| All Other Officers as a Group Unnamed | | 2022 (est) | 63.35 | 12.74 | 3.38 |
| | | 2021 | 86.52 | 16.91 | 4.28 |
| | | 2020 | 84.25 | 14.07 | 4.80 |
| All Directors as a Group | | 2022 (est) | 15.01 | 0.00 | 0.00 |
| | | 2021 | 14.69 | 0.00 | 0.00 |
| | | 2020 | 15.37 | 0.00 | 0.00 |

The Company provides each non-executive directors with reasonable *per diem* of P75,000 and P50,000 for each board and board committee meeting attended, respectively, in addition to monthly fees and monthly fuel allowances. In 2021, the Company paid the following fees to these directors (in pesos):

| Directors | Per Diem for Board and Board Committee Meetings | Directors' Fees | Total |
|--|---|---------------------|----------------------|
| Atty. Estelito P. Mendoza | 650,000.00 | 477,029.11 | 1,127,029.11 |
| Mr. Jose P. de Jesus | 525,000.00 | 410,436.77 | 935,436.77 |
| Mr. Ron W. Haddock | 525,000.00 | 530,296.32 | 1,055,296.32 |
| Mr. Mirzan Mahathir | 525,000.00 | 530,296.32 | 1,055,296.32 |
| Ms. Aurora T. Calderon | 825,000.00 | 530,296.32 | 1,355,296.32 |
| Ret. Justice Francis H. Jardeleza | 525,000.00 | 530,296.32 | 1,055,296.32 |
| Atty. Virgilio S. Jacinto | 625,000.00 | 530,296.32 | 1,155,296.32 |
| Atty. Nelly Favis-Villafuerte | 525,000.00 | 530,296.32 | 1,055,296.32 |
| Mr. Horacio C. Ramos | 525,000.00 | 530,296.32 | 1,055,296.32 |
| Mr. John Paul L. Ang | 375,000.00 | 446,353.67 | 821,353.67 |
| Ret. Chief Justice Artemio V. Panganiban | 875,000.00 | 530,296.32 | 1,405,296.32 |
| Mr. Margarito B. Teves | 875,000.00 | 530,296.32 | 1,405,296.32 |
| Mr. Carlos Jericho L. Petilla | 675,000.00 | 530,296.32 | 1,205,296.32 |
| TOTAL | 8,050,000.00 | 6,636,782.75 | 14,686,782.75 |

Under the Corporate Governance Manual of the Company, the Corporate Governance Committee is tasked with the establishment of a formal and transparent procedure to determine the remuneration of directors and officers that is consistent with the Company's culture and strategy as well as the business environment in which it operates.

On May 4, 2021, the fees of the directors for 2021 were reviewed by the Corporate Governance Committee and favorably endorsed for approval by the Board of Directors and were later approved by the Board of Directors on the same day. The directors' fees were ratified by the stockholders at the 2021 annual stockholders' meeting held on May 18, 2021.

As of the date of this report, the Chairman of the Corporate Governance Committee is independent director Carlos Jericho L. Petilla and its members are Atty. Estelito P. Mendoza, Atty. Virgilio S. Jacinto, and independent directors Mr. Margarito B. Teves and former Chief Justice Artemio V. Panganiban.

(C) Security Ownership of Certain Beneficial Owners and Management as of December 31, 2021

The security ownership of certain record and beneficial owners of more than 5% of the common shares of the Company as of December 31, 2021 is as follows:

- SEA Refinery Corporation - 50.10%
- PCD Nominee Corporation (Filipino) - 19.78%
- San Miguel Corporation - 18.16%

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

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

The security ownership of directors and officers holding the position of Vice President and up (including the Assistant Corporate Secretary) as of March 22, 2022 (the record date for the 2022 annual stockholders' meeting) is as follows:

Directors

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

| | | | | | |
|---------------------|-------------------------|-----------|----------------|--------|-------|
| Common | Lubin B. Nepomuceno | Filipino | 5,000 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Jose P. De Jesus | Filipino | 500 225,000 | D I | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Mirzan Mahathir | Malaysian | 1,000 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Ron W. Haddock | American | 1 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Horacio C. Ramos | Filipino | 500 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Aurora T. Calderon | Filipino | 1,000 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Francis H. Jardeleza | Filipino | 1,000 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Virgilio S. Jacinto | Filipino | 1,000 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Nelly Favis-Villafuerte | Filipino | 1,000 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | John Paul L. Ang | Filipino | 1,000 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |

| | | | | | |
|---------------------|---------------------------|----------|-------|---|-------|
| Common | Artemio V. Panganiban | Filipino | 1,000 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Margarito B. Teves | Filipino | 500 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Carlos Jericho L. Petilla | Filipino | 500 | D | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |

Officers

| Title of Class | Name of Record Owner | Citizenship | Amount and Nature of Beneficial Ownership | Direct (D) or Indirect (I) | Percentage of Ownership |
|---------------------------|----------------------|-------------|---|----------------------------|-------------------------|
| Executive Officers | | | | | |
| Common | Emmanuel E. Eraña | Filipino | - | - | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Susan Y. Yu | Filipino | 791,600 | I | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | 12,000 | I | N.A. |
| Common | Albertito S. Sarte | Filipino | 765,500 | I | 0.00% |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | 5,000 | I | N.A. |
| Common | Rowena O. Cortez | Filipino | 8,580 | D | 0.00% |
| Series 3A Preferred | | | 500 | I | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Joel Angelo C. Cruz | Filipino | - | - | N.A. |
| Series 3A Preferred | | | 2,500 | I | N.A. |
| Series 3B Preferred | | | - | - | N.A. |

| | | | | | |
|---------------------|---------------------------------|----------|-----------------|--------|------|
| Common | Jaime O. Lu | Filipino | 14,200 | I | N.A. |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Rolando B. Salonga | Filipino | 845 | D | N.A. |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Maria Rosario D. Vergel de Dios | Filipino | - | - | N.A. |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Magnolia Cecilia D. Uy | Filipino | - | - | N.A. |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Myrna C. Geronimo | Filipino | - | - | N.A. |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | 3,000 | I | N.A. |
| Common | Allister J. Go | Filipino | 11,030 | D | N.A. |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | 300 | I | N.A. |
| Common | Reynaldo V. Velasco, Jr. | Filipino | 5,200 17,100 | D I | N.A. |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Common | Virgilio V. Centeno | Filipino | 13,200 1,532 | D I | N.A. |
| Series 3A Preferred | | | - | - | N.A. |
| Series 3B Preferred | | | 300 | I | N.A. |
| Common | Mark Tristan D. Caparas | Filipino | 2,000 | I | N.A. |
| Series 3A Preferred | | | - | I | N.A. |
| Series 3B Preferred | | | - | - | N.A. |

| | | | | | |
|--|----------------------------------|----------|--|---|-------|
| Common | Jhoanna Jasmine M. Javier-Elacio | Filipino | - | - | N.A. |
| Series 3A Preferred | | | 200 | 1 | N.A. |
| Series 3B Preferred | | | - | - | N.A. |
| Directors and Officers from Vice President and up (including the Assistant Corporate Secretary) as a Group | Common | | 241,001 <u>1,630,787</u> 1,871,788 | | 0.00% |
| | Series 3A Preferred | | 8,200 | | 0.00% |
| | Series 3B Preferred | | 20,300 | | 0.00% |

As of March 22, 2022 (the record date of the 2022 annual stockholders' meeting), the directors and the officers of the Company from Vice President and up (including the Assistant Secretary) owned 1,871,788 common shares, 8,200 Series 3A Preferred Shares and 20,300 Series 3B Preferred Shares for a total of 1,900,288 or 0.02% of the Company's total outstanding capital stock. No one of the directors and executive officers of the Company directly owns 5% or more of the outstanding capital stock of the Company.

(2) Voting Trust Holders of 5% or more

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

(3) Changes in Control

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

(D) Certain Relationships and Related Transactions

The major related stockholders of the Company as of December 31, 2021 holding at least 5% of the common stock were as follows:

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

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

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

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

PART IV - CORPORATE GOVERNANCE AND SUSTAINABILITY

(A) Corporate Governance

Corporate Governance Manual

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

Various Corporate Policies

The Company previously observed the *San Miguel Corporation and Subsidiaries Whistle-blowing Policy* for itself and its subsidiaries. On May 6, 2013, the Company, in its pursuit of further ensuring that its business is conducted in the highest standards of fairness, transparency, accountability and ethics as embodied in its Code of Conduct and Ethical Business Policy, adopted the *Petron Corporation and Subsidiaries Whistle-blowing Policy*. The *Petron Corporation and Subsidiaries Whistle-blowing Policy* provides for the procedures for the communication and investigation of concerns relating to accounting, internal accounting controls, auditing and financial reporting matters of the Company and its subsidiaries (the “Petron Group”). The policy expressly provides the commitment of the Company that it shall not tolerate retaliation in any form against a director, officer, employee or any the other interested party who, in good faith, raises a concern or reports a possible violation of the policy.

The Company also previously observed the *San Miguel Corporation Policy on Dealings in Securities* for itself and its subsidiaries. On May 6, 2013, the Company likewise adopted the *Petron Corporation Policy on Dealings in Securities*. Under this policy, the directors, officers and employees of the Company are obliged to exercise extreme caution when dealing in the Company’s securities and ensure that such dealings comply with this policy and the requirements under the Securities Regulation Code. The policy sets out the conditions and rules under which the directors, officers and employees of the Company should deal in securities of the Company.

Board Assessment and Summary of 2021 Assessment

The directors accomplished the annual self-assessment for 2021.

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

The self-assessment forms covers the evaluation of the (i) fulfillment of the key responsibilities of the Board of Directors including the consideration of the interests of minority shareholders and stakeholders and their equitable treatment in its decision-making processes, the pursuit of good corporate governance, the establishment of a clear strategic direction for the Company designed to maximize long-term shareholder value, the review and approval of financial statements and budgets, and the appointment of directors who can add value and contribute independent judgment to the formulation of sound policies and strategies of the Company and officers who are competent and highly motivated; (ii) relationship between the Board of Directors and the Management of the Company including having a clear understanding of where the role of the Board of Directors ends and where that of Management begins, the participation of the Board of Directors and the board committees in major business policies or decisions, the continuous interaction with Management for an understanding of the businesses better, and the consideration of the correlation between executive pay and Company performance; (iii) effectiveness of board process and meetings through the adequacy of the frequency, duration and scheduling of board and committee meetings, the ability of the Board of Directors to

balance and allocate its time effectively in discussing issues related to the Company's strategy and competitiveness, the attendance at board and committee meetings and the conduct of meetings in a manner that ensures open communication, meaningful participation, and timely resolution of issues, the wide and diverse range of expertise and occupational and personal backgrounds of the directors, and the institutionalization of a formal review process for monitoring the effectiveness of the Board of Directors and the individual directors; and (iv) individual performance of the directors including a director's understanding of the mission, values and strategies of the Company, his/her duties as a director and the Company's Articles, the Company's By-Laws and governing policies and applicable law, rules and regulations, the attendance at meetings and the conscious effort to avoid entering into situations where a director may be placed in a conflict of interest with that of the Company.

All the 15 directors accomplished the annual self-assessment for 2021. The average self-rating by the Directors covering all four (4) topics discussed above was 4.73 (out of a possible 5.0), broken down as follows: (1) Fulfilment of Board Key Responsibilities - The ratings averaged 4.73 based on a series of nine (9) questions; (2) Board-Management Relationship - The ratings averaged 4.71 based on a series of four (4) questions; (3) Effectiveness of Board Processes and Meetings - The ratings averaged 4.71 based on a series of nine (9) questions; and (4) Individual Performance of Directors - The ratings averaged 4.79 based on a series of 10 questions.

Compliance with the Corporate Governance Manual

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

- Its directors possess all the qualifications and none of the disqualifications of a director under the Corporate Governance Manual, the Company's By-laws and applicable laws and regulations.
- The Company had three (3) independent directors (Retired Supreme Court Chief Justice Artemio V. Panganiban, Mr. Margarito B. Teves, and Mr. Carlos Jericho L. Petilla) and a Compliance Officer (Atty. Joel Angelo C. Cruz).
- The Company had a Lead Independent Director (Mr. Margarito B. Teves)
- The Company regularly held board meetings and board committee meetings, at which a quorum was always present.
- The Company conducted an orientation seminar on May 14, 2021 for Director John Paul S. Ang following his election as a director on March 9, 2021.
- The directors properly discharge their duties and responsibilities as directors and attended a corporate governance seminar.
- Each director accomplished a self-assessment form for 2021.
- The Company has an external auditor.
- The Company has an Internal Audit Department.
- The Company respects and observes the rights of its stockholders under applicable law.
- The Company is in material compliance with laws and regulations applicable to its business operations, including applicable accounting standards and disclosure requirements,

Pursuit of Corporate Governance

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

The Company is committed in pursuing good corporate governance by keeping abreast of new developments in and leading principles and practices on good corporate governance. The Company also continuously reviews its own policies and practices as it competes in a continually evolving business environment while taking into account the Company's corporate objectives and the best interests of its stakeholders and the Company.

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

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

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

(B) Sustainability Report

Please find attached as Annex D the Sustainability Report of the Company for 2021.

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

PART V - EXHIBITS AND SCHEDULES

Exhibits and Reports on SEC Form 17-C

Below is a list of the annexes to this SEC Form 17-A and the reports on SEC Form 17-C and the press releases submitted to the SEC in 2021 until the date of this report.

Annexes

1. Annex A - Public Ownership Report as of December 31, 2021
2. Annex B - Public Ownership Report as of March 31, 2022
3. Annex C - 2021 Audited Financial Statements, with the Index to Financial Statements and the Supplementary Schedules and the Statement of Management's Responsibility (Separate and Consolidated)
4. Annex D - 2021 Sustainability Report

Reports on SEC Form 17-C

The following reports on SEC Form 17-C were submitted for year 2021 until the date of this Annual Report:

| Date of Report | Item Description |
|------------------|--|
| January 11, 2021 | Response to the request for clarification by the Philippine Stock Exchange on the news article entitled "Petron eyes P3B refinery infusion" |
| January 11, 2021 | Approval of 2021 proposed material related party transactions of the Company by the Board Related Party Transaction Committee and the Board Executive Committee |
| March 9, 2021 | <p>Matters approved at the board meeting held:</p> <ul style="list-style-type: none"> A. 2020 Audited Financial Statements B. Reversal of P8 Billion appropriation of retained earnings to make funds available for payment of dividends and distribution C. Cash dividends for preferred shareholders D. Redemption of the Series 2B Preferred Shares E. Election of Mr. John Paul L. Ang as Director F. Endorsement of the re-appointment of R.G. Manabat & Co. as external auditor of the Company for year 2021 G. Annual Stockholders' Meeting <p style="margin-left: 40px;">Date : May 18, 2021, Tuesday, 2pm Venue : To be livestreamed via a streaming site Record date : March 23, 2021 Closing of books: March 23-30,2021</p> <p>Media release on performance also submitted.</p> |

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|---------------|--|
| April 8, 2021 | Approval by the Board Executive Committee to authorize US Dollar-denominated senior perpetual capital securities |
| May 4, 2021 | <p>Matters approved at the board meeting held:</p> <ul style="list-style-type: none"> A. Year-to-date March 2021 Financial Statements B. Cash dividends for preferred shareholders C. Appointment of the following officers effective May 1, 2021: <ul style="list-style-type: none"> 1. Mr. Albert S. Sarte - Deputy Chief Finance Officer and Treasurer 2. Mr. Virgilio V. Centeno - Vice President for LPG and Strategic Business Development 3. Mr. Michael D. Flores - Assistant Vice President for Retail Sales D. Approval of external auditor's fees E. Approval of the fees of directors for 2021 <p>Media release on performance also submitted.</p> |
| May 18, 2021 | <p>Matters approved at the annual stockholders' and organizational meetings held:</p> <ul style="list-style-type: none"> A. Annual Stockholders' Meeting <ul style="list-style-type: none"> 1. Appointment of R.G. Manabat & Co. as independent external auditor of the Company for year 2021 and ratification of external auditor fees 2. Election of the following as directors of the Company for 2021-2022: <ul style="list-style-type: none"> 1. Ramon S. Ang 2. Lubin B. Nepomuceno 3. Estelito P. Mendoza 4. Jose P. De Jesus 5. Ron W. Haddock 6. Mirzan Mahathir 7. Aurora T. Calderon 8. Francis H. Jardeleza 9. Virgilio S. Jacinto 10. Nelly Favis-Villafuerte 11. Horacio C. Ramos 12. John Paul L. Ang <p style="text-align: center;">Independent Directors</p> <ul style="list-style-type: none"> 1. Artemio V. Panganiban 2. Margarito B. Teves 3. Carlos Jericho L. Petilla |

3. Ratification of Directors' fees

B. Organizational Meeting

1. Appointment of the following as members of the board committees and lead independent director:

Executive Committee

| | |
|---------------------|--------------------|
| Ramon S. Ang | - Chairman |
| Lubin B. Nepomuceno | - Member |
| Aurora T. Calderon | - Member |
| John Paul L. Ang | - Alternate Member |
| Virgilio S. Jacinto | - Alternate Member |

Audit Committee

| | |
|---------------------------|--------------------------------------|
| Margarito B. Teves | - Chairman (Independent Director) |
| Artemio V. Panganiban | - Member (Independent Director) |
| Carlos Jericho L. Petilla | - Member (Independent Director) |
| Estelito P. Mendoza | - Member |
| Aurora T. Calderon | - Member |
| Ferdinand K. Constantino | - Advisor |

Risk Oversight Committee

| | |
|---------------------------|--------------------------------------|
| Carlos Jericho L. Petilla | - Chairman (Independent Director) |
| Margarito B. Teves | - Member (Independent Director) |
| Aurora T. Calderon | - Member |

Corporate Governance Committee

| | |
|---------------------------|--------------------------------------|
| Carlos Jericho L. Petilla | - Chairman (Independent Director) |
| Margarito B. Teves | - Member (Independent Director) |
| Artemio V. Panganiban | - Member (Independent Director) |
| Estelito P. Mendoza | - Member |
| Virgilio S. Jacinto | - Member |

Related Party Transaction Committee

| | |
|-----------------------|--------------------------------------|
| Artemio V. Panganiban | - Chairman (Independent Director) |
| Margarito B. Teves | - Member (Independent Director) |
| Aurora T. Calderon | - Member |

Lead Independent Director

Margarito B. Teves - Lead Independent Director

2. Election of the following as officers of the Company for 2021-2022:

| Name | Position |
|---------------------------------|---|
| Ramon S. Ang | President & CEO |
| Lubin B. Nepomuceno | General Manager |
| Emmanuel E. Eraña | SVP & Chief Finance Officer |
| Susan Y. Yu | VP, Procurement |
| Maria Rowena O. Cortez | VP, Supply |
| Archie B. Gupalor | VP, National Sales |
| Albertito S. Sarte | Deputy Chief Finance Officer and Treasurer |
| Joel Angelo C. Cruz | VP - General Counsel & Corporate Secretary/ Compliance Officer |
| Jaime O. Lu | VP & Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects |
| Rolando B. Salonga | VP, Operations and Corporate Technical Services Group |
| Fernando S. Magnayon | Sales Advisor to National Sales Division Vice President |
| Maria Rosario D. Vergel de Dios | VP, Human Resources Management |
| Magnolia Cecilia D. Uy | VP, Management Services Division |
| Myrna C. Geronimo | VP, Controllers |
| Allister J. Go | VP, Refinery Division |
| Reynaldo V. Velasco, Jr. | VP, Refinery Plant Operations (Production A and B) |
| Virgilio V. Centeno | VP, LPG & Strategic Business Development |
| Ronaldo T. Ferrer | AVP, Internal Audit |
| Noel S. Ventigan | AVP, Metro Manila & Manufacturing |
| Terelu O. Carrillo | AVP, Supply Trading & Risk Management |
| Fe Irma A. Ramirez | AVP, Supply Optimization, Commercial Services & Synergy |
| Jacqueline A. Chai | AVP, Procurement |
| Agnes Grace P. Perez | AVP, Mergers & Acquisitions |
| Leon G. Pausing II | AVP, Commercial Sales |
| Ferdinando H. Enriquez | AVP, Refinery Solid Fuel-Fired Boiler/ Thermal Power Plant |
| Mark Tristan D. Caparas | AVP and Chief Finance Officer, Petron Malaysia |

| | | | | | | | | | | | | | |
|----------------------------------|---|-----------------------|-----------------------|----------------------|--------------------------------------|---------------------------------|-----------------------|------------------|--|-------------------|-------------------|----------------------------------|-------------------------------|
| | <table border="1"> <tr> <td>John Ronald S. Pineda</td> <td>AVP, Special Projects</td> </tr> <tr> <td>Ma. Aileen M. Cupido</td> <td>AVP, Business Planning & Development</td> </tr> <tr> <td>Francisco Rizal G. Bumagat, Jr.</td> <td>AVP, PBR Production B</td> </tr> <tr> <td>Lemuel C. Cuezon</td> <td>AVP, Market Planning, Research and Sales Information</td> </tr> <tr> <td>Michael D. Flores</td> <td>AVP, Retail Sales</td> </tr> <tr> <td>Jhoanna Jasmine M. Javier-Elacio</td> <td>Assistant Corporate Secretary</td> </tr> </table> | John Ronald S. Pineda | AVP, Special Projects | Ma. Aileen M. Cupido | AVP, Business Planning & Development | Francisco Rizal G. Bumagat, Jr. | AVP, PBR Production B | Lemuel C. Cuezon | AVP, Market Planning, Research and Sales Information | Michael D. Flores | AVP, Retail Sales | Jhoanna Jasmine M. Javier-Elacio | Assistant Corporate Secretary |
| John Ronald S. Pineda | AVP, Special Projects | | | | | | | | | | | | |
| Ma. Aileen M. Cupido | AVP, Business Planning & Development | | | | | | | | | | | | |
| Francisco Rizal G. Bumagat, Jr. | AVP, PBR Production B | | | | | | | | | | | | |
| Lemuel C. Cuezon | AVP, Market Planning, Research and Sales Information | | | | | | | | | | | | |
| Michael D. Flores | AVP, Retail Sales | | | | | | | | | | | | |
| Jhoanna Jasmine M. Javier-Elacio | Assistant Corporate Secretary | | | | | | | | | | | | |
| July 5, 2021 | <p>Approval by the Board Executive Committee of the filing of a Registration Statement with the Securities and Exchange Commission (“SEC”) for the shelf registration of up to P50 billion worth of Peso fixed rate bonds of the Company (the “Bonds”) to be offered to the public in one or more tranches during the period of shelf registration (the “Shelf Registration”), with the following details, among others:</p> <ol style="list-style-type: none"> a. initial offering and issuance of up to P18 billion worth of the Bonds under the Shelf Registration; b. appointment of BDO Capital & Investment Corporation as Sole Issue Manager and the group of BDO Capital & Investment Corporation, China Bank Capital Corporation, Philippine Commercial Capital, Inc., PNB Capital and Investment Corporation, and SB Capital Investment Corporation as joint lead bookrunners and joint lead underwriters, including other banks that may be invited subsequently to join the group, for the first tranche of the Bonds; c. filing of the appropriate Registration Statement, prospectus, and offer supplement with the SEC; d. execution of the relevant agreements; e. filing of a listing application with the Philippine Dealing & Exchange Corp.; and f. other terms and conditions to be determined by Management. <p>Also, on July 5, 2021, the Company submitted an application with the SEC for the Shelf Registration and the offer and sale in the Philippines of the first tranche of the Bonds in the aggregate amount of P18 billion.</p> | | | | | | | | | | | | |
| July 8, 2021 | Response to the request for clarification by the Philippine Dealing and Exchange Corp. on the news article entitled “Petron Building Power Plant for Bataan Refinery” | | | | | | | | | | | | |
| August 3, 2021 | <p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> 1. 1st Semester 2021 Financial Statements 2. Cash dividends for preferred shareholders 3. Shelf registration of P50 billion peso retail bonds and the issuance of the first tranche of P18 billion <p>Media release on performance also submitted.</p> | | | | | | | | | | | | |

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|-----------------------------------|--|-----------------------------------|-------|-----------------------------------|---------------------------|----------------|-----------|--------------|-----|--------------|-----|
| August 24, 2021 | Filing of Certificate of Attendance of Director John Paul L. Ang in Corporate Governance Seminar held on August 17, 2021 | | | | | | | | | | |
| September 3, 2021 | Filing of Certificate of Attendance of Director Justice Francis H. Jardeleza in Corporate Governance Seminar held on September 3, 2021 | | | | | | | | | | |
| September 27, 2021 | Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “SEC clears AllDay listing, Petron bond Offer” | | | | | | | | | | |
| September 27, 2021 | <p>Order from the Securities and Exchange Commission received by the Company on September 27, 2021 rendering effective the registration statement for the shelf registration of the Company’s peso fixed rate bonds, with an aggregate amount of P50 billion, and the corresponding Certificate of Permit to Offer Securities for Sale for the first tranche of P18 billion. Please find enclosed a copy of the Order of Registration and the Certificate of Permit to Offer Securities for Sale.</p> <p>Please find enclosed as well the Final Prospectus and Offer Supplement both dated September 24, 2021 relating to the shelf registration and public offering of the first tranche of the peso fixed rate bonds of the Company, copies of which were also available in the company website.</p> | | | | | | | | | | |
| September 27, 2021 | <p>Request from the Philippine Stock Exchange for the voluntary trading suspension of all listed Series 2B Preferred Shares in order to determine the stockholders of the Series 2B Preferred Shares as of record date of October 7, 2021 and facilitate the redemption of the Series 2B Preferred Shares. Details of the voluntary trading suspension are as follows:</p> <table border="1" data-bbox="511 1291 1250 1438"> <tr> <td>Stock Symbol of Affected Security</td> <td>PRF2B</td> </tr> <tr> <td>Trading Suspension Execution Date</td> <td>October 4, 2021 (ex-date)</td> </tr> <tr> <td>Execution Time</td> <td>9:00 A.M.</td> </tr> <tr> <td>Lifting Date</td> <td>TBA</td> </tr> <tr> <td>Lifting Time</td> <td>TBA</td> </tr> </table> | Stock Symbol of Affected Security | PRF2B | Trading Suspension Execution Date | October 4, 2021 (ex-date) | Execution Time | 9:00 A.M. | Lifting Date | TBA | Lifting Time | TBA |
| Stock Symbol of Affected Security | PRF2B | | | | | | | | | | |
| Trading Suspension Execution Date | October 4, 2021 (ex-date) | | | | | | | | | | |
| Execution Time | 9:00 A.M. | | | | | | | | | | |
| Lifting Date | TBA | | | | | | | | | | |
| Lifting Time | TBA | | | | | | | | | | |
| September 30, 2021 | <p>Filing of Certificates of Attendance of the following directors and key officers at the Corporate Governance Seminar held via remote communication through MS Teams:</p> <p>Date: September 23, 2021, Thursday</p> <p>Time: 9:00 am to 12:00 nn</p> <p>Provider: SGV & Co.</p> <p>Topics: Overview of Corporate Governance</p> | | | | | | | | | | |

| CREATE Act and Its Implementing Rules Third Party Risk Management | |
|--|---|
| Name | Position |
| 1. Lubin B. Nepomuceno | Director/General Manager |
| 2. Estelito P. Mendoza | Director |
| 3. Jose P. De Jesus | Director |
| 4. Ron W. Haddock | Director |
| 5. Mirzan Mahathir | Director |
| 6. Horacio C. Ramos | Director |
| 7. Aurora T. Calderon | Director |
| 8. Nelly Favis-Villafuerte | Director |
| 9. Margarito B. Teves | Lead Independent Director |
| 10. Carlos Jericho L. Petilla | Independent Director |
| 11. Emmanuel E. Eraña | SVP & Chief Finance Officer |
| 12. Susan Y. Yu | VP, Procurement |
| 13. Maria Rowena O. Cortez | VP, Supply |
| 14. Albertito S. Sarte | Deputy Chief Finance Officer and Treasurer |
| 15. Joel Angelo C. Cruz | VP - General Counsel & Corporate Secretary/Compliance Officer |
| 16. Jaime O. Lu | VP & Executive Assistant to the President on Petron Malaysia Operations and Refinery Special Projects |
| 17. Rolando B. Salonga | VP, Operations and Corporate Technical Services Group |
| 18. Maria Rosario D. Vergel De Dios | VP, Human Resources Management |
| 19. Magnolia Cecilia D. Uy | VP, Management Services Division |
| 20. Myrna C. Geronimo | VP, Controllers |
| 21. Allister J. Go | VP, Refinery Division |
| 22. Ronaldo T. Ferrer | AVP, Internal Audit |
| 23. Jhoanna Jasmine M. Javier-Elacio | Assistant Corporate Secretary |
| September 30, 2021 | Cessation of Mr. Archie B. Gupalor as Vice President for National Sales effective end of business of September 30, 2021. Mr. Gupalor would transfer to another unit in San Miguel Group. |
| October 1, 2021 | Changes in the designation of Company officers effective October 1, 2021: <ul style="list-style-type: none"> 1. Ms. Magnolia Cecilia D. Uy - Vice President for Retail Sales 2. Mr. Virgilio V. Centeno - Vice President for Industrial Sales |
| October 5, 2021 | Filing of Certificate of Attendance of Director Chief Justice Artemio V. Panganiban in Corporate Governance Seminar, for Part 1 of the seminar held on August 4, 2021, with Part 2 of the seminar scheduled in November 2021 |

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| October 8, 2021 | Notice of redemption to stockholders as of October 7, 2021 in respect of the redemption of its Series 2B Preferred Shares issued in 2014 at a redemption price of One Thousand Pesos (P1,000.00) per share. Redemption took effect on November 3, 2021. |
| October 8, 2021 | Notice of completion of offer of the first tranche of its peso fixed rate bonds in the amount of P18 billion during the period from September 27, 2021 until October 5, 2021 |
| October 12, 2021 | Media release entitled “Petron lists P18 billion retail bonds on PDEX. |
| October 13, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| October 15, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| October 22, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| October 22, 2021 | Filing of Certificate of Attendance of Director Virgilio S. Jacinto in Corporate Governance Seminar held on October 15, 2021 |
| October 27, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| October 27, 2021 | Completion of the redemption of all of the Company’s Series A fixed rate bonds with an aggregate principal amount of P13 billion. These bonds were issued in 2016 and mature on October 27, 2021. |
| October 29, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| November 3, 2021 | Completion of the redemption of all of the Series 2B preferred shares the Company issued in 2014 |
| November 8, 2021 | Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “Ramon Ang open to sell Petron back to gov’t” |

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| November 8, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| November 8, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| November 9, 2021 | Filing of Certificate of Attendance of Mr. Ramon S. Ang, President and Chief Executive Officer, in Corporate Governance Seminar held on October 29, 2021 |
| November 9, 2021 | <p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> 1. Year-to-date September 2021 Financial Statements 2. Cash dividends for the preferred shareholders 3. Approval of material related party transactions for 2022 <p>Media release on performance also submitted.</p> |
| November 15, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| November 17, 2021 | Filing of Certificate of Attendance of Director Chief Justice Artemio V. Panganiban in Corporate Governance Seminar, for Part 2 of the seminar held on November 12, 2021 |
| November 19, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| November 22, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| November 29, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| December 3, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| December 10, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |

| | |
|-------------------|---|
| December 15, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| December 15, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds, correcting the amount of the sixth (6 th) disbursement in the list from P11,758,800.00 to P10,347,774.00 and the resulting total disbursements |
| December 28 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| December 29, 2021 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| January 7, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| February 8, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| February 15, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| February 22, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| February 28, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| March 2, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| March 3, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| March 8, 2022 | Matters approved at the board meeting held: <ol style="list-style-type: none"> 1. 2021 Audited Financial Statements 2. Approval of directors' fees for 2022 3. Endorsement of the Re-Appointment of the External Auditor and |

| | |
|----------------|--|
| | <p>Approval of Fees</p> <ol style="list-style-type: none"> 4. Holding of the Annual Stockholders' Meeting for 2022 5. Election of Officers <ol style="list-style-type: none"> 1. Mark Tristan D. Caparas - Vice President, Petron Malaysia CFO 2. Jonathan F. Del Rosario - Assistant Vice President, Metro Manila and Manufacturing District 3. Mia S. Delos Reyes - Assistant Vice President, Corporate Affairs 4. Brian R. Ocampo - Assistant Vice President, Management Information Systems 5. Alejandro R. Romulo - Assistant Vice President, PBR Technical Services 6. Jhoanna Jasmine M. Javier-Elacio - OIC General Counsel, Corporate Secretary and Compliance Officer* 7. Marian Wilma H. Bautista - Assistant Corporate Secretary* <p>*effective April 1, 2022</p> <p>Media release on performance also submitted.</p> |
| March 8, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| March 15, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| March 22, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| March 29, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| March 31, 2022 | Disbursement of the Company from the net proceeds of its offering of the Series E and Series F fixed rate bonds |
| April 1, 2022 | Retirement of Mr. Rolando B. Salonga, Vice President - Operations and Corporate Technical Services Group, and Atty. Joel Angelo C. Cruz, Vice President - General Counsel and Corporate Secretary/Compliance Officer of the Company effective end of business of March 31, 2022 |

| | |
|---------------|--|
| April 5, 2022 | Approval by the Securities and Exchange Commission of the Company’s request for exemptive relief from the requirement under Rule 68 of the Revised Securities Regulation Code (“Revised SRC Rule 68”) that the interim financial statements of the Company for the first quarter of 2022 (the “2022 Q1 Reports”) be attached to the Definitive Information Statement (the “DIS”) for its 2022 Annual Stockholders’ Meeting scheduled on May 17, 2022 and the release of the DIS without the 2022 Q1 Reports. |
|---------------|--|

Press Releases

The following press releases were made for year 2021 until the date of this Annual Report:

| | |
|------------------|--|
| March 9, 2021 | “Petron sustains growth momentum in Q4 2020; continues to recover from pandemic slump” |
| May 4, 2021 | “Petron opens 2021 with P1.73 billion first quarter net income” |
| August 3, 2021 | “Petron closes first half of the year with P3.87 billion net income” |
| October 12, 2021 | “Petron lists P18 billion retail bonds on PDEX” |
| November 9, 2021 | “Petron sustains recovery; posts P4.99B net income for first nine months from P12.6B loss last year” |
| March 8, 2022 | “Petron remains on steady path to recovery; closes 2021 with P6.14 billion net income” |

[signature page follows on next page]

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and of the Revised Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, on April 7, 2022.



RAMON S. ANG
President and Chief Executive Officer



LUBIN B. NEPOMUCENO
General Manager



EMMANUEL E. EBRAÑA
Senior Vice President and Chief Finance Officer



MYRNA C. GERONIMO
Vice President and Controller

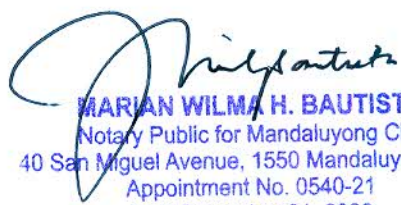


JHOANNA JASMINE M. JAVIER-ELACIO
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 7th of April 2022 at Mandaluyong City, affiants exhibiting to me their Competent Evidence of Identity as follows:

| Name | Passport Number | Date of Issue (mm-dd-yy) | Place of Issue |
|----------------------------------|-----------------|-----------------------------|----------------|
| Ramon S. Ang | | | |
| Lubin B. Nepomuceno | | | |
| Emmanuel E. Eraña | | | |
| Myrna C. Geronimo | | | |
| Jhoanna Jasmine M. Javier-Elacio | | | |

Doc. No. 376;
Page No. 77;
Book No. II;
Series of 2022.


MARIAN WILMA H. BAUTISTA
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
Appointment No. 0540-21
Until December 31, 2022
Attorney's Roll No. 65589
PTR No. 4896452/01-28-22/Mandaluyong
IBP No. 184246/02-03-22/RSM
MCLE Compliance No. VI-0002198/4-24-2017

ANNEX A

Public Ownership Report as of December 31, 2021



PCOR
PUBLIC OWNERSHIP REPORT

Report Date: December 31, 2021

Computation of Public Ownership

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

Less:

A. Directors

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

B. Officers

| Name | Direct | Indirect | Total Direct & Indirect Shares | % to Total Outstanding Shares |
|-------------------------------------|--------|----------|--------------------------------|-------------------------------|
| Ramon S. Ang (same as above) | | | 0 | 0.0000% |
| Lubin B. Nepomuceno (same as above) | | | 0 | 0.0000% |
| Emmanuel E. Erana | | | 0 | 0.0000% |
| Susan Y. Yu | | 791,600 | 791,600 | 0.0084% |
| Rowena O. Cortez | 8,580 | | 8,580 | 0.0001% |

| | | | | |
|-------------------------------|--------|---------|---------|---------|
| Albertito S. Sarte | | 765,500 | 765,500 | 0.0082% |
| Joel Angelo C. Cruz | | | 0 | 0.0000% |
| Jaime O. Lu | | 14,200 | 14,200 | 0.0002% |
| Rolando B. Salonga | 845 | | 845 | 0.0000% |
| Ma. Rosario D. Vergel de Dios | | | 0 | 0.0000% |
| Magnolia Cecilia D. Uy | | | 0 | 0.0000% |
| Myma C. Geronimo | | | 0 | 0.0000% |
| Allister J. Go | 11,030 | | 11,030 | 0.0001% |
| Reynaldo V. Velasco, Jr. | 5,200 | 17,100 | 22,300 | 0.0002% |
| Virgilio V. Centeno | 13,200 | 1,532 | 14,732 | 0.0002% |

C. Principal / Substantial Stockholders

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

D. Affiliates

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

E. Government

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

F. Banks

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

G. Employees

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

H. Lock-Up Shares

| Name | Direct | Indirect | Total Direct & Indirect Shares | % to Total Outstanding Shares |
|------|-----------|----------|--------------------------------|-------------------------------|
| | 9,110,250 | 0 | 9,110,250 | 0.0972% |

I. Others

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

| | |
|---|---------------|
| Number of Listed Common Shares * | 9,375,104,497 |
| Total Number of Non-Public Shares | 6,869,892,259 |
| Total Number of Shares Owned by the Public | 2,505,212,238 |
| Public Ownership Percentage | 26.72% |

* As indicated in the PSE website

ANNEX B

Public Ownership Report as of March 31, 2022



PCOR
PUBLIC OWNERSHIP REPORT

Report Date: March 31, 2022

Computation of Public Ownership

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

Less:

A. Directors

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

B. Officers

| Name | Direct | Indirect | Total Direct & Indirect Shares | % to Total Outstanding Shares |
|-------------------------------------|--------|----------|--------------------------------|-------------------------------|
| Ramon S. Ang (same as above) | | | 0 | 0.0000% |
| Lubin B. Nepomuceno (same as above) | | | 0 | 0.0000% |
| Emmanuel E. Erana | 0 | 0 | 0 | 0.0000% |
| Susan Y. Yu | 0 | 791,600 | 791,600 | 0.0084% |
| Rowena O. Cortez | 8,580 | 0 | 8,580 | 0.0001% |

| | | | | |
|-------------------------------|--------|---------|---------|---------|
| Albertito S. Sarte | 0 | 765,500 | 765,500 | 0.0082% |
| Joel Angelo C. Cruz | 0 | 0 | 0 | 0.0000% |
| Jaime O. Lu | 0 | 14,200 | 14,200 | 0.0002% |
| Rolando B. Salonga | 845 | 0 | 845 | 0.0000% |
| Ma. Rosario D. Vergel de Dios | 0 | 0 | 0 | 0.0000% |
| Magnolia Cecilia D. Uy | 0 | 0 | 0 | 0.0000% |
| Myrna C. Geronimo | 0 | 0 | 0 | 0.0000% |
| Allister J. Go | 11,030 | 0 | 11,030 | 0.0001% |
| Reynaldo V. Velasco, Jr. | 5,200 | 17,100 | 22,300 | 0.0002% |
| Virgilio V. Centeno | 13,200 | 1,532 | 14,732 | 0.0002% |
| Mark Tristan D. Caparas | 0 | 2,000 | 2,000 | 0.0000% |

C. Principal / Substantial Stockholders

| Name | Direct | Indirect | Total Direct & Indirect Shares | % to Total Outstanding Shares |
|--------------------------|---------------|----------|--------------------------------|-------------------------------|
| SEA Refinery Corporation | 4,696,885,564 | 0 | 4,696,885,564 | 50.10% |
| San Miguel Corporation | 1,702,870,560 | 0 | 1,702,870,560 | 18.16% |

D. Affiliates

| Name | Direct | Indirect | Total Direct & Indirect Shares | % to Total Outstanding Shares |
|---|-------------|----------|--------------------------------|-------------------------------|
| Petron Corporation Employees' Retirement Fund (PCERP) | 459,156,097 | 0 | 459,156,097 | 4.90% |

E. Government

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

F. Banks

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

G. Employees

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

H. Lock-Up Shares

| Name | Direct | Indirect | Total Direct & Indirect Shares | % to Total Outstanding Shares |
|------|-----------|----------|--------------------------------|-------------------------------|
| | 9,166,544 | 0 | 9,166,544 | 0.0978% |

I. Others

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

| | |
|---|---------------|
| Number of Listed Common Shares * | 9,375,104,497 |
| Total Number of Non-Public Shares | 6,869,950,553 |
| Total Number of Shares Owned by the Public | 2,505,153,944 |
| Public Ownership Percentage | 26.72% |

* As indicated in the PSE website

**2021 Audited Financial Statements,
with Statement of Management's
Responsibility**

**(Separate Financial Statements
and Consolidated Financial Statements)**



SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, 1307 Metro Manila Philippines

Tel: (632) 818-0921 Fax: (632) 818-5293 Email: mis@sec.gov.ph



The following document has been received:

Receiving: AARON PAGKATIPUNAN

Receipt Date and Time: March 25, 2022 04:18:36 PM

Company Information

SEC Registration No.: 0000031171

Company Name: Petron Corporation

Industry Classification: E40200

Company Type: Stock Corporation

Document Information

Document ID: OST1032520228268465

Document Type: Financial Statement

Document Code: FS

Period Covered: December 31, 2021

Submission Type: Parent

Remarks: None



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Petron Corporation** (the "Company") is responsible for the preparation and fair presentation of the separate financial statements including the schedules attached therein, for the years ended **December 31, 2021 and 2020**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors (the "Board") is responsible for overseeing the Company's financial reporting process.

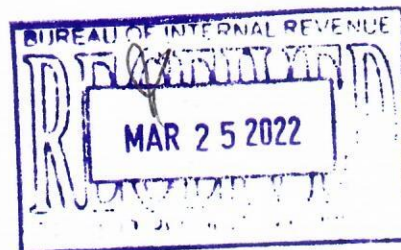
The Board reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

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

RAMON S. ANG
President, Chief Executive Officer and Acting Chairman

EMMANUEL E. ERANA
Senior Vice President and Chief Finance Officer

Signed this 8th day of March 2022



SUBSCRIBED AND SWORN TO before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 08 2022, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

| Name | Competent Evidence of Identity | Date/Place of Issue |
|-------------------|--------------------------------|---------------------|
| Ramon S. Ang | | |
| Emmanuel E. Eraña | | |

Doc. No. 368 ;
Page No. 75 ;
Book No. U ;
Series of 2022

sm
MARIA CRISSELDA N. TAMONDONG
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
Appointment No. 0582-21
Until December 31, 2022
Attorney's Roll No. 71094
PTR No. 4896453/01-28-22/Mandaluyong
IBP No. 184247/02-03-22/RSM
MCLE Compliance No. VI-0023071/4-24-2019



PETRON CORPORATION

SEPARATE FINANCIAL STATEMENTS
December 31, 2021 and 2020

With Independent Auditors' Report



R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders

Petron Corporation

SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Petron Corporation (the "Company"), which comprise the separate statements of financial position as at December 31, 2021 and 2020, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at December 31, 2021 and 2020, and its unconsolidated financial performance and its unconsolidated cash flows for the years then ended, 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 Separate Financial Statements* section of our report. We are independent of the Company 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)



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

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

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease its operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 audits 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 audits.

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, actions taken to eliminate threats or safeguards applied.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

The supplementary information required for purposes of filing with the Bureau of Internal Revenue is presented by the management of Petron Corporation in a separate schedule. Such supplementary information is not a required part of the separate financial statements. Our opinion on the separate financial statements is not affected by the presentation of the separate information in a separate schedule.

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 8854088

Issued January 3, 2022 at Makati City

March 18, 2022

Makati City, Metro Manila



R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE BUREAU OF INTERNAL REVENUE**

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

We have audited the accompanying separate financial statements of Petron Corporation (the "Company"), as at and for the year ended December 31, 2021, on which we have rendered our report dated March 18, 2022.

In compliance with Revenue Regulations V-20, we are stating that no partner of our firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

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 8854088
Issued January 3, 2022 at Makati City

March 18, 2022
Makati City, Metro Manila

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.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE BUREAU OF INTERNAL REVENUE**

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

We have audited the accompanying separate financial statements of Petron Corporation (the “Company”) as at and for the year ended December 31, 2021, on which we have rendered our report dated March 18, 2022.

In compliance with Revenue Regulation 5-2021, we are certifying in connection with the foreign-sourced dividends received by the Company for the year ended December 31, 2021 the following:

- (i) The Company received the dividends amounting to:
 - (a) Six Million Three Hundred Thousand Dollars (US\$6,300,000) on June 18, 2021 from Petron Singapore Trading Pte. Ltd. (“PSTPL”), a 100%-owned subsidiary of the Company, incorporated and registered under the laws of Singapore, since May 13, 2010 to the present;
 - (b) Two Million Four Hundred Forty One Thousand Two Hundred Eighty One and 18/100 Dollars (US\$2,441,281.18) on July 22, 2021 from Petron Oil and Gas Mauritius Ltd. (“POGM”), 100%-owned subsidiary of the Company, incorporated and registered under the laws of Mauritius, since February 8, 2012 to the present;
 - (c) Four Million Nine Hundred Seven Thousand Eight Hundred Forty Five and 37/100 Dollars (US\$4,907,845.37) on October 29, 2021 from POGM; and

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)



- (d) Eleven Million Dollars (US\$11,000,000) on December 22, 2021 from PSTPL.
- (ii) The Company, through its Board of Directors, has appropriated to reinvest the dividends in its business operations to fund its working capital requirements; and
- (iii) The total amount of dividends received has been disbursed as of December 31, 2021 and such disbursement complied with requirement (ii).

R.G. MANABAT & CO.

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

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 8854088

Issued January 3, 2022 at Makati City

March 18, 2022

Makati City, Metro Manila

PETRON CORPORATION
SEPARATE STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousand Pesos)

| | | December 31 | |
|---|------------------------|---------------------|---------------------|
| | Note | 2021 | 2020 |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 5, 33, 34 | P27,153,625 | P20,205,654 |
| Financial assets at fair value | 6, 13, 33, 34 | 861,511 | 497,955 |
| Trade and other receivables - net | 4, 7, 27, 33, 34 | 30,311,296 | 22,651,307 |
| Inventories - net | 4, 8 | 54,120,697 | 38,677,614 |
| Other current assets | 13, 27 | 30,809,618 | 31,116,849 |
| Total Current Assets | | 143,256,747 | 113,149,379 |
| Noncurrent Assets | | | |
| Property, plant and equipment - net | 4, 10, 12, 36 | 146,332,844 | 144,842,107 |
| Right-of-use assets - net | 4, 11 | 5,229,412 | 5,700,187 |
| Investments and advances - net | 4, 9, 33, 34 | 35,221,695 | 34,334,573 |
| Investment property - net | 4, 10, 12 | 11,716,304 | 12,431,262 |
| Deferred tax assets - net | 26 | 1,820,899 | 1,835,415 |
| Other noncurrent assets - net | 4, 6, 13, 33, 34 | 749,580 | 1,247,465 |
| Total Noncurrent Assets | | 201,070,734 | 200,391,009 |
| | | P344,327,481 | P313,540,388 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Short-term loans | 14, 32, 33, 34 | P94,207,500 | P72,693,460 |
| Liabilities for crude oil and petroleum products | 15, 27, 30, 33, 34 | 21,566,465 | 14,030,341 |
| Trade and other payables | 16, 27, 32, 33, 34, 38 | 9,771,433 | 9,470,896 |
| Lease liability - current portion | 4, 30, 32, 33 | 1,057,165 | 998,329 |
| Derivative liabilities | 33, 34 | 574,993 | 931,842 |
| Current portion of long-term debt - net | 17, 32, 33, 34 | 21,580,270 | 31,114,220 |
| Total Current Liabilities | | 148,757,826 | 129,239,088 |
| Noncurrent Liabilities | | | |
| Long-term debt - net of current portion | 17, 32, 33, 34 | 81,065,482 | 88,339,788 |
| Retirement benefits liability | 29 | 2,428,848 | 2,758,806 |
| Lease liability - net of current portion | 4, 30, 32, 33 | 14,734,970 | 15,295,373 |
| Asset retirement obligation | 4, 18 | 2,670,930 | 2,859,458 |
| Other noncurrent liabilities | 19, 27, 33, 34 | 990,441 | 1,734,150 |
| Total Noncurrent Liabilities | | 101,890,671 | 110,987,575 |
| Total Liabilities | | 250,648,497 | 240,226,663 |

Forward



| | | December 31 | |
|----------------------------|-------------|---------------------|--------------|
| | Note | 2021 | 2020 |
| Equity | 20 | | |
| Capital stock | | P9,485,104 | P9,485,104 |
| Additional paid-in capital | | 37,500,314 | 37,500,314 |
| Capital securities | | 62,712,253 | 36,481,436 |
| Retained earnings | | 17,151,116 | 19,420,428 |
| Equity reserves | | (15,169,803) | (14,451,237) |
| Treasury stock | | (18,000,000) | (15,122,320) |
| Total Equity | | 93,678,984 | 73,313,725 |
| | | P344,327,481 | P313,540,388 |

See Notes to the Separate Financial Statements.

PETRON CORPORATION
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousand Pesos, Except Per Share Amounts)

| | | Years Ended December 31 | |
|--|-------------|--------------------------------|---------------|
| | <i>Note</i> | 2021 | 2020 |
| SALES | 27, 36 | P237,067,824 | P174,410,936 |
| COST OF GOODS SOLD | 21 | 217,766,412 | 170,753,754 |
| GROSS PROFIT | | 19,301,412 | 3,657,182 |
| SELLING AND ADMINISTRATIVE EXPENSES | 22 | (9,664,600) | (9,833,203) |
| OTHER OPERATING INCOME | 4, 28 | 453,855 | 315,352 |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES | 25 | (9,723,373) | (11,316,448) |
| INTEREST INCOME | 25 | 588,337 | 779,467 |
| OTHER INCOME - Net | 25 | 1,669,614 | 342,507 |
| | | (16,676,167) | (19,712,325) |
| INCOME (LOSS) BEFORE INCOME TAX | | 2,625,245 | (16,055,143) |
| INCOME TAX BENEFIT | 26, 35 | 41,987 | 4,853,455 |
| NET INCOME (LOSS) | | 2,667,232 | (11,201,688) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| <i>Item that will not be reclassified to profit or loss</i> | | | |
| Equity reserve for retirement plan | 29 | (673,337) | (661,582) |
| Income tax benefit (expense) | 26 | (194,196) | 198,474 |
| | | (867,533) | (463,108) |
| <i>Item that may be reclassified to profit or loss</i> | | | |
| Income on cash flow hedges | 34 | 213,160 | 100,137 |
| Income tax expense | 26 | (64,193) | (30,041) |
| | | 148,967 | 70,096 |
| OTHER COMPREHENSIVE LOSS - Net of tax | | (718,566) | (393,012) |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax | | P1,948,666 | (P11,594,700) |
| BASIC/DILUTED LOSS PER SHARE | 31 | (P0.24) | (P1.56) |

See Notes to the Separate Financial Statements.

PETRON CORPORATION
SEPARATE STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousand Pesos)

Years Ended December 31

| | Note | Capital Stock | Additional Paid-in Capital | Capital Securities | Retained Earnings | | Equity Reserves | | Treasury Stock | Total |
|---|------|-------------------|----------------------------|--------------------|-------------------|--------------------|------------------------------|---------------------|----------------------|--------------------|
| | | | | | Appropriated | Unappropriated | Reserves for Retirement Plan | Other Reserves | | |
| As of December 31, 2020 | | P9,485,104 | P37,500,314 | P36,481,436 | P15,000,000 | P4,420,428 | (P5,075,420) | (P9,375,817) | (P15,122,320) | P73,313,725 |
| Net income on cash flow hedges - net of tax | 34 | - | - | - | - | - | - | 148,967 | - | 148,967 |
| Equity reserve for retirement plan - net of tax | | - | - | - | - | - | (867,533) | - | - | (867,533) |
| Other comprehensive income (loss) | | - | - | - | - | - | (867,533) | 148,967 | - | (718,566) |
| Net income for the year | | - | - | - | - | 2,667,232 | - | - | - | 2,667,232 |
| Total comprehensive income (loss) or the year | | - | - | - | - | 2,667,232 | (867,533) | 148,967 | - | 1,948,666 |
| Reversal of appropriation for capital projects | 20 | - | - | - | (8,000,000) | 8,000,000 | - | - | - | - |
| Cash dividends | 20 | - | - | - | - | (1,899,052) | - | - | - | (1,899,052) |
| Distributions paid | 20 | - | - | - | - | (3,037,492) | - | - | - | (3,037,492) |
| Issuance of capital securities | 20 | - | - | 26,230,817 | - | - | - | - | - | 26,230,817 |
| Redemption of preferred shares | 20 | - | - | - | - | - | - | - | (2,877,680) | (2,877,680) |
| Transactions with owners | | - | - | 26,230,817 | (8,000,000) | 3,063,456 | - | - | (2,877,680) | 18,416,593 |
| As of December 31, 2021 | | P9,485,104 | P37,500,314 | P62,712,253 | P7,000,000 | P10,151,116 | (P5,942,953) | (P9,226,850) | (P18,000,000) | P93,678,984 |

Forward

Years Ended December 31

| | Note | Capital Stock | Additional Paid-in Capital | Capital Securities | Retained Earnings | | Equity Reserves | | Treasury Stock | Total |
|---|------|------------------|----------------------------------|-----------------------|-------------------|----------------|---------------------------------|-------------------|-------------------|--------------|
| | | | | | Appropriated | Unappropriated | Reserves for Retirement Plan | Other Reserves | | |
| As of December 31, 2019 | | P9,485,104 | P37,500,322 | P25,182,795 | P15,000,000 | P19,954,876 | (P4,612,312) | (P9,445,913) | (P15,122,320) | P77,942,552 |
| Net income on cash flow hedges - net of tax | 34 | - | - | - | - | - | - | 70,096 | - | 70,096 |
| Equity reserve for retirement plan - net of tax | | - | - | - | - | - | (463,108) | - | - | (463,108) |
| Other comprehensive income (loss) | | - | - | - | - | - | (463,108) | 70,096 | - | (393,012) |
| Net loss for the year | | - | - | - | - | (11,201,688) | - | - | - | (11,201,688) |
| Total comprehensive income (loss) for the year | | - | - | - | - | (11,201,688) | (463,108) | 70,096 | - | (11,594,700) |
| Cash dividends | 20 | - | - | - | - | (2,515,555) | - | - | - | (2,515,555) |
| Distributions paid | 20 | - | - | - | - | (1,817,205) | - | - | - | (1,817,205) |
| Issuance of redeemable perpetual securities | 20 | - | - | 11,298,641 | - | - | - | - | - | 11,298,641 |
| Issuance of preferred shares | 20 | - | (8) | - | - | - | - | - | - | (8) |
| Transactions with owners | | - | (8) | 11,298,641 | - | (4,332,760) | - | - | - | 6,965,873 |
| As of December 31, 2020 | | P9,485,104 | P37,500,314 | P36,481,436 | P15,000,000 | P4,420,428 | (P5,075,420) | (P9,375,817) | (P15,122,320) | P73,313,725 |

See Notes to the Separate Financial Statements.

PETRON CORPORATION
SEPARATE STATEMENTS OF CASH FLOWS
(Amounts in Thousand Pesos)

| | | Years Ended December 31 | |
|---|-------------|--------------------------------|---------------|
| | <i>Note</i> | 2021 | 2020 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income (loss) before income tax | | P2,625,245 | (P16,055,143) |
| Adjustments for: | | | |
| Interest expense and other financing charges | 25 | 9,723,373 | 11,316,448 |
| Depreciation and amortization | 24 | 8,034,314 | 7,845,981 |
| Unrealized foreign exchange losses (gains) - net | | 2,790,784 | (2,297,158) |
| Retirement benefits costs | 29 | 211,533 | 213,694 |
| Marked-to-market and hedging losses (gains) - net | 25 | (134,312) | 423,696 |
| Interest income | 25 | (588,337) | (779,467) |
| Other gains - net | | (5,056,863) | (2,120,416) |
| Operating income (loss) before working capital changes | | 17,605,737 | (1,452,365) |
| Changes in noncash assets, certain current liabilities and others | 32 | (13,206,735) | 14,320,844 |
| Cash generated from operations | | 4,399,002 | 12,868,479 |
| Interest paid | | (9,042,042) | (10,736,958) |
| Contribution to retirement fund | 29 | (810,000) | (315,000) |
| Income taxes paid | | (4,469) | (11,612) |
| Interest received | | 610,656 | 729,506 |
| Net cash flows provided by (used in) operating activities | | (4,846,853) | 2,534,415 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | 10 | (7,429,496) | (4,264,099) |
| Additions to investment properties | 12 | (385,772) | (176,585) |
| Proceeds from disposal of investments in subsidiary | 9 | - | 236,500 |
| Additional investment in a subsidiary | | (312,087) | - |
| Proceeds from disposal of long-term advances | | 174,678 | 108,555 |
| Increase in other noncurrent assets | | (117,056) | (112,191) |
| Proceeds from sale of property and equipment | | 36,754 | 76,696 |
| Net cash flows used in investing activities | | (8,032,979) | (4,131,124) |

Forward

| | | Years Ended December 31 | |
|--|-------------|--------------------------------|---------------|
| | Note | 2021 | 2021 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from availment of loans and bonds | 32 | P204,407,553 | P137,525,186 |
| Payments of: | | | |
| Loans and bonds | 32 | (202,352,827) | (145,132,119) |
| Lease liabilities | 28, 32 | (2,259,090) | (2,287,037) |
| Cash dividends | 20, 32 | (1,575,038) | (2,506,239) |
| Distributions to holders of capital securities | 20, 32 | (3,037,492) | (1,817,205) |
| Issuance of perpetual capital securities | 20 | 26,230,817 | 11,298,641 |
| Issuance of preferred shares | 20 | - | (8) |
| Redemption of preferred shares | 20 | (2,877,680) | - |
| Net cash flows provided by (used in) financing activities | | 18,536,243 | (2,918,781) |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | 1,291,560 | (1,182,125) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 6,947,971 | (5,697,615) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 20,205,654 | 25,903,269 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 5 | P27,153,625 | P20,205,654 |

See Notes to the Separate Financial Statements.

PETRON CORPORATION

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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

1. Reporting Entity

Petron Corporation (the “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 Company’s corporate term to December 22, 2066. Under its Articles of Incorporation (AOI), the Company has a corporate life of 50 years or for such longer period as may hereafter be authorized by the laws of the Philippines. Pursuant to the Revised Corporation Code of the Philippines, which took effect in February 2019, the Parent Company shall have a perpetual existence because the Parent Company did not elect to retain its specific corporate term under its AOI.

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.

The Company operates the modern refinery in Bataan, with a rated capacity of 180,000 barrels a day. Petron’s 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 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. The Company 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 the Company the capability to formulate unique additives suitable for the driving conditions in the Philippines. The Company also has a facility in Mariveles, Bataan where the refinery’s propylene production is converted into higher-value polypropylene resin.

The Company is a public company under Section 17.2 of the Securities Regulation Code (SRC) and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). As of December 31, 2021, the Company’s public float stood at 26.72%.

The intermediate parent company of Petron is San Miguel Corporation (SMC) while its ultimate parent company is Top Frontier Investment Holdings, Inc. (TF). 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 separate 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 Company also prepares and issues consolidated financial statements for the same period as the separate financial statements presented in compliance with PFRS. These may be obtained at the Company's registered office address (Note 1).

The separate financial statements were approved and authorized for issuance by the Board of Directors (BOD) on March 8, 2022.

Basis of Measurement

The separate financial statements of the Company have been prepared on the historical cost basis of accounting except for the following items 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 |
| Financial assets 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 separate financial statements are presented in Philippine peso, which is the Company's functional currency. All financial information presented in Philippine peso is rounded off to the nearest thousand (P000), except when otherwise indicated.

3. Significant Accounting Policies

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

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

The Company has adopted the following new and amended standards and interpretations starting January 1, 2021 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of the new and amended standards and interpretations did not have a material effect on the Company's separate financial statements.

- Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16, Leases). The amendments introduce 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.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

Standards Issued but Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2021. However, the Company has not early adopted the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's separate financial statements.

The Company will adopt the following new and amended standards on the respective effective dates:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to PFRS 16 Leases). The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

- 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 an entity'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 an entity 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 cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprise both incremental costs and an allocation of other direct costs.

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 Company:
 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9). The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include 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. It applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
 - 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.
 - Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement*. It applies to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). 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. Earlier application is permitted.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1, *Presentation of Financial Statements*). 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 an entity 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 an entity'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, with early application permitted.

In November 2021, the International Accounting Standards Board issued the Exposure Draft, Non-Current Liabilities with Covenants after considering stakeholder feedback on the December 2020 tentative agenda decision issued by the IFRS Interpretations Committee about the amendments. The exposure draft proposes to again amend IAS 1 as follows:

- Conditions which the entity must comply within twelve months after the reporting period will have no effect on the classification as current or non-current.
- Additional disclosure requirements will apply to non-current liabilities subject to such conditions to enable the assessment of the risk that the liability could become repayable within twelve months.
- Separate presentation in the statement of financial position will be required for non-current liabilities for which the right to defer settlement is subject to conditions within 12 months after the reporting period.
- The effective date of the amendments will be deferred to no earlier than January 1, 2024.

Comments on the Exposure Draft is due on March 21, 2022.

- Definition of Accounting Estimates (Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors). The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes in accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, Making Materiality Judgments). The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:
 - requiring companies to disclose their material accounting policies rather than their significant accounting policies;
 - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
 - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments to PFRS Practice Statement 2 includes guidance and additional examples on the application of materiality to accounting policy disclosures.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, Income Taxes). The amendments clarify that the initial recognition exemption does not apply to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning obligations. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other appropriate component of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.
- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4 Insurance Contracts. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:
 - a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
 - b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
 - c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income

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, 2025. 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. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9 will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 Financial Instruments 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 Company presents assets and liabilities in the separate 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 Company 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 Company recognizes a financial asset or a financial liability in the separate 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 Company 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 Company for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Company 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 Company 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 Company 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 Company'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 Company 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 Company 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 Company'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 separate statements of comprehensive income when the financial asset is derecognized, modified or impaired.

The Company's cash and cash equivalents, trade and other receivables and advances to a subsidiary are included under this category.

Cash includes cash on hand and in banks. 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 Company 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 separate statements of comprehensive income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the separate statements of changes in equity are transferred to and recognized in the separate statements of comprehensive income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the separate statements of comprehensive 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 separate statements of changes in equity are never reclassified to the separate statements of comprehensive income.

The Company'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 Company 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 Company carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the separate statements of comprehensive income as incurred. Changes in fair value and realized gains or losses are recognized in the separate statements of comprehensive income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in OCI. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the separate statements of comprehensive income. Any dividend income from investment in equity instrument is recognized in the separate statements of comprehensive 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 Company's derivative assets not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category.

Financial Liabilities

The Company 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 Company carries financial liabilities at FVPL using their fair values and reports fair value changes in the separate statements of comprehensive income. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the separate statements of comprehensive income.

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

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the separate statements of comprehensive income. Gains and losses are recognized in the separate statements of comprehensive 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 separate statements of comprehensive income.

The Company'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 Company 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 Company 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 Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company 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 Company 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 Company is required to repay.

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

Impairment of Financial Assets

The Company 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 Company in accordance with the contract and the cash flows that the Company 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 Company 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 Company 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 Company's historical experience and informed credit assessment and including forward-looking information.

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

At each reporting date, the Company assesses whether financial assets carried 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 Company on terms that the Company 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 Company 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 Company 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 Company 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 Company'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 separate statements of comprehensive income. The ECLs on investments in debt instruments at FVOCI are recognized as accumulated impairment losses in OCI, with the resulting impairment losses (or reversals) recognized in the separate statements of comprehensive 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 Company; 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.

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 separate 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 Company uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in fair value of derivatives that are not designated as hedging instruments are recognized in separate statements of comprehensive income.

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

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and presented in the "Other reserves" account in the separate statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in OCI is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the separate statements of comprehensive income.

The Company designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in OCI. The cost of hedging is removed from OCI and recognized in separate statements of comprehensive income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects separate statements of comprehensive 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 separate statements of comprehensive income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect separate statements of comprehensive 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 separate statements of comprehensive income as a reclassification adjustment in the same period or periods as the hedged cash flows affect separate statements of comprehensive 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 separate statements of comprehensive income.

The Company has outstanding derivatives accounted for as cash flow hedge as at December 31, 2021 and 2020 (Note 34).

Embedded Derivatives. The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company 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 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 Company has embedded derivatives as at December 31, 2021 and 2020 (Note 34).

Inventories

Inventories are carried at the lower of cost and 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 Company 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.

Prepaid Expenses and Other Current Assets

Prepaid expenses represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in the separate statements of comprehensive income as they are consumed or expire with the passage of time.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Investments in Shares of Stock of Subsidiaries and Associate

The Company's investments in shares of stock of subsidiaries and associate are accounted for under the cost method as provided for under PAS 27, *Consolidated and Separate Financial Statements*. A subsidiary is an entity controlled by the Company. The Company controls an entity when it 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. An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but not control over those policies.

The investments are carried in the Company's separate statements of financial position at cost less any impairment in value. The Company recognizes dividends from subsidiaries and associate in separate statements of comprehensive income when its right to receive the dividend is established.

The Company's subsidiaries include the following:

| Name of Subsidiary | Percentage of Ownership | | Country of Incorporation |
|---|-------------------------|--------|--------------------------|
| | 2021 | 2020 | |
| Overseas Ventures Insurance Corporation Ltd. (Ovincor) | 100.00 | 100.00 | Bermuda |
| Petrogen Insurance Corporation (Petrogen)* | - | 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 |
| 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 was deconsolidated on February 4, 2021 as a result of loss of control following the decrease in ownership interest from 100% to 25.06% with SMC's subscription to 1,494,973 shares of Petrogen (Note 9).

Ovincor is 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, 2021 and 2020, 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).

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, 2021 and 2020, 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, 2021 and 2020, PAHL owns 100% of Robinsons International Holdings Limited (RIHL) which owns 100% of Philippine Polypropylene, Inc. (PPI) and 40% of MLC.

The Company's 25.06% interest in Petrogen, accounted for as an investment in an associate as part of "Investments and advances - net" account in the separate statements of financial position, is accounted for under the cost method of accounting. The investment in associate is carried in the separate statements of financial position at cost less any impairment in value.

Interest in a Joint Venture

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 Company's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI), included under "Investments and advances" account in the separate statements of financial position, is accounted for under the cost method of accounting. The interest in joint venture is carried in the separate statements of financial position at cost less any impairment in value. The Company has no capital commitments or contingent liabilities in relation to its interest in this joint venture.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation 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 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 Company and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) 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. CPIP is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, depreciation for property, plant and equipment, other than those assets used in production, 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 - 29 |
| Refinery and plant equipment | 4 - 35 |
| Service stations and other equipment | 3 - 10 |
| Computers, office and motor equipment | 2 - 10 |
| Land 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 is computed using the double-declining balance method.

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

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

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

An item of property, plant and equipment is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement 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 separate statements of comprehensive income in the period of retirement and disposal.

Leases

At inception of a contract, the Company 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 Company assesses whether, throughout the period of use:

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

Company as a Lessee

The Company 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 Company's incremental borrowing rate. Generally, the Company 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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company 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 separate statements of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The Company 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 Company recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

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

The Company has applied COVID-19-Related Rent Concessions. The Company 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 Company applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Company chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Company assesses whether there is a lease modification.

Company as a Lessor

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

To classify each lease, the Company 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 Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company 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 Company applies the recognition exemption, it classifies the sublease as an operating lease.

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

The Company identified the use of loaned equipment related to the sale of goods to be accounted under PFRS 16. The Company 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 the Company. The Company allocates portion of the revenue to the use of loaned equipment and presented as part of "Net sales" in the separate statements of comprehensive 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 Company recognizes lease payments received under operating leases as rent 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 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, which commences 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 - 25 |
| Land leasehold improvements | 10 or the term of the lease, whichever is shorter |

The useful lives and depreciation 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 and disposal of investment property are recognized in separate statements of comprehensive income in the period of retirement and 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 Company as an owner-occupied property becomes an investment property, the Company 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 an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in separate statements of comprehensive 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 the amortization method used for an intangible asset with a finite useful life are reviewed at least 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 separate statements of comprehensive income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over 5 to 16 years.

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 separate statements of comprehensive income when the asset is derecognized.

As of December 31, 2021 and 2020, the Company 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 separate 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 separate statements of comprehensive income.

Asset Held for Sale

The Company 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 separate statements of comprehensive 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.

Asset held for sale is presented under "Other current assets" account in the separate 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, investments in shares of stock of subsidiaries and associate and interest in a joint venture are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs 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 separate statements of comprehensive 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 separate statements of comprehensive 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 Company 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 Company maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of all its dealers, but in no case lower than P200,000 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 separate statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in the separate statements of comprehensive income.

Fair Value Measurements

The Company 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 Company.

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 interest.

The Company 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 separate 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 separate financial statements on a recurring basis, the Company 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 Company 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 Company 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 Company 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 Company 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 Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the 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 separate statements of comprehensive 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 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

Senior Perpetual Capital Securities (SPCS) and Redeemable Perpetual Securities (RPS) are classified as equity instruments in the separate 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 Company. Also, the Company has the sole and absolute discretion to defer payment of any or all of the distribution (Note 20).

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.

Equity Reserve

The equity reserve includes the effect of transactions with non-controlling interests and equity adjustments.

Reserve for Retirement Plan

The reserve for retirement plan represents re-measurements 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).

Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

The hedging reserve also includes cost of hedging which reflects gain or loss on the portion excluded from the designated hedging instrument that relates to the forward element of forward contracts, time value of options and foreign currency basis spread which are initially recorded in other comprehensive income.

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 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 Company 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 Company 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 Company performs its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The Company assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Company has assessed 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 Company 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 Company. 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 Company identified several performance obligations related to the sale of goods and accounted for them separately:

- *Provisions of Technical Support.* The Company 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 Company allocates portion of the revenue to the technical support based on expected cost plus a margin approach.
- *Consumer Loyalty Program.* The Company has Consumer Loyalty Programs which allows customers to accumulate points when they purchase products at participating service stations. These points can be redeemed for Company'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 Company 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.

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 Company'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 Share of Stock. Gain or loss is recognized when the Company 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, any.

Other Income. Other income is recognized when there is incidental economic benefit, other than the usual business operations, that will flow to the Company 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 Company 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. The Company 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; and
- 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 separate statements of comprehensive 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 separate statements of comprehensive 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 separate statements of comprehensive 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 separate statements of comprehensive income.

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

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

Savings Plan. The Company 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 Company, in turn, contributes an amount equivalent to 50% of the employee-member's contribution. However, the Company'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 Company 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 Company 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 Company'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 Company 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 Company's functional currency 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.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when the fair value was determined. Nonmonetary 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 separate statements of comprehensive 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.

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 separate statements of comprehensive income. The Company 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 nor 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 Company 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 separate statements of comprehensive income except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

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

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

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

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Trade and other payables" accounts in the separate 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 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 Company'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 36 to the separate financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

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

Segment revenues, expenses and performance include sales and purchases between business segments.

Contingencies

Contingent liabilities are not recognized in the separate financial statements. They are disclosed in the notes to the separate financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the separate financial statements but are disclosed in the notes to the separate 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 Company's financial position at the reporting date (adjusting events) are reflected in the separate financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the separate financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the Company's separate 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 separate 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 Company'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 separate financial statements:

Determining Functional Currency. The Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the 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 Company 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 Company 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.

Determining whether a Contract Contains a Lease. The Company uses its judgment in determining whether a contract contains a lease. At inception of a contract, the Company 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 - Company as Lessor. The Company has entered into various lease agreements as lessor. The Company had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases.

Rent income recognized as "Other operating income" account in the separate statements of comprehensive income amounted to P453,855 and P315,352 in 2021 and 2020, respectively. Revenues from the customers' use of loaned equipment amounted to P1,152,796 in 2021 and P1,149,761 in 2020 (Note 36).

Estimating the Incremental Borrowing Rate. The Company 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 Company would have to 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 Company 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 Company 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 - Company as Lessee. The Company 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 Company has several lease contracts that include extension options. At lease commencement date, the Company 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 Company 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 Company is acting as a Principal or Agent in a Revenue Transaction. The determination whether the Company 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 Company obtains control of the specified goods and services before it is transferred to the customer.

For the sale of petroleum products to dealers, the Company transfers the control of the goods upon delivery, hence, the Company 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 Company's fleet card transactions, the Company has likewise determined that it is acting as principal in the sales transactions with the customers since the Company has the primary responsibility for providing goods purchased through fleet cards and the Company has discretion to establish prices for specified goods in a fleet card transaction.

Classification of Financial Instruments. The Company 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 separate statements of financial position.

The Company 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 34.

Evaluating Control or Significant Influence over its Investees. Determining whether the Company has control or significant influence in an investee requires significant judgment. The Company has assessed it has lost its control over Petrogen upon the decrease in ownership interest from 100% to 25.06% in 2021. The Company has no longer the power, in practice, to govern the financial and operating policies of Petrogen, to appoint or remove the majority of the members of the BOD of Petrogen and to cast majority votes at meetings of the BOD of Petrogen. However, the Company has determined that it exercises significant influence over Petrogen by virtue of its representation in the BOD of Petrogen (Note 9).

Distinction Between Property, Plant and Equipment and Investment Property. The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by the Company. 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 Company 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 Company considers each property separately in making its judgment.

Determining Impairment Indicators of Other Nonfinancial Assets. PFRS requires that an impairment review be performed on property, plant and equipment, investments 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 Company 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.

Contingencies. The Company is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Company. The Company'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 Company 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 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 separate financial statements are based upon the Company's evaluation of relevant facts and circumstances as at the date of the separate financial statements. Actual results could differ from such estimates.

Assessment for ECL on Trade and Other Receivables. The Company, 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 Company also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. The Company 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 Company adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment. The Company 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 Company 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 Company from its trade receivables.

Impairment losses on trade and other receivables amounted to P25,676 and P77,249 in 2021 and 2020, respectively (Notes 7 and 22). Receivables written-off amounted to P4,313 and P5,520 in 2021 and 2020, respectively (Note 7). Reversal of impairment loss amounted to P17,514 and nil in 2021 and 2020, respectively (Note 7).

The carrying amount of trade and other receivables amounted to P30,311,296 and P22,651,307 as of December 31, 2021 and 2020, respectively (Note 7).

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

When determining if there has been a significant increase in credit risk, the Company 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 Company 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 Company 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 Company 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 2021 and 2020. The carrying amounts of other financial assets at amortized cost are as follows:

| | Note | 2021 | 2020 |
|------------------------------------|-------------|--------------------|-------------|
| Cash in banks and cash equivalents | 5 | P26,070,566 | P19,128,434 |
| Advances to a subsidiary | 9 | 1,159,707 | 1,238,004 |
| | | P27,230,273 | P20,366,438 |

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 P54,120,697 and P38,677,614 as of the end of 2021 and 2021, respectively (Note 8), 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 Company's inventories within the next financial year.

The Company recognized loss on inventory write-down amounting to P2,633 and nil in 2021 and 2020, respectively (Note 8).

Allowance for Inventory Obsolescence. The allowance for inventory obsolescence consists of collective and specific valuation allowance. A collective valuation allowance is established at 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 2021 and 2020, the Company reduced the allowance for inventory obsolescence by nil and P545,445, respectively (Note 8).

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

The Company 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 Company 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 Company 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 34.

Estimated Useful Lives of Property, Plant and Equipment, Right-of-Use Asset, Investment Property and Intangible Assets with Finite Useful Lives. The Company 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 and 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 and 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 and 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 Company 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 P146,332,844 and P144,842,107 as at December 31, 2021 and 2020, respectively. Accumulated depreciation of property, plant and equipment amounted to P85,339,566 and P79,503,258 as at December 31, 2021 and 2020, respectively (Note 10).

Right-of-use of assets, net of accumulated depreciation amounted to P5,229,412 and P5,700,187 as at December 31, 2021 and 2020, respectively. Accumulated depreciation of right-of-use asset amounted to P1,509,405 and P1,395,295 as at December 31, 2021 and 2020, respectively (Note 11).

Investment property, net of accumulated depreciation amounted to P11,716,304 and P12,431,262 as at December 31, 2021 and 2020, respectively. Accumulated depreciation of investment property amounted to P7,942,965 and P6,733,548 as at December 31, 2021 and 2020, respectively (Note 12).

Intangible assets with finite useful lives, net of accumulated amortization, amounted to P83,317 and P105,665 as at December 31, 2021 and 2020, respectively (Note 13). Accumulated amortization of intangible assets with finite useful lives amounted to P165,590 and P143,243 as at December 31, 2021 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 P16,005,584 and P16,374,698 as of December 31, 2021 and 2020, respectively (Note 12).

Realizability of Deferred Tax Assets. The Company 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 Company'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 P13,825,719 and P15,996,465 as of December 31, 2021 and 2020, respectively (Note 26).

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 29 to the separate financial statements and include discount rate and salary increase rate.

The Company 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 Company 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 Company are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement benefits liability.

Retirement benefits costs recognized in separate statements of comprehensive income amounted to P306,705 and P305,980 in 2021 and 2020, respectively. Remeasurement losses of the net defined retirement obligation recognized in OCI amounted to P673,337 and P661,582 in 2021 and 2020, respectively. The retirement benefits liability amounted to P2,428,848 and P2,758,806 as of December 31, 2021 and 2020, respectively (Note 29).

Asset Retirement Obligation. The Company 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 Company determined the amount of ARO, based on the dismantling costs as estimated by the operating unit responsible for the asset, discounted at the Company's current credit-adjusted risk-free rate ranging from 3.41% to 6.83% depending on the life of the capitalized costs. The Company 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 P2,670,930 and P2,859,458 as of December 31, 2021 and December 31, 2020 (Note 18).

5. Cash and Cash Equivalents

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|-----------------------|-------------|--------------------|-------------|
| Cash on hand | | P1,083,059 | P1,077,220 |
| Cash in banks | | 5,161,634 | 1,897,912 |
| Short-term placements | | 20,908,932 | 17,230,522 |
| | 33, 34 | P27,153,625 | P20,205,654 |

Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Company and earn annual interest at the respective short-term placement rates ranging from 0.01% to 2.75% in 2021 and 0.05% to 3.63% in 2020 (Note 25).

6. Financial Assets at Fair Value

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|-----------------|----------|
| Proprietary membership shares | | P297,863 | P275,303 |
| Derivative assets not designated as cash flow hedge | | 543,909 | 218,272 |
| Derivative assets designated as cash flow hedge | | 52,990 | 11,100 |
| | 33, 34 | 894,762 | 504,675 |
| Less: Noncurrent portion | 13 | 33,251 | 6,720 |
| | | P861,511 | P497,955 |

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 34).

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 separate statements of financial position (Note 13).

Changes in fair value of assets at FVPL recognized in separate statements of comprehensive income in 2021 and 2020 amounted to P22,560 and (P8,800), respectively (Note 25) while changes in fair value of derivative assets designated as cash flow hedge were recognized in OCI.

7. Trade and Other Receivables

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|--|-------------|--------------------|-------------|
| Trade | | P22,502,186 | P13,631,075 |
| Related parties - trade | 27 | 3,922,588 | 2,389,052 |
| Allowance for impairment loss on trade receivables | | (798,941) | (792,886) |
| | | 25,625,833 | 15,227,241 |
| Related parties - non-trade | 27 | 2,648,787 | 4,546,015 |
| Government | | 1,579,177 | 2,470,048 |
| Others | | 602,152 | 554,862 |
| Allowance for impairment loss on non-trade receivables | | (144,653) | (146,859) |
| | | 4,685,463 | 7,424,066 |
| | 33, 34 | P30,311,296 | P22,651,307 |

Trade receivables are noninterest-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. 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 Company to Petron Corporation Employee Retirement Plan (PCERP), noninterest and interest-bearing receivables from its subsidiaries 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 2021 and 2020 is shown below:

| | <i>Note</i> | 2021 | 2020 |
|--|-------------|-----------------|----------|
| Balance at beginning of year | | P950,939 | P879,210 |
| Additions | 4, 22 | 25,676 | 77,249 |
| Write off | 4 | (4,313) | (5,520) |
| Reversal of impairment | 4 | (17,514) | - |
| Balance at end of year | | 954,788 | 950,939 |
| Less: Noncurrent portion for long-term receivables | | 11,194 | 11,194 |
| | | P943,594 | P939,745 |

The Company 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 Company'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 P4,313 and P5,520 in 2021 and 2020, 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, 2021 and 2020:

| | Weighted Average Loss Rate | Gross Carrying Amount | ECL |
|--------------------------|---------------------------------------|----------------------------------|-----------------|
| December 31, 2021 | | | |
| Retail | 2.68% | P3,868,966 | P103,640 |
| Lubes | 1.26% | 610,160 | 7,664 |
| Gasul | 4.49% | 1,173,716 | 52,680 |
| Industrial | 2.16% | 16,356,431 | 352,555 |
| Others | 4.62% | 9,245,617 | 427,055 |
| | 3.02% | P31,254,890 | P943,594 |

| | Weighted Average Loss Rate | Gross Carrying Amount | ECL |
|-------------------|-------------------------------|--------------------------|----------|
| December 31, 2020 | | | |
| Retail | 2.95% | P3,785,575 | P111,495 |
| Lubes | 0.10% | 586,964 | 613 |
| Gasul | 7.12% | 771,728 | 54,961 |
| Industrial | 4.31% | 7,109,066 | 306,392 |
| Others | 4.11% | 11,337,719 | 466,284 |
| | 3.98% | P23,591,052 | P939,745 |

8. Inventories

This account consists of:

| | 2021 | 2020 |
|--|--------------------|-------------|
| Crude oil and others | P28,626,904 | P15,700,195 |
| Petroleum | 16,810,253 | 15,184,326 |
| Materials and supplies | 5,198,273 | 5,302,527 |
| Lubes, greases and aftermarket specialties | 3,485,267 | 2,490,566 |
| | P54,120,697 | P38,677,614 |

The cost of these inventories amounted to P54,692,338 and P39,289,534 as of December 31, 2021 and 2020, respectively.

If the Company had used the moving-average method (instead of the first-in, first-out method, which is the Company's policy), the cost of petroleum, crude oil and other products would have changed by (P727,694) and P243,075 as of December 31, 2021 and 2020, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P205,617,316 and P157,720,229 in 2021 and 2020, respectively (Note 21).

Research and development costs on these products constituted the expenses incurred for internal projects in 2021 and 2020 (Note 22).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2021 and 2020 follow:

| | Note | 2021 | 2020 |
|--|------|-----------------|------------|
| Balance at beginning of year | | P611,920 | P1,085,346 |
| Addition (deduction): | | | |
| Obsolescence of non-fuel products, materials and supplies | | (42,912) | 72,019 |
| Loss on inventory write-down | | 2,633 | - |
| Reversals | 4 | - | (545,445) |
| Balance at end of year | | P571,641 | P611,920 |

The losses and reversals are included as part of "Cost of goods sold" account in the separate statements of comprehensive income. Reversal of write-down corresponds to inventories sold during the year (Note 21).

9. Investments and Advances

This account consists of:

| | Note | 2021 | 2020 |
|--|-------------|--------------------|-------------|
| Advances to a subsidiary | 27, 33, 34 | P1,159,707 | P1,238,004 |
| Investments in shares of stock of subsidiaries - net | (i) | 33,054,623 | 33,092,569 |
| Investment in a joint venture | (ii) | 4,000 | 4,000 |
| Investment in associate | (iii) | 1,003,365 | - |
| | | P35,221,695 | P34,334,573 |

- i. Investments in shares of stock of subsidiaries pertain to investments in the following entities:

| | Note | 2021 | 2020 |
|--------------------------------------|-------------|--------------------|-------------|
| POGM and Subsidiaries | | P26,764,842 | P26,764,842 |
| PAHL and Subsidiaries | | 4,988,402 | 4,988,402 |
| PGL | | 3,700,610 | 3,700,610 |
| NVRC and Subsidiaries | | 3,127,500 | 3,127,500 |
| PMC | | 289,455 | 289,455 |
| Petrogen* | | - | 270,000 |
| PFC | | 50,000 | 50,000 |
| Ovincor | (a) | 351,348 | 39,261 |
| PSTPL | | 33,181 | 33,181 |
| PFL | (b) | 2,062 | 2,062 |
| Total cost | | 39,307,400 | 39,265,313 |
| Less: Allowance for impairment loss | | 6,252,777 | 6,172,744 |
| Investments in shares of stock - net | | P33,054,623 | P33,092,569 |

*Petrogen was deconsolidated on February 4, 2021 as a result of loss of control following the decrease in ownership interest from 100% to 25.06% with SMC's subscription to 1,494,973 shares of Petrogen.

A reconciliation of the allowance for impairment losses at the beginning and end of 2021 and 2020 is shown below:

| | Note | 2021 | 2020 |
|------------------------------|--------------|-------------------|------------|
| Balance at beginning of year | | P6,172,744 | P6,207,827 |
| Addition | (b), (c), 25 | 80,033 | 494 |
| Reversal | (d) | - | (35,577) |
| Balance at end of year | | P6,252,777 | P6,172,744 |

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

a. *Ovincor*

On June 22, 2021 and December 9, 2021, the Executive Committee of the BOD of the Company approved the proposal of Management for an additional investment in the Ovincor of US\$1,000 and US\$5,200, respectively. This is to expand Ovincor's capability to retain a bigger share of insurance cover for the Company. The additional investments were paid on August 19, 2021 and December 15, 2021, respectively.

- b. *PFL*
The Company recognized impairment loss on the investment in PFL amounting to P53 in 2021 and 494 in 2020 (Note 25).
- c. *PAHL and Subsidiaries*
The Company recognized impairment loss on the investment in PAHL and Subsidiaries amounting to P79,980 in 2021 and nil in 2020 (Note 25).
- d. *Petrofuel Logistics, Inc. (PLI)*
On August 28, 2020, the Company signed the Share Purchase Agreement with SMILSI, an entity under common control, for the sale by the Company of its equity in PLI equivalent to 100% of PLI's outstanding shares for a total consideration of P230,439. The transaction was completed on September 1, 2020. The Company reversed the previously recognized impairment loss amounting to P35,577 and recognized gain on disposal of investments amounting to P29,517 included as part of "Other income - net" account in the 2020 separate statements of comprehensive income (Note 25).

The Company received the following dividends from its investments in shares of stock of subsidiaries (Note 25):

2021

| Subsidiaries | Date of Declaration | Date of Receipt | Amount |
|---------------------|----------------------------|--------------------------|-------------------|
| POGM | July 22, 2021 | July 22, 2021 | P122,638 |
| POGM | October 28, 2021 | October 29, 2021 | 249,171 |
| PFC | October 7, 2021 | November 16, 2021 | 90,000 |
| PSTPL | June 4, 2021 | June 23, 2021 | 301,140 |
| PSTPL | November 15, 2021 | December 22, 2021 | 549,241 |
| Total | | | P1,312,190 |

The Company, through its BOD, resolved that the use of the dividends received from POGM and PSTPL be for working capital requirements.

2020

| Subsidiaries | Date of Declaration | Date of Receipt | Amount |
|---------------------|----------------------------|---------------------------|-------------------|
| POGM | July 13, 2020 | July 17, 2020 | P274,621 |
| PFC | October 15, 2020 | November 17, 2020 | 100,000 |
| PSTPL | July 29, 2020 | September 15, 2020 | 762,863 |
| PSTPL | December 7, 2020 | December 28, 2020 | 48,071 |
| Total | | | P1,185,555 |

- ii. The Company has a 33.33% joint venture interest in PDSI, which is involved in receiving, storing and handling the out-loading of petroleum products of the three major oil companies to serve the fuel requirement of their respective customers. PDSI was incorporated on September 29, 2004.

As of December 31, 2021 and 2020, the carrying amount of the investment is P4,000.

Condensed financial information of PDSI as of and for the years ended December 31, 2021 and 2020 follows:

| | 2021 | 2020 |
|-----------------------------|---------------|--------|
| Current assets | P2,948 | P2,948 |
| Current liabilities | (831) | (831) |
| Net assets | P2,117 | P2,117 |
| Costs and expenses/net loss | P - | P - |

- iii. Petrogen was incorporated and registered with the Philippine SEC on August 23, 1996 primarily to engage in the business of non-life insurance and re-insurance.

On September 10, 2019 and December 16, 2019, the 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 P125,000, pursuant to the increase in the capital stock of Petrogen which was approved by the SEC on November 4, 2019. As at December 31, 2019, Petrogen has a total of 475,001 common shares issued and outstanding.

On October 21, 2020, the BOD of Petrogen approved the declaration of stock dividends in the total amount of P25 equal to 25,000 shares with par value of P1,000 per share and was subsequently approved by the Insurance Commission on January 4, 2021.

On December 3, 2020, the BOD of Petrogen approved the increase in its authorized capital stock from P750,000, divided into 750,000 shares, to P2,250,000, divided into 2,250,000 shares, with a par value of P1,000 per share. On the same date, Petrogen's BOD 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 P3,000,000. Petrogen received the SEC approval on February 8, 2021 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 P1,494,973 to SMC for a total subscription price of P3,000,000. On March 1, 2021, the corresponding stock certificate was issued to SMC.

As a result, the Company's ownership interest in Petrogen decreased from 100% to 25.06% and Petrogen was deconsolidated from the Parent Company effective February 4, 2021. The carrying amount of the Company's investment in Petrogen at deconsolidation date amounted to P270,000. The Company recognized P733,365 gain on deconsolidation (Note 25).

10. Property, Plant and Equipment

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

| | Note | Buildings and Improvements and Related Facilities | Refinery and Plant Equipment | Service Stations and Other Equipment | Computers, Office and Motor Equipment | Land and Leasehold Improvements | Construction in-Progress | Total |
|---|------|--|------------------------------------|---|--|---------------------------------------|-----------------------------|---------------------|
| Cost | | | | | | | | |
| January 1, 2020, as previously reported | | P16,902,350 | P179,957,810 | P9,881,146 | P3,628,793 | P1,714,580 | P8,399,125 | P220,483,804 |
| Additions | | 231,292 | 246,660 | 179,841 | 135,363 | - | 3,563,295 | 4,356,451 |
| Disposals/retirements | | (84,407) | - | (67,595) | (60,281) | (11,605) | (1,218) | (225,106) |
| Reclassifications to/from investment property | 12 | 891,429 | 1,354,404 | 200,522 | 117,690 | 56,920 | (2,890,749) | (269,784) |
| December 31, 2020 | | 17,940,664 | 181,558,874 | 10,193,914 | 3,821,565 | 1,759,895 | 9,070,453 | 224,345,365 |
| Additions | | 101,092 | 254,993 | 59,555 | 82,059 | 92,389 | 7,073,718 | 7,663,806 |
| Disposals/retirements | | (21,105) | - | (3,011) | (64,350) | (1,053) | (13,258) | (102,777) |
| Reclassifications to/from investment property | 12 | 434,510 | 703,116 | 34,525 | 200 | 3,420 | (1,409,755) | (233,984) |
| December 31, 2021 | | 18,455,161 | 182,516,983 | 10,284,983 | 3,839,474 | 1,854,651 | 14,721,158 | 231,672,410 |
| Accumulated Depreciation | | | | | | | | |
| January 1, 2020, as previously reported | | 9,959,888 | 52,203,239 | 7,759,212 | 3,151,887 | 1,039,380 | - | 74,113,606 |
| Adjustments due to adoption of PFRS 16 | | - | - | - | - | - | - | - |
| January 1, 2020, as adjusted | | 9,959,888 | 52,203,239 | 7,759,212 | 3,151,887 | 1,039,380 | - | 74,113,606 |
| Depreciation | | 686,927 | 3,810,663 | 685,707 | 299,921 | 88,110 | - | 5,571,328 |
| Disposals/retirements | | (56,482) | - | (60,144) | (49,698) | (10,922) | - | (177,246) |
| Reclassifications to/from investment property | 12 | (15,539) | (11,787) | 15,643 | - | 7,253 | - | (4,430) |
| December 31, 2020 | | 10,574,794 | 56,002,115 | 8,400,418 | 3,402,110 | 1,123,821 | - | 79,503,258 |
| Depreciation | | 690,719 | 4,277,183 | 679,543 | 206,788 | 87,219 | - | 5,941,452 |
| Disposals/retirements | | (8,891) | - | (3,011) | (55,595) | (1,053) | - | (68,550) |
| Reclassifications to/from investment property | 12 | (37,978) | - | 1,203 | - | 181 | - | (36,594) |
| December 31, 2021 | | 11,218,644 | 60,279,298 | 9,078,153 | 3,553,303 | 1,210,168 | - | 85,339,566 |
| Carrying Amount | | | | | | | | |
| December 31, 2020 | | P7,365,870 | P125,556,759 | P1,793,496 | P419,455 | P636,074 | P9,070,453 | P144,842,107 |
| December 31, 2021 | | P7,236,517 | P122,237,685 | P1,206,830 | P286,171 | P644,483 | P14,721,158 | P146,332,844 |

In 2021 and 2020, 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 2021 and 2020 based on management's assessment of impairment indicators.

Certain fully depreciated property, plant and equipment with aggregate costs of P12,491,885 and P9,520,797 as of December 31, 2021 and 2020, respectively, are still being used in the Company's operations.

Total depreciation recognized in the separate statements of comprehensive income amounted to P8,034,314 and P7,845,981 in 2021 and 2020, respectively (Note 24).

The Company capitalized interest amounting to P234,308 and P92,351 in 2021 and 2020, respectively (Notes 14, 17, 25 and 28). The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 1.34% to 8.21% in 2021 and from 1.45% to 8.20% in 2020.

Capital Commitments

As of December 31, 2021 and 2020, the Company has outstanding commitments to acquire property, plant and equipment amounting to P3,264,007 and P9,149,444, respectively.

11. Right-of-Use Assets

The movements and balances of right-of-use assets as of and for the years ended December 31 follow:

| | Land | Buildings and Improvements and Related Facilities | Service Stations and Other Equipment | Total |
|---------------------------------|-------------------|---|--------------------------------------|-------------------|
| Cost | | | | |
| January 1, 2020 | P4,960,955 | P999,093 | P24,331 | P5,984,379 |
| Additions | 175,533 | - | - | 175,533 |
| Remeasurements | 894,616 | 40,954 | - | 935,570 |
| December 31, 2020 | 6,031,104 | 1,040,047 | 24,331 | 7,095,482 |
| Additions | 21,370 | 421,001 | - | 442,371 |
| Remeasurements | (393,094) | (405,942) | - | (799,036) |
| December 31, 2021 | 5,659,380 | 1,055,106 | 24,331 | 6,738,817 |
| Accumulated Depreciation | | | | |
| January 1, 2020 | 657,743 | 209,308 | 2,792 | 869,843 |
| Depreciation | 413,095 | 211,878 | 2,792 | 627,765 |
| Remeasurements | (101,302) | (1,011) | - | (102,313) |
| December 31, 2020 | 969,536 | 420,175 | 5,584 | 1,395,295 |
| Depreciation | 385,967 | 188,646 | 2,792 | 577,405 |
| Remeasurements | (57,352) | (405,943) | - | (463,295) |
| December 31, 2021 | 1,298,151 | 202,878 | 8,376 | 1,509,405 |
| Carrying Amount | | | | |
| December 31, 2020 | P5,061,568 | P619,872 | P18,747 | P5,700,187 |
| December 31, 2021 | P4,361,229 | P852,228 | P15,955 | P5,229,412 |

The Company 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 30 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 Company. The Company recognized interest expense related to these leases amounting to P1,178,206 and P1,250,630 in 2021 and 2020, respectively (Note 28).

The Company also has certain leases of property and equipment with lease terms of 12 months or less and leases of equipment with low value. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases. The expenses relating to short-term leases and leases of low-value assets amounted to P264,338 and P8,026, respectively, in 2021, and P206,627 and P13,374, respectively, in 2020 (Note 28).

The Company had total payment for leases of P2,511,091 and P2,479,017 in 2021 and 2020, respectively (Note 28).

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 as of and for the years ended December 31 follow:

| | Note | Land and Leasehold Improvements | Buildings and Improvements | Construction In-progress | Right-of-use | Total |
|----------------------------------|------|---------------------------------|----------------------------|--------------------------|-------------------|--------------------|
| Cost | | | | | | |
| January 1, 2020 | | P873,890 | P7,478,109 | P350,419 | P9,268,231 | P17,970,649 |
| Additions | | - | 82,707 | 94,116 | 848,815 | 1,025,638 |
| Reclassifications/remeasurements | 10 | (4,578) | 489,396 | (295,410) | 89,447 | 278,855 |
| Disposals | | - | - | - | (110,332) | (110,332) |
| December 31, 2020 | | 869,312 | 8,050,212 | 149,125 | 10,096,161 | 19,164,810 |
| Additions | | - | 87,951 | 187,666 | 116,584 | 392,201 |
| Reclassifications/remeasurements | 10 | (519) | 325,454 | (81,855) | 5,661 | 248,741 |
| Disposals | | - | - | - | (146,483) | (146,483) |
| December 31, 2021 | | 868,793 | 8,463,617 | 254,936 | 10,071,923 | 19,659,269 |
| Accumulated Depreciation | | | | | | |
| January 1, 2020 | | 740,722 | 3,615,070 | - | 1,087,681 | 5,443,473 |
| Depreciation | | 41,685 | 336,242 | - | 1,029,599 | 1,407,526 |
| Reclassifications/remeasurements | 10 | (7,253) | (103) | - | - | (7,356) |
| Disposals | | - | - | - | (110,095) | (110,095) |
| December 31, 2020 | | 775,154 | 3,951,209 | - | 2,007,185 | 6,733,548 |
| Depreciation | | 29,590 | 336,038 | - | 971,933 | 1,337,561 |
| Reclassifications/remeasurements | 10 | (181) | 36,776 | - | (24,683) | 11,912 |
| Disposals | | - | - | - | (140,056) | (140,056) |
| December 31, 2021 | | 804,563 | 4,324,023 | - | 2,814,379 | 7,942,965 |
| Carrying Amount | | | | | | |
| December 31, 2020 | | P94,158 | P4,099,003 | P149,125 | P8,088,976 | P12,431,262 |
| December 31, 2021 | | P64,230 | P4,139,594 | P254,936 | P7,257,544 | P11,716,304 |

In 2021 and 2020, certain investment property were reclassified from/to property, plant and equipment 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 10).

The Company's investment property also includes a property located in Tagaytay with carrying amount of P5,545 and P6,931 as of December 31, 2021 and 2020, respectively.

No impairment loss was required to be recognized in 2021 and 2020 based on management's assessment of impairment indicators.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment property that generated income in 2021 and 2020.

The fair value of investment property amounting to P16,005,584 and P16,374,698 as of December 31, 2021 and 2020, 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 P52,813 as of December 31, 2021 and 2020 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 Company's investment property on a regular basis. The fair value of investment property amounting to P6,017,169 and P4,819,800 as of December 31, 2021 and 2020, respectively, was determined using the depreciated replacement cost method. The net present value of lease liability recognized in investment property represents the remaining fair value amounting to P9,935,602 and P11,502,085 as of December 31, 2021 and 2020.

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches below:

Sales Comparison Approach. The market value of the 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 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, buildings and 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 to arrive at its net present value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment.

13. Other Assets

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|--------------------|-------------|
| Current: | | | |
| Prepaid taxes | | P26,637,453 | P21,945,327 |
| Input VAT | | 3,010,002 | 7,697,549 |
| Prepaid expenses | 27 | 1,003,960 | 1,303,083 |
| Special-purpose fund | | 158,203 | 158,084 |
| Asset held for sale | | - | 12,806 |
| | | P30,809,618 | P31,116,849 |
| Noncurrent: | | | |
| Input VAT | | P96,427 | P560,001 |
| Catalyst - net | | 487,389 | 548,173 |
| Derivative assets designated as cash flow hedge | 6, 33, 34 | 33,251 | 6,720 |
| Others - net | | 132,513 | 132,571 |
| | | P749,580 | P1,247,465 |

The "Others - net" under "Noncurrent" account includes licenses, other intangibles and other noncurrent assets amounting to P132,513 and P132,571 as of December 31, 2021 and 2020, respectively, net of amortization amounting to P133,530 and P102,474 in 2021 and 2020, respectively.

Amortization of other intangibles included as part of "Depreciation and amortization" under "Selling and administrative expenses" account in the separate statements of comprehensive income amounted to P15,824 and P15,824 in 2021 and 2020, respectively (Notes 22 and 24).

Amortization of catalysts, licenses and other noncurrent assets included as part of "Depreciation and amortization" under "Cost of goods sold" account in the separate statements of comprehensive income amounted to P162,072 and P223,538 in 2021 and 2020, respectively (Notes 21 and 24).

As of December 31, 2020, assets held for sale pertain to two condominium properties acquired through dacion en pago.

14. Short-term Loans

This account pertains to unsecured Philippine peso and US dollar-denominated loans obtained from local and foreign banks with maturities ranging from 1 to 91 days and annual interest ranging from 1.28% to 2.95% in 2021 and 0.92% to 6.75% in 2020 (Note 25). These loans are intended to fund the importation of crude oil and petroleum products (Note 8) and working capital requirements.

Interest expense on short-term loans amounted to P1,881,323 in 2021 and P3,269,924 in 2020 (Note 25). Interest expense was capitalized as part of property, plant and equipment amounting to P46,915 and P27,736 in 2021 and 2020, respectively (Note 10).

15. Liabilities for Crude Oil and Petroleum Products

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

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

| | <i>Note</i> | 2021 | 2020 |
|-----------------|-------------|--------------------|-------------|
| Related parties | 27 | P19,405,623 | P12,399,284 |
| Third parties | | 2,160,842 | 1,631,057 |
| | 33, 34 | P21,566,465 | P14,030,341 |

16. Trade and Other Payables

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|--|-------------|-------------------|------------|
| Trade | | P2,599,664 | P4,006,076 |
| Specific taxes and other taxes payable | | 3,185,781 | 2,145,566 |
| Accrued payroll | | 106,487 | 46,190 |
| Due to related parties | 27 | 1,582,233 | 1,185,715 |
| Accrued interest | | 653,477 | 627,627 |
| Accrued rent | | 52,724 | 58,154 |
| Dividends payable | 32 | 828,975 | 504,962 |
| Retention payable | | 81,070 | 181,954 |
| Deferred liability on consumer loyalty program | | 491,057 | 469,123 |
| Others | | 189,965 | 245,529 |
| | 33, 34 | P9,771,433 | P9,470,896 |

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 38) and accruals of selling and administrative expenses which are normally settled within a year.

The Company recognized revenue that was included in deferred liability on consumer loyalty program amounting to P458,664 and P422,839 in 2021 and 2020, respectively (Note 36).

17. Long-term Debt

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|--------------------|-------------|
| Unsecured Peso-Denominated (net of debt issue costs) | | | |
| Term loan of 5.4583% due until 2022 | <i>(a)</i> | P999,502 | P1,997,826 |
| Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023 | <i>(b)</i> | 6,979,026 | 19,944,346 |
| Term loan of 5.5276% due quarterly until 2024 | <i>(d)</i> | 5,878,156 | 8,008,555 |
| Term loan of 5.7584% due until 2022 | <i>(e)</i> | 2,497,277 | 4,990,341 |
| Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025 | <i>(f)</i> | 19,867,422 | 19,831,664 |
| Fixed retail bond of 3.4408% due until 2025 and 4.3368% due until 2027 | <i>(k)</i> | 17,779,353 | - |
| Term loan of 4.5900% due until 2025 | <i>(i)</i> | 4,356,592 | 4,970,209 |
| Unsecured Foreign Currency-Denominated (net of debt issue costs) | | | |
| Floating rate dollar loan - US\$1,000 million due until 2022 | <i>(c)</i> | 7,218,786 | 13,529,825 |
| Floating rate dollar loan - US\$800 million due until 2024 | <i>(g)</i> | 22,991,686 | 32,334,048 |
| Floating rate yen loan - JP¥15 billion due until 2025 | <i>(h)</i> | 6,555,577 | 6,844,621 |
| Floating rate dollar loan - US\$150 million due until 2023 | <i>(j)</i> | 7,522,375 | 7,002,573 |
| | 32, 33, 34 | 102,645,752 | 119,454,008 |
| Less: current portion | | 21,580,270 | 31,114,220 |
| | | P81,065,482 | P88,339,788 |

- a. On October 13, 2015, the Company drew P5,000,000 from a P5,000,000 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 2021 and 2020, the Company settled matured interim principal payments aggregating to P1,000,000 each year.
- b. On October 27, 2016, the Company issued P20,000,000 retail bonds (the "Bonds") divided into Series A (P13,000,000) and Series B (P7,000,000). 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. The Company redeemed its P13,000,000 Series A retail bonds on October 27, 2021.

- c. On June 16, 2017, the 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 Company drew the remaining US\$400 million from the facility. The proceeds of which were used to settle the P20,000,000 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 Company made partial principal payments of US\$86 million and US\$57 million in 2021 and US\$221 million and US\$148 million in 2020 against the US\$600 million and US\$400 million drawdowns, respectively.
- d. On July 25, 2017, the Company drew P15,000,000 from a P15,000,000 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, 2021, the P9,107,143 portion of the facility has already been paid.
- e. On December 29, 2017, the Company drew P10,000,000 from a P10,000,000 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 2021 and 2020, P2,500,000 portion of the facility has been paid each year.
- f. On October 19, 2018, the Company offered P20,000,000 fixed retail bonds (the "Offer Bonds") divided into Series C (P13,200,000) bearing interest at 7.8183% per annum and Series D (P6,800,000) 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 Company to fund crude oil purchases and redeem a portion of the Company's remaining USCS (Note 20), 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 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 Company's existing dollar-denominated bilateral short-term loans. On May 31, 2019, the 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. In 2021 and 2020, US\$228 million, US\$115 million portion of the facility has been paid, respectively.

- h. On April 22, 2020, the 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. Due to the global discontinuation of JPY LIBOR by December 31, 2021, an amendment was made to the JPY Facility adopting the Tokyo Overnight Average Rate (TONA) as the new benchmark rate. Beginning December 29, 2021, the floating interest rate on the JPY15 billion facility is based on TONA plus a spread, repriced every 1, 3 or 6 months.
- i. On April 27, 2020, the Company drew P5,000,000 from a P5,000,000 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. In 2021, P625,000 amortization of principal has been paid.
- j. On August 26, 2020, the 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.
- k. On October 12, 2021, the Company issued P18,000,000 retail bonds divided into Series E due in 2025 (P9.0 billion) and Series F due in 2027 (P9.0 billion) with interest rates of 3.4408% p.a. and 4.3368% p.a., respectively. The Bonds are listed on the Philippine Dealing & Exchange Corp. The proceeds were used for the redemption of the Company's Series A Bonds, the partial financing of the Power Plant project and payment of existing indebtedness.

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 Company 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 Company 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 of December 31, 2021 and 2020, the Company 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 P5,219,670 and P5,726,351 for the years ended 2021 and 2020, respectively (Note 25). Interest amounting to P130,166 and P48,572 was capitalized in 2021 and 2020, respectively (Note 10).

Movements in debt issue costs follow:

| | <i>Note</i> | 2021 | 2020 |
|------------------------------|-------------|-------------------|------------|
| Balance at beginning of year | | P1,368,187 | P1,239,693 |
| Additions | | 227,947 | 731,814 |
| Amortization for the year | 25, 32 | (614,708) | (603,320) |
| Balance at end of year | | P981,426 | P1,368,187 |

Repayment Schedule

As of December 31, 2021 and 2020, the annual maturities of long-term debt are as follows (Note 33):

2021

| Year | Gross Amount | Debt Issue Costs | Net |
|------------------------|---------------------|------------------|---------------------|
| 2022 | P21,869,458 | P289,187 | P21,580,271 |
| 2023 | 31,598,620 | 299,367 | 31,299,253 |
| 2024 | 23,784,600 | 120,514 | 23,664,086 |
| 2025 | 17,374,500 | 161,203 | 17,213,297 |
| 2026 and beyond | 9,000,000 | 111,155 | 8,888,845 |
| | P103,627,178 | P981,426 | P102,645,752 |

2020

| Year | Gross Amount | Debt Issue Costs | Net |
|------|--------------|------------------|--------------|
| 2021 | P31,561,745 | P447,525 | P31,114,220 |
| 2022 | 26,726,257 | 339,386 | 26,386,871 |
| 2023 | 30,569,279 | 374,774 | 30,194,505 |
| 2024 | 23,541,771 | 144,169 | 23,397,602 |
| 2025 | 8,423,143 | 62,333 | 8,360,810 |
| | P120,822,195 | P1,368,187 | P119,454,008 |

18. Asset Retirement Obligation

Movements in the ARO are as follows:

| | <i>Note</i> | 2021 | 2020 |
|-----------------------------------|-------------|-------------------|------------|
| Balance at beginning of year | | P2,859,458 | P1,712,703 |
| Additions | | 13,433 | 717 |
| Accretion for the year | 25 | 173,483 | 77,087 |
| Effect of change in estimates | 4 | 85,806 | 503,436 |
| Effect of change in discount rate | | (457,565) | 567,978 |
| Settlement | | (3,685) | (2,463) |
| Balance at end of year | | P2,670,930 | P2,859,458 |

19. Other Noncurrent Liabilities

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|---|---------------|-----------------|------------|
| Cash bonds | | P448,841 | P947,360 |
| Cylinder deposits | | 298,285 | 270,975 |
| Deferred Lease | | 179,200 | 176,724 |
| Derivative liabilities designated as cash flow hedge | | 26,400 | 291,732 |
| Others | | 37,715 | 47,359 |
| | <i>33, 34</i> | P990,441 | P1,734,150 |

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

20. 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 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, 2021 and 2020, the Company had 144,720 and 144,979 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 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 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 P9,764,404 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 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 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 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 P9,888,298 was recognized as additional paid-in capital.

The Series 2A Preferred Shares may be redeemed by the 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 Company's BOD.

All shares rank equally as regards to the 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 Company redeemed the 2010 Preferred Shares at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing Company's AOI. On July 6, 2015, the SEC approved the amendment of the AOI of the Company to provide a re-issuability feature of its preferred shares.

On May 31, 2019, the SEC issued a permit for the 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 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 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 Company's BOD. Proceeds from issuance in excess of par value less related transaction costs amounting to P17,847,620 was recognized as additional paid-in capital.

On November 4, 2019, the 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 Company's BOD on March 12, 2019.

On November 3, 2021, the Company redeemed its 2,877,680 Series 2B Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 7, 2019. The redemption was approved by the Company's BOD on March 9, 2021.

As of December 31, 2021 and 2020, the Company had 20,000,000 and 22,877,680 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|----------------------------|-------------|------|
| Series 2B Preferred Shares | - | 30 |
| Series 3A Preferred Shares | 9 | 8 |
| Series 3B Preferred Shares | 24 | 24 |
| | 33 | 62 |

b. Retained Earnings

Declaration of Cash Dividends

On various dates in 2021 and 2020, the 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 |
|-------------|-----------|---------------------|-------------------|--------------------|
| 2021 | | | | |
| Series 2B | 17.14575 | March 9, 2021 | April 7, 2021 | May 3, 2021 |
| Series 3A | 17.17825 | March 9, 2021 | June 2, 2021 | June 25, 2021 |
| Series 3B | 17.84575 | March 9, 2021 | June 2, 2021 | June 25, 2021 |
| Series 2B | 17.14575 | May 3, 2021 | July 8, 2021 | August 3, 2021 |
| Series 3A | 17.17825 | May 3, 2021 | September 2, 2021 | September 27, 2021 |
| Series 3B | 17.84575 | May 3, 2021 | September 2, 2021 | September 27, 2021 |
| Series 2B | 17.14575 | August 3, 2021 | October 7, 2021 | November 3, 2021 |
| Series 3A | 17.17825 | August 3, 2021 | November 29, 2021 | December 27, 2021 |
| Series 3B | 17.84575 | August 3, 2021 | November 29, 2021 | December 27, 2021 |
| Series 3A | 17.17825 | November 9, 2021 | March 3, 2022 | March 25, 2022 |
| Series 3B | 17.84575 | November 9, 2021 | March 3, 2022 | March 25, 2022 |
| Series 3A | 17.17825 | November 9, 2021 | June 3, 2022 | June 27, 2021 |
| Series 3B | 17.84575 | November 9, 2021 | June 3, 2022 | June 27, 2021 |
| Type | Per Share | Date of Declaration | Date of Record | Date of Payment |
| 2020 | | | | |
| Common | 0.10000 | 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 amounted to P1,899,052 and P2,515,555 in 2021 and 2020, respectively.

Appropriation for Capital Projects

On May 5, 2016, the Company's BOD approved the re-appropriation of retained earnings amounting to P15,000,000 for capital projects in 2016 and 2017 which are expected to be completed within five years from the date of the approval.

On March 9, 2021, the BOD of the Company approved the reversal of P8,000,000 of the P15,000,000 appropriated retained earnings of the Company since majority of the 2016 and 2017 capital projects were already completed while the others were deferred. The remaining P7,000,000 is maintained for the Power Plant project which is expected to be completed by the second half of 2022.

c. Equity reserves comprise of the following:

Reserve for retirement plan pertains to the cumulative remeasurements of the Company's defined benefit retirement plan.

Other reserves comprise the net income on cash flows hedges with details as follows:

| | 2021 | 2020 |
|--|---------------------|--------------|
| Balance at beginning of year | (P9,375,817) | (P9,445,913) |
| Net income on cash flow hedges, net of tax | 148,967 | 70,096 |
| Balance at end of year | (P9,226,850) | (P9,375,817) |

d. SPCS

On January 19, 2018, the Company issued US\$500 million SPCS with an issue price of 100% for the partial repurchase and redemption of the 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.

Holder 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 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 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 US\$500 million SPCS were made on the following dates: July 16, 2021 (P769,779), January 15, 2021 (P736,813), July 17, 2020 (P813,937), January 17, 2020 (P833,915), July 18, 2019 (P838,005), January 18, 2019 (P859,017) and July 19, 2018 (P878,419).

On April 19, 2021, Petron issued US\$550 million Senior Perpetual Capital Securities (SPCS) at an issue price of 100%, with an initial distribution rate of 5.95% per annum. The securities were listed in the Singapore Exchange Securities Trading Limited on April 20, 2021. The net proceeds were used for the repayment of indebtedness and for general corporate purposes.

Payments of distributions pertaining to US\$550 million SPCS was made on October 18, 2021 amounting to P1,108,440.

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.

e. RPS

- On November 27, 2019, the Company issued US\$6 million RPS to be used for capital expenditure requirements. Holders of the RPS are conferred a right to receive distribution on a quarterly basis, every February 27, May 27, August 27 and November 27. The Company has a right to defer the distribution under certain conditions.

Distributions to holders of the RPS were made on November 27, 2021 (P3,027), August 27, 2021 (P3,003), May 27, 2021 (P2,885), February 27, 2021 (P2,919), November 27, 2020 (P2,885), August 27, 2020 (P2,917), May 27, 2020 (P3,037) and February 27, 2020 (P3,063).

- On June 22, 2020, the 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.

Payments of distributions pertaining to RPS were made on December 22, 2021 (P58,951), September 22, 2021 (P59,121), June 22, 2021 (P57,395), March 22, 2021 (P57,238), December 22, 2020 (P56,657) and September 22, 2020 (P57,079).

- On August 10, 2020, the 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.

Payments of distributions pertaining to RPS were made on November 10, 2021 (P45,374), August 10, 2021 (P45,670), May 10, 2021 (P43,341), February 10, 2021 (P43,536) and November 10, 2020 (P43,715).

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 Company's option on any distribution payment date after 90 days from Issuance Date.

21. Cost of Goods Sold

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|----------------------------------|-------------|---------------------|--------------|
| Inventories | 8 | P205,617,316 | P157,720,229 |
| Depreciation and amortization | 24 | 4,937,394 | 4,621,498 |
| Materials and supplies | | 3,351,558 | 2,917,913 |
| Personnel expenses | 23 | 961,762 | 995,389 |
| Purchased services and utilities | | 771,722 | 1,019,825 |
| Others | 28, 30 | 2,126,660 | 3,478,900 |
| | | P217,766,412 | P170,753,754 |

Distribution or transshipment costs included as part of inventories amounted to P3,426,260 and P3,506,671 in 2021 and 2020, respectively.

Others include manufacturing and overhead costs such as maintenance and repairs, taxes and licenses, insurance and rent.

22. Selling and Administrative Expenses

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|--|-------------|-------------------|------------|
| Depreciation and amortization | 24 | P3,096,920 | P3,224,483 |
| Purchased services and utilities | | 2,467,729 | 2,934,998 |
| Personnel expenses | 23 | 2,078,826 | 1,993,837 |
| Maintenance and repairs | | 845,256 | 633,431 |
| Materials and office supplies | | 549,684 | 415,560 |
| Taxes and licenses | | 205,236 | 207,823 |
| Advertising | | 178,940 | 176,885 |
| Rent | 4, 28, 30 | 149,280 | 109,083 |
| Insurance | | 70,655 | 50,301 |
| Impairment losses on trade and other receivables | 4, 7 | 8,162 | 77,249 |
| Others | | 13,912 | 9,553 |
| | | P9,664,600 | P9,833,203 |

Selling and administrative expenses include research and development costs amounting to P61,718 and P65,555 in 2021 and 2020, respectively (Note 8).

23. Personnel Expenses

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|-------------------|------------|
| Salaries, wages and other employee costs | 27 | P2,749,626 | P2,692,420 |
| Retirement benefits costs - defined contribution plan | 27 | 79,429 | 83,112 |
| Retirement benefits costs - defined benefit plan | 27, 29 | 211,533 | 213,694 |
| | | P3,040,588 | P2,989,226 |

The above amounts are distributed as follows:

| | <i>Note</i> | 2021 | 2020 |
|-------------------------------------|-------------|-------------------|------------|
| Cost of goods sold | 21 | P961,762 | P995,389 |
| Selling and administrative expenses | 22 | 2,078,826 | 1,993,837 |
| | | P3,040,588 | P2,989,226 |

24. Depreciation and Amortization

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|--------------------------------------|-------------|-------------------|------------|
| Cost of goods sold: | | | |
| Property, plant and equipment | 10 | P4,559,346 | P4,136,305 |
| Right-of-use assets | 11 | 215,976 | 261,655 |
| Other assets | 13 | 162,072 | 223,538 |
| | 21 | 4,937,394 | 4,621,498 |
| Selling and administrative expenses: | | | |
| Property, plant and equipment | 10 | 1,382,106 | 1,435,023 |
| Right-of-use assets | 11 | 361,429 | 366,110 |
| Investment property | 12 | 1,337,561 | 1,407,526 |
| Intangible assets | 13 | 15,824 | 15,824 |
| | 22 | 3,096,920 | 3,224,483 |
| | | P8,034,314 | P7,845,981 |

25. Interest Expense and Other Financing Charges, Interest Income and Other Income - net

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|-------------------|-------------|
| Interest expense and other financing charges: | | | |
| Long-term debt | 17 | P4,490,125 | P5,079,577 |
| Short-term loans | 14 | 1,834,408 | 3,242,188 |
| Accretion on lease liabilities | 28 | 1,178,206 | 1,250,630 |
| Bank charges | | 1,114,927 | 645,962 |
| Amortization of debt issue costs | 17, 32 | 599,379 | 598,202 |
| Accretion on ARO | 18 | 173,483 | 77,087 |
| Defined benefit obligation | 29 | 150,802 | 192,726 |
| Others | | 182,043 | 230,076 |
| | | P9,723,373 | P11,316,448 |
| Interest income: | | | |
| Short-term placements | 5 | P329,197 | P413,972 |
| Advances to related parties | 27 | 174,467 | 204,027 |
| Plan assets | 29 | 55,630 | 100,440 |
| Trade receivables | 7 | 19,104 | 43,872 |
| Cash in banks | 5 | 9,939 | 16,913 |
| Others | | - | 243 |
| | | P588,337 | P779,467 |

Forward

| | Note | 2021 | 2020 |
|---|-------------|--------------------|-------------|
| Other income - net: | | | |
| Dividend income | 9 | P1,312,190 | P1,185,555 |
| Gain on deconsolidation | 9 | 733,365 | - |
| Marked-to-market gains (losses) - net | 34 | 361,003 | (2,473,270) |
| Hedging gains (losses) - net | | 104,492 | (1,121,214) |
| Changes in fair value of financial assets at FVPL | 6 | 22,560 | (8,800) |
| Insurance claims | | 238 | 59,029 |
| Impairment loss on investments in shares of stock of subsidiaries | 9 | (80,033) | (494) |
| Foreign currency gains (losses) - net | 33 | (1,083,338) | 2,396,721 |
| Others - net | 9, 27 | 299,137 | 304,980 |
| | | P1,669,614 | P342,507 |

Bank charges amounting to P27,693 and to P5,417 was capitalized in 2021 and 2020, respectively (Note 10). Others - net includes other income due to rent concessions amounting to nil and P18,983 in 2021 and 2020, respectively (Note 28) and gain on disposal of investment in PLI amounting to P29,517 (Note 9) in 2020.

26. Income Taxes

The components of income tax benefit are shown below:

| | 2021 | 2020 |
|----------|------------------|--------------|
| Current | P201,885 | P11,612 |
| Deferred | (243,872) | (4,865,067) |
| | (P41,987) | (P4,853,455) |

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

| 2021 | Balance at January 1 | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Balance at December 31 |
|--|-------------------------|------------------------------------|---|---------------------------|
| NOLCO | P8,847,356 | (P1,054,106) | P - | P7,793,250 |
| Various allowances, accruals and others | 2,604,955 | (488,073) | - | 2,116,882 |
| Net retirement benefits liability | 2,064,637 | (124,749) | (194,196) | 1,745,692 |
| Rental | 1,618,545 | (367,841) | - | 1,250,704 |
| MCIT | 491,489 | 197,417 | - | 688,906 |
| ARO | 296,561 | 115,648 | - | 412,209 |
| Inventory differential | 72,922 | (254,846) | - | (181,924) |
| Unrealized foreign exchange gains - net | (981,958) | 823,262 | (64,193) | (222,889) |
| Capitalized taxes and duties on inventories deducted in advance | (1,234,260) | 470,058 | - | (764,202) |
| Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others | (4,306,908) | 762,486 | - | (3,544,422) |
| Excess of double-declining over straight-line method of depreciation and amortization | (7,637,924) | 164,616 | - | (7,473,307) |
| | P1,835,415 | P243,872 | (P258,389) | P1,820,899 |

| 2020 | Balance at January 1 | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Balance at December 31 |
|--|----------------------|------------------------------|--|------------------------|
| NOLCO | P1,285,784 | P7,561,572 | P - | P8,847,356 |
| Various allowances, accruals and others | 2,615,708 | (10,753) | - | 2,604,955 |
| Net retirement benefits liability | 2,021,154 | (154,991) | 198,474 | 2,064,637 |
| Rental | 1,374,437 | 244,108 | - | 1,618,545 |
| MCIT | 491,489 | - | - | 491,489 |
| ARO | 277,949 | 18,612 | - | 296,561 |
| Inventory differential | 643,730 | (570,808) | - | 72,922 |
| Unrealized foreign exchange gains - net | (137,777) | (814,140) | (30,041) | (981,958) |
| Capitalized taxes and duties on inventories deducted in advance | (1,401,870) | 167,610 | - | (1,234,260) |
| Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others | (4,608,735) | 301,827 | - | (4,306,908) |
| Excess of double-declining over straight-line method of depreciation and amortization | (5,759,954) | (1,877,970) | - | (7,637,924) |
| | (P3,198,085) | P4,865,067 | P168,433 | P1,835,415 |

As at December 31, 2021, the NOLCO and MCIT of the 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 | P4,271,761 | P491,489 |
| 2020 | December 31, 2025 | 25,208,869 | - |
| 2021 | December 31, 2026 | 1,677,882 | 197,417 |
| | | P31,158,512 | P688,906 |

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the separate statements of comprehensive income is as follows:

| | 2021 | 2020 |
|---|-----------------|---------|
| Statutory income tax rate | 25.00% | 30.00% |
| Increase (decrease) in income tax rate resulting from: | | |
| Nondeductible interest expense | 0.04% | (0.04%) |
| Interest income subjected to lower final tax and others | (0.05%) | 0.04% |
| Others- penalties, interests and compromise | (1.73%) | 0.00% |
| Change in tax rate - DIT | (5.44%) | 0.00% |
| Nondeductible expense | (6.92%) | (0.01%) |
| Nontaxable income | (12.50%) | 0.24% |
| Effective income tax rate | (1.60%) | 30.23% |

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act.

The CREATE Act, which seeks to reduce the corporate income tax rates and rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, was passed into law on March 26, 2021 and took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or on April 11, 2021.

Key provisions of the CREATE Act which have an impact on the Company are: (i) reduction of Regular Corporate Income Tax (RCIT) rate from 30% to 25% for domestic and resident foreign corporations effective July 1, 2020; (ii) reduction of MCIT rate from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023; and (iii) repeal of the imposition of improperly accumulated earnings tax. Accordingly, current and deferred taxes as at and for the year ended December 31, 2021 were computed and measured using the applicable income tax rates as at December 31, 2021 (i.e. 25% RCIT, 1% MCIT) for financial reporting purposes.

The impact on the separate financial statements of the Company based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE Law are as follows:

| | Increase (Decrease) |
|---------------------------|------------------------|
| ASSETS | |
| Deferred tax assets | (P223,005) |
| TOTAL ASSETS | (P223,005) |
| EQUITY | |
| Equity reserves | P365,876 |
| TOTAL EQUITY | P365,876 |
| INCOME TAX EXPENSE | |
| Deferred | (P142,871) |
| | (P142,871) |

27. Related Party Disclosures

The Company, certain subsidiaries, joint venture, associate 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 Company 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> | Year | Revenues from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|----------------------|-------------------------------|--------------|--------------------------------------|---------------------------------------|--|--|------------------------------------|-----------------------------|
| Ultimate Parent | <i>b</i> | 2021 2020 | P63 P47 | P - P - | P13 P19 | P - P - | On demand; non-interest bearing | Unsecured; no impairment |
| Retirement Plan | <i>7, 29, a</i> | 2021 2020 | 78,203 93,404 | - - | 1,137,608 1,561,752 | - - | On demand; interest bearing | Unsecured; no impairment |
| Intermediate Parent | <i>b, c, e, g, o, p</i> | 2021 2020 | 19,595 7,733 | 166,558 173,501 | 16,858 10,872 | 333,279 251,388 | On demand; non-interest bearing | Unsecured; no impairment |
| Subsidiaries | <i>i, j, k, l, o, p</i> | 2021 2020 | 15,841,579 9,291,187 | 150,119,737 79,588,397 | 3,793,840 3,637,674 | 23,926,700 17,231,835 | On demand; non-interest bearing | Unsecured; no impairment |
| Associate | <i>f, k</i> | 2021 2020 | 245 - | 158,782 - | 200,067 - | 100,454 - | On demand; non-interest bearing | Unsecured; no impairment |
| Under Common Control | <i>b, c, d, h, m, n, o, p</i> | 2021 2020 | 7,877,513 4,715,068 | 4,095,381 4,454,588 | 2,466,081 1,012,009 | 2,291,187 1,881,177 | On demand; non interest bearing | Unsecured; no impairment |
| | | 2021 | P23,817,198 | P154,540,458 | P7,614,467 | P26,651,620 | | |
| | | 2020 | P14,107,439 | P84,216,486 | P6,222,326 | P19,364,400 | | |

- a. As of December 31, 2021 and 2020, the Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" account in the separate statements of financial position, for some investment opportunities (Notes 7 and 29).
- b. Sales relate to the Company's supply agreements with TF, SMC and various SMC subsidiaries. Under these agreements, the Company supplies diesel fuel, gasoline and lubes requirements of selected SMC plants and subsidiaries.
- c. Purchases relate to purchase of goods and services such as construction, information technology, shipping and terminalling from SMC and various SMC subsidiaries.
- d. Petron entered into a various lease agreements with San Miguel Properties, Inc. for office space covering 6,683 square meters and certain parcel of lands where service stations are located.
- e. Petron has existing lease agreements with SMC covering certain parcel of lands where service stations are located.
- f. On February 4, 2021, Petrogen became an associate of the Company as a result of loss of control following the decrease in ownership interest from 100% to 25.06% with SMC's subscription to 1,494,973 shares in Petrogen (Note 9).
- g. The Company also pays SMC for its share in common expenses such as utilities and management fees.
- h. Petron has existing logistics and freight forwarding agreement with PLI.
- i. The Company has long-term lease agreements with NVRC covering certain parcels of land whereby the Company pays annual fixed rentals and uses the premises for petroleum marketing business for a period of 30 years (Note 30).
- j. The Company also grants unsecured, noninterest and interest-bearing cash advances (interest rates ranging from 5% to 9%) to NVRC, which are payable monthly over an average period of 25 years. The advances are initially recognized at their present values at the time of grant and are subsequently accreted to their maturity values at their effective yields.

- k. The Company obtains insurance coverage from Petrogen, which in turn obtains reinsurance coverage from Ovincor and other local reinsurers.
- l. Petron has an existing trading agreement with PSTPL for the procurement of crude oil and trading of finished petroleum products and other materials such as ethanol, coal, catalysts and additives (Note 30).
- m. On February 22, 2021, the Asset Purchase Agreement with San Miguel Foods, Inc. and Foodcrave Marketing, Inc. for the acquisition of the Treats convenience store business by the Company was executed, for an aggregate purchase price of P67,955.
- n. Petron sold 1,000 shares in 2020 to a related party at a gain of P3 representing the remaining interest in Manila North Harbour Port, Inc. (Note 25).
- o. Amounts owed by related parties consist of trade and non-trade receivables, advances and prepaid expenses.
- p. Amounts owed to related parties consist of trade payables, non-trade payables and other noncurrent liabilities.
- q. The compensation and benefits of key management personnel of the Company, by benefit type, included in the "Personnel expenses" account follow (Note 23):

| | 2021 | 2020 |
|---|-----------------|----------|
| Salaries and other short-term employee benefits | P665,653 | P659,965 |
| Retirement benefits costs - defined benefit plan | 103,632 | 108,506 |
| Retirement benefits costs - defined contribution plan | 18,516 | 21,175 |
| | P787,801 | P789,646 |

28. Lease Commitments

Company as Lessee

The Company 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 30). These leases' life ranges from one to 30 years with renewal options included in the contracts. There are no restrictions placed upon the Company by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Amounts recognized in profit or loss.

| | <i>Note</i> | 2021 | 2020 |
|--|-------------|-------------------|------------|
| Interest on lease liabilities | 11 | P1,178,206 | P1,250,630 |
| Income from sub-leasing | | (415,863) | (228,976) |
| Income from rent concessions | 25 | - | (18,983) |
| Expenses relating to short-term leases | | 264,338 | 206,627 |
| Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | | 8,026 | 13,374 |
| | | P1,034,707 | P1,222,672 |

Rent expense included in cost of goods sold - others amounted to P123,083 in 2021 and P110,918 in 2020 (Note 21). Interest amounting to P29,534 and P10,626 was capitalized as part of property, plant and equipment in 2021 and 2020, respectively (Note 10).

Amounts recognized in separate statements of cashflows.

| | Note | 2021 | 2020 |
|---|-------------|-------------------|------------|
| Interest expense under operating activities | 32 | P1,178,206 | P1,250,630 |
| Principal lease payments under financing activities | 32 | 1,060,521 | 1,008,386 |
| Cash outflows for short term and low value lease | | 272,364 | 220,001 |

Company as Lessor - Operating Lease

The Company 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.

| | 2021 | 2020 |
|----------------------|-----------------|----------|
| Less than one year | P63,397 | P92,930 |
| One to two years | 17,551 | 4,870 |
| Two to three years | 17,021 | 4,381 |
| Three to four years | 15,954 | 4,280 |
| Four to five years | 12,480 | 4,050 |
| More than five years | 11,732 | 22,151 |
| | P138,135 | P132,662 |

29. Retirement Plan

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plan recognized in separate statements of comprehensive income and the funding status and amounts of retirement plan recognized in the separate statements of financial position. The Company has a funded, noncontributory, defined benefit retirement plan. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is as of December 31, 2021. Valuations are obtained on a periodic basis.

The 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 Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the 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 liability and its components:

| | Present Value of Defined Benefit Obligation | | Fair Value of Plan Assets | | Net Defined Benefit Retirement Liability | |
|---|--|--------------|---------------------------|------------|---|--------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Balance at beginning of year | (P3,817,788) | (P3,692,059) | P1,058,982 | P1,085,815 | (P2,758,806) | (P2,606,244) |
| Recognized in Profit or Loss | | | | | | |
| Current service cost | (211,533) | (213,694) | - | - | (211,533) | (213,694) |
| Interest expense | (150,802) | (192,726) | - | - | (150,802) | (192,726) |
| Interest income | - | - | 55,630 | 100,440 | 55,630 | 100,440 |
| | (362,335) | (406,420) | 55,630 | 100,440 | (306,705) | (305,980) |
| Recognized in Other Comprehensive Income | | | | | | |
| Remeasurements: | | | | | | |
| Actuarial gains (losses) arising from: | | | | | | |
| Experience adjustments | (152,900) | (94,897) | - | - | (152,900) | (94,897) |
| Changes in financial assumptions | 233,954 | (62,995) | - | - | 233,954 | (62,995) |
| Changes in demographic assumptions | 29,321 | 137,521 | - | - | 29,321 | 137,521 |
| Return on plan asset excluding interest | - | - | (783,712) | (641,211) | (783,712) | (641,211) |
| | 110,375 | (20,371) | (783,712) | (641,211) | (673,337) | (661,582) |
| Others | | | | | | |
| Contributions | - | - | 1,310,000 | 815,000 | 1,310,000 | 815,000 |
| Benefits paid | 611,239 | 301,062 | (611,239) | (301,062) | - | - |
| | 611,239 | 301,062 | 698,761 | 513,938 | 1,310,000 | 815,000 |
| Balance at end of year | (P3,458,509) | (P3,817,788) | P1,029,661 | P1,058,982 | (P2,428,848) | (P2,758,806) |

The carrying amounts of the Company's retirement fund approximate fair values as of December 31, 2021 and 2020.

Plan assets consist of the following:

| | 2021 | 2020 |
|---------------------------|-------------|-------------|
| Shares of stock: | | |
| Quoted | 72% | 76% |
| Unquoted | 12% | 11% |
| Government securities | 11% | 8% |
| Cash and cash equivalents | 4% | 2% |
| Others | 1% | 3% |
| | 100% | 100% |

Investment in Shares of Stock. As of December 31, 2021 and 2020, the Company's plan assets include 459,156,097 common shares of Petron with fair market value per share of P3.17 and P3.99 as of December 31, 2021 and 2020, respectively, and 14,250,900 common shares of SMC with fair market value per share of P114.90 and P128.10 as of December 31, 2021 and 2020, respectively.

The Company's plan recognized a loss on the investment in marketable securities of Petron and SMC amounting to P564,620 and P451,917 in 2021 and 2020, 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 P19,951 and P65,867 in 2021 and 2020, respectively.

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, 2021 of the plan's sale of investment in common shares of Petron to SMC Retirement Plan in 2018.

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 Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Company expects to contribute P526,232 to its defined benefit retirement plan in 2022.

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 Company 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 Company'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:

| | 2021 | 2020 |
|-------------------------|--------------|-------|
| Discount rate | 5.01% | 3.95% |
| Future salary increases | 4.00% | 4.00% |

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 6.0 years and 6.4 years as of December 31, 2021 and 2020, respectively.

The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit liabilities/assets by the amounts below:

| | Defined Benefit Liabilities | |
|----------------------|------------------------------------|---------------------------|
| | 1 Percent Increase | 1 Percent Decrease |
| 2021 | | |
| Discount rate | (P193,141) | P219,805 |
| Salary increase rate | 219,827 | (196,676) |
| | | |
| | Defined Benefit Liabilities | |
| | 1 Percent Increase | 1 Percent Decrease |
| 2020 | | |
| Discount rate | (P223,868) | P257,383 |
| Salary increase rate | 254,620 | (225,796) |

The Company has advances to PCERP amounting to P1,137,608 and P1,561,752 as of December 31, 2021 and 2020, respectively, included as part of "Trade and other receivables - net" account in the separate statements of financial position (Notes 7 and 27). The advances are subject to interest of 5% in 2021 and 2020 (Note 25).

In 2021 and 2020, portion of the Company's interest-bearing advances to PCERP were converted into contribution to the retirement plan (Note 27).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2021 and 2020 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Company has not recognized any impairment losses relating to the receivables from retirement plan for the years ended December 31, 2021 and 2020.

30. Significant Agreements

Supply Agreements. The Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Company's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract with KPC was mutually agreed to be terminated by the parties effective January 1, 2021.

Outstanding liabilities of the Company for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the separate statements of financial position as of December 31, 2021 and 2020 (Note 15).

Lease Agreements with Philippine National Oil Company (PNOC). On September 30, 2009, the Company through NVRC, entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P190,515 starting 2017, 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 2018 until the next re-appraisal is conducted. The leased premises were reappraised in 2022 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, the Company had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2021 and 2020, the Company leases other parcels of land from PNOC for its bulk plants and service stations (Note 38).

31. Basic and Diluted Loss Per Share

Basic and diluted loss per share amounts are computed as follows:

| | 2021 | 2020 |
|---|---------------------|---------------|
| Net income (loss) for the year | P2,667,232 | (P11,201,688) |
| Dividends on preferred shares for the year | (1,899,052) | (1,578,045) |
| Distributions to the holders of capital securities | (3,037,492) | (1,817,205) |
| Net loss attributable to common shareholders of the Company (a) | (P2,269,312) | (P14,596,938) |
| Weighted average number of common shares outstanding (in thousands) (b) | 9,375,104 | 9,375,104 |
| Basic/diluted loss per share (a/b) | (P0.24) | (P1.56) |

As of December 31, 2021 and 2020, the Company has no potential dilutive debt or equity instruments.

32. Supplemental Cash Flow Information

Supplemental information with respect to the separate 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 separate statements of financial position):

| | 2021 | 2020 |
|--|----------------------|-------------|
| Decrease (increase) in assets: | | |
| Trade and other receivables | (P8,213,590) | P13,311,305 |
| Inventories | (15,402,804) | 23,605,157 |
| Other current assets | 976,258 | (3,142,300) |
| Increase (decrease) in liabilities: | | |
| Liabilities for crude oil and petroleum products | 7,293,832 | (9,751,459) |
| Trade and other payables | 2,175,998 | (9,300,162) |
| | (13,170,306) | 14,722,541 |
| Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence and others | (36,429) | (401,697) |
| | (P13,206,735) | P14,320,844 |

- b. Changes in liabilities arising from financing activities:

| | Dividends Payable | Lease Liabilities | Short-term Loans | Long-term Debt | Total |
|---|-------------------|--------------------|--------------------|---------------------|---------------------|
| Balance as of January 1, 2021 | P504,961 | P16,293,702 | P72,693,460 | P119,454,007 | P208,946,130 |
| Changes from Financing Cash Flows | | | | | |
| Payments of principal | - | (1,060,521) | - | - | (1,060,521) |
| Proceeds from availment of loans/bonds/leases | - | - | 186,635,500 | 17,772,053 | 204,407,553 |
| Payments of loans and bonds | - | - | (165,132,280) | (37,220,547) | (202,352,827) |
| Dividends and distributions declared | 4,936,544 | - | - | - | 4,936,544 |
| Dividends and distributions paid | (4,612,530) | - | - | - | (4,612,530) |
| Total changes from financing cash flows | 324,014 | (1,060,521) | 21,503,220 | (19,448,494) | 1,318,219 |
| New leases | - | 558,955 | - | - | 558,955 |
| Interest expense | - | 1,178,206 | - | - | 1,178,206 |
| Interest paid | - | (1,178,206) | - | - | (1,178,206) |
| Effects of changes in foreign exchange rates | - | - | 10,820 | 2,025,531 | 2,036,351 |
| Amortization of debt issue costs | - | - | - | 614,708 | 614,708 |
| Balance as of December 31, 2021 | P828,975 | P15,792,136 | P94,207,500 | P102,645,752 | P213,474,363 |
| | | | | | |
| | Dividends Payable | Lease Liabilities | Short-term Loans | Long-term Debt | Total |
| Balance as of January 1, 2020 | P495,646 | P16,277,740 | P69,485,000 | P133,076,635 | P219,335,021 |
| Changes from Financing Cash Flows | | | | | |
| Payments of principal | - | (1,008,386) | - | - | (1,008,386) |
| Proceeds from availment of loans/leases | - | - | 118,899,000 | 18,626,186 | 137,525,186 |
| Payments of loans | - | - | (115,561,700) | (29,570,419) | (145,132,119) |
| Dividends and distributions declared | 4,332,760 | - | - | - | 4,332,760 |
| Dividends and distributions paid | (4,323,444) | - | - | - | (4,323,444) |
| Total changes from financing cash flows | 9,316 | (1,008,386) | 3,337,300 | (10,944,233) | (8,606,003) |
| New leases | - | 1,024,348 | - | - | 1,024,348 |
| Interest expense | - | 1,250,630 | - | - | 1,250,630 |
| Interest paid | - | (1,250,630) | - | - | (1,250,630) |
| Effects of changes in foreign exchange rates | - | - | (128,840) | (3,281,714) | (3,410,554) |
| Amortization of debt issue costs | - | - | - | 603,320 | 603,320 |
| Balance as of December 31, 2020 | P504,962 | P16,293,702 | P72,693,460 | P119,454,008 | P208,946,132 |

33. Financial Risk Management Objectives and Policies

The Company'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 Company 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 Company's policy not to enter into derivative transactions for speculative purposes. The Company 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 Company'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 Company follows an enterprise-wide risk management framework for identifying, assessing and addressing the risk factors that affect or may affect its businesses.

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

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 Company to ensure its functionality and effectiveness.
- c. The Compliance Officer, who is a senior officer of the 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 Company 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 Company's functional currency is the Philippine peso, which is the denomination of the bulk of its revenues. The Company'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 Company maintains a level of US dollar-denominated assets and liabilities during the year. Foreign exchange risk occurs due to differences in the levels of US dollar-denominated assets and liabilities.

The Company 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 Company 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 Company 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 Company 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 Company 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 Company'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 Company 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 Company's long-term debts. The Company 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 Company's US dollar-denominated financial assets and liabilities and their Philippine peso equivalents are as follows:

| | 2021 | | 2020 | |
|--|------------------|-----------------------|-------------|-----------------------|
| | US Dollar | Phil. Peso Equivalent | US Dollar | Phil. Peso Equivalent |
| Financial Assets | | | | |
| Cash and cash equivalents | 414,097 | 21,118,533 | 349,039 | 16,761,900 |
| Trade and other receivables | 47,007 | 2,397,310 | 25,586 | 1,228,716 |
| Other assets | 11,704 | 596,892 | 4,776 | 229,358 |
| | 472,808 | 24,112,735 | 379,401 | 18,219,974 |
| Financial Liabilities | | | | |
| Short-term loan | - | - | 20,000 | 960,460 |
| Liabilities for crude oil and petroleum products | 380,232 | 19,391,452 | 262,072 | 12,585,484 |
| Long-term debt (including current maturities) | 879,612 | 44,859,332 | 1,265,778 | 60,786,457 |
| Other liabilities | 14,053 | 716,689 | 26,308 | 1,263,389 |
| | 1,273,897 | 64,967,473 | 1,574,158 | 75,595,790 |
| Net foreign currency - denominated monetary liabilities | (801,089) | (40,854,738) | (1,194,757) | (57,375,816) |

The Company incurred net foreign currency (loss)/gains amounting to (P1,083,338) and P2,396,721 in 2021 and 2020, respectively (Note 25), which were mainly countered by marked-to-market and realized hedging gains (losses) (Note 25). The foreign exchange rates from Philippine peso (PhP) to US dollar (US\$) as of December 31 are shown in the following table:

| | Php to US\$ |
|--------------------------|--------------------|
| December 31, 2021 | 50.999 |
| December 31, 2020 | 48.023 |

Managing 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 exchange gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of December 31, 2021 and 2020:

| | P1 Decrease in the US dollar Exchange Rate | | P1 Increase in the US dollar Exchange Rate | |
|--|---|---------------------|---|---------------------|
| | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| 2021 | | | | |
| Cash and cash equivalents | (P414,097) | (P310,573) | P414,097 | P310,573 |
| Trade and other receivables | (47,007) | (35,255) | 47,007 | 35,255 |
| Other assets | (11,704) | (8,778) | 11,704 | 8,778 |
| | (472,808) | (354,606) | 472,808 | 354,606 |
| Short-term loan | - | - | - | - |
| Liabilities for crude oil and petroleum products | 380,232 | 285,174 | (380,232) | (285,174) |
| Long-term debt (including current maturities) | 879,612 | 659,709 | (879,612) | (659,709) |
| Other liabilities | 14,053 | 10,540 | (14,053) | (10,540) |
| | 1,273,897 | 955,423 | (1,273,897) | (955,423) |
| | P801,089 | P600,817 | (P801,089) | (P600,817) |

| | P1 Decrease in the US dollar Exchange Rate | | P1 Increase in the US dollar Exchange Rate | |
|--|---|---------------------|---|---------------------|
| | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| 2020 | | | | |
| Cash and cash equivalents | (P349,039) | (P244,327) | P349,039 | P244,327 |
| Trade and other receivables | (25,586) | (17,910) | 25,586 | 17,910 |
| Other assets | (4,776) | (3,343) | 4,776 | 3,343 |
| | (379,401) | (265,580) | 379,401 | 265,580 |
| Short-term loan | 20,000 | 14,000 | (20,000) | (14,000) |
| Liabilities for crude oil and petroleum products | 262,072 | 183,450 | (262,072) | (183,450) |
| Long-term debt (including current maturities) | 1,265,778 | 886,045 | (1,265,778) | (886,045) |
| Other liabilities | 26,308 | 18,416 | (26,308) | (18,416) |
| | 1,574,158 | 1,101,911 | (1,574,158) | (1,101,911) |
| | P1,194,757 | P836,331 | (P1,194,757) | (P836,331) |

Exposures to foreign currency risk vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Company's exposure to changes in interest rates relates mainly to the long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Company to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Company to cash flow interest rate risk.

The Company 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 Company'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 Company invests only in high-quality securities while maintaining the necessary diversification to avoid concentration of risk.

In managing interest rate risk, the Company 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 separate statements of comprehensive income.

Managing interest rate risk is also supplemented by monitoring the sensitivity of Company's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity through the retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in separate statements of comprehensive 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 Company's profit before tax (through the impact on floating rate borrowings) and equity by P448,593 and P607,865 in 2021 and 2020, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table. As of December 31, 2021 and 2020, the terms and maturity profile of the interest-bearing financial instruments, together with its gross undiscounted amounts, are shown in the following tables (Note 17):

| 2021 | <1 Year | 1-<2 Years | 2-<3 Years | 3-<4 Years | 4-<5 Years | >5 Years | Total |
|---|--|--|---|---|-------------------------------------|--------------------|------------------|
| Fixed Rate | | | | | | | |
| Philippine peso denominated Interest rate | P6,892,857 4.0% - 5.8% | P10,392,857 4.0% - 5.8% | P16,057,143 4.0% - 7.8% | P16,425,000 4.0% - 8.1% | - | P9,000,000 4.3% | P58,767,857 - |
| Floating Rate | | | | | | | |
| US\$ denominated (expressed in Php) | 13,077,601 1, 3, 6 mos. Libor + margin | 19,306,766 1, 3, 6 mos. Libor + margin | 5,828,457 1, 3, 6 mos. Libor + margin | - 1, 3, 6 mos. Libor + margin | - | - | 38,212,824 |
| Interest rate* | | | | | - | - | - |
| Floating Rate | | | | | | | |
| JP¥ denominated (expressed in Php) | 1,899,000 1, 3, 6 mos. Libor + margin | 1,899,000 1, 3, 6 mos. Libor + margin | 1,899,000 1, 3, 6 mos. Libor + margin | 949,500 1, 3, 6 mos. Libor + margin | - 1, 3, 6 mos. Libor + margin | - | 6,646,500 |
| Interest rate* | | | | | - | - | - |
| | P21,869,458 | P31,598,623 | P23,784,600 | P17,374,500 | - | P9,000,000 | P103,627,181 |

*The Company reprices every month but has been given an option to reprice every 3 or 6 months.

| 2020 | <1 Year | 1-<2 Years | 2-<3 Years | 3-<4 Years | 4-<5 Years | >5 Years | Total |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------|--------------|
| Fixed Rate Philippine peso denominated | P19,267,857 | P6,892,857 | P10,392,857 | P16,057,143 | P7,425,000 | - | P60,035,714 |
| Interest rate | 4.0% - 5.8% | 4.6% - 5.8% | 4.5% - 5.5% | 4.6% - 7.8% | 4.6% - 8.1% | - | - |
| Floating Rate US\$ denominated (expressed in Php) | 12,293,888 | 17,837,115 | 18,180,135 | 5,488,343 | - | - | 53,799,481 |
| | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | - | - | - |
| Interest rate* | | | | | | | |
| Floating Rate JP¥ denominated (expressed in Php) | - | 1,996,286 | 1,996,286 | 1,996,286 | 998,142 | - | 6,987,000 |
| | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | - | - |
| Interest rate* | | | | | | | |
| | P31,561,745 | P26,726,258 | P30,569,278 | P23,541,772 | P8,423,142 | P - | P120,822,195 |

*The 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Company regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established 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 separate statements of financial position or in the notes to separate financial statements, as summarized below:

| | Note | 2021 | 2020 |
|------------------------------------|------|--------------------|-------------|
| Cash in banks and cash equivalents | 5 | P26,070,566 | P19,128,434 |
| Derivative assets | 6 | 596,899 | 229,372 |
| Trade and other receivables - net | 7 | 30,311,296 | 22,651,307 |
| Advances to a subsidiary | 9 | 1,159,707 | 1,238,004 |
| | | P58,138,468 | P43,247,117 |

Cash and Cash Equivalents, Advances to a Subsidiary, and Derivative Assets

Cash and cash equivalents, advances to a subsidiary and derivative assets 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, advances to a subsidiary and derivative assets has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents, advances to a subsidiary and derivative assets have low credit risk based on the external credit ratings of its counterparties.

Trade and Other Receivables

The Company'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 36.

Credit Quality. In monitoring and controlling credit extended to counterparty, the Company 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 nonfinancial 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 Company.

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 Company's trade accounts receivable as of December 31, 2021 and 2020:

| | Trade Accounts Receivables Per Class | | | |
|--------------------------|--------------------------------------|-------------------|-----------------|--------------------|
| | Class A | Class B | Class C | Total |
| December 31, 2021 | | | | |
| Retail | P3,381,602 | P383,724 | P103,640 | P3,868,966 |
| Lubes | 595,532 | 6,964 | 7,664 | 610,160 |
| Gasul | 1,111,465 | 9,571 | 52,680 | 1,173,716 |
| Industrial | 14,903,605 | 1,100,271 | 352,555 | 16,356,431 |
| Others | 3,914,397 | 218,702 | 282,402 | 4,415,501 |
| | P23,906,601 | P1,719,232 | P798,941 | P26,424,774 |

| | Trade Accounts Receivables Per Class | | | |
|-------------------|--------------------------------------|-------------------|-------------------|--------------------|
| | Class A | Class B | Class C | Total |
| December 31, 2020 | | | | |
| Retail | P1,404,566 | P2,058,584 | P322,425 | P3,785,575 |
| Lubes | 528,187 | 58,143 | 634 | 586,964 |
| Gasul | 600,945 | 106,721 | 64,062 | 771,728 |
| Industrial | 1,965,183 | 4,548,326 | 595,557 | 7,109,066 |
| Others | 1,877,422 | 1,201,873 | 687,499 | 3,766,794 |
| | P6,376,303 | P7,973,647 | P1,670,177 | P16,020,127 |

Collaterals. To the extent practicable, the Company also requires collateral as security for a credit facility to mitigate credit risk in trade and other receivables (Note 7). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, and cash bonds valued at P2,968,483 and P3,074,544 as of December 31, 2021 and 2020, respectively. These securities may only be called on or applied upon default of customers.

Risk Concentration. The Company'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 Company has no significant concentration of credit risk since the Company deals with a large number of homogenous trade customers. The Company does not execute any credit guarantee in favor of any counterparty.

The table below presents the summary of the Company'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.

| 2021 | | | | | | |
|---|--------------------|------------------------------------|--------------------------------|--------------------------|---------------------------|--------------------|
| Financial Assets at Amortized Cost | | | | | | |
| | 12-month ECL | Lifetime ECL - not credit impaired | Lifetime ECL - credit impaired | Financial Assets at FVPL | Financial Assets at FVOCI | Total |
| Cash in banks and cash equivalents | P26,070,566 | P - | P - | P - | P - | P26,070,566 |
| Trade and other receivables | - | 30,311,296 | 943,594 | - | - | 31,254,890 |
| Advances to a subsidiary | 1,159,707 | - | - | - | - | 1,159,707 |
| Derivative assets not designated as cash flow hedge | - | - | - | 543,909 | - | 543,909 |
| Derivative assets designated as cash flow hedge | - | - | - | - | 52,990 | 52,990 |
| | P27,230,273 | P30,311,296 | P943,594 | P543,909 | P52,990 | P59,082,062 |

| 2020 | | | | | | |
|---|--------------------|------------------------------------|--------------------------------|--------------------------|---------------------------|--------------------|
| Financial Assets at Amortized Cost | | | | | | |
| | 12-month ECL | Lifetime ECL - not credit impaired | Lifetime ECL - credit impaired | Financial Assets at FVPL | Financial Assets at FVOCI | Total |
| Cash in banks and cash equivalents | P19,128,434 | P - | P - | P - | P - | P19,128,434 |
| Trade and other receivables | - | 22,651,307 | 939,745 | - | - | 23,591,052 |
| Advances to a subsidiary | 1,238,004 | - | - | - | - | 1,238,004 |
| Derivative assets not designated as cash flow hedge | - | - | - | 218,272 | - | 218,272 |
| Derivative assets designated as cash flow hedge | - | - | - | - | 11,100 | 11,100 |
| | P20,366,438 | P22,651,307 | P939,745 | P218,272 | P11,100 | P44,186,862 |

Liquidity Risk

Liquidity risk pertains to the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company'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 Company 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 Company also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2021 and 2020.

| 2021 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | >1 Year - 2 Years | >2 Year - 5 Years | Over 5 Years |
|--|-----------------|-----------------------|----------------|-------------------|-------------------|--------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | P27,153,625 | P27,153,625 | P27,153,625 | P - | P - | P - |
| Trade and other receivables | 30,311,296 | 30,311,296 | 30,311,296 | - | - | - |
| Advances to a subsidiary | 1,159,707 | 1,159,707 | - | 1,159,707 | - | - |
| Derivative assets (including non-current portion) | 596,899 | 596,899 | 563,648 | 18,893 | 14,358 | - |
| Proprietary membership shares | 297,863 | 297,863 | 297,863 | - | - | - |
| Financial Liabilities | | | | | | |
| Short-term loans | 92,207,500 | 94,453,974 | 94,453,974 | - | - | - |
| Liabilities for crude oil and petroleum products | 21,566,465 | 21,566,465 | 21,566,465 | - | - | - |
| Trade and other payables* | 5,274,207 | 5,274,207 | 5,274,207 | - | - | - |
| Derivative liabilities (including non-current portion) | 601,393 | 601,393 | 574,993 | 23,060 | 3,340 | - |
| Long-term debt (including current maturities) | 102,645,752 | 114,995,182 | 26,448,473 | 34,869,847 | 44,371,120 | 9,305,742 |
| Lease liabilities (including current portion) | 15,792,135 | 26,022,121 | 2,208,888 | 2,139,290 | 5,682,222 | 15,991,721 |
| Cash bonds | 448,841 | 449,117 | - | 433,098 | 15,850 | 169 |
| Cylinder deposits | 298,285 | 298,285 | - | - | - | 298,285 |
| Other noncurrent liabilities** | 37,715 | 37,715 | - | 3,816 | 17,380 | 16,519 |

*excluding specific taxes and other taxes payable, deferred income and others

**excluding cash bonds, cylinder deposits, derivative liabilities, and others

| 2020 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | >1 Year - 2 Years | >2 Year - 5 Years | Over 5 Years |
|--|-----------------|-----------------------|----------------|-------------------|-------------------|--------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | P20,205,654 | P20,205,654 | P20,205,654 | P - | P - | P - |
| Trade and other receivables | 22,651,307 | 22,651,307 | 22,651,307 | - | - | - |
| Advances to a subsidiary | 1,238,004 | 1,238,004 | - | 1,238,004 | - | - |
| Derivative assets (including non-current portion) | 229,372 | 229,372 | 222,652 | 6,720 | - | - |
| Proprietary membership shares | 275,303 | 275,303 | 275,303 | - | - | - |
| Financial Liabilities | | | | | | |
| Short-term loans | 72,693,460 | 72,896,163 | 72,896,163 | - | - | - |
| Liabilities for crude oil and petroleum products | 14,030,341 | 14,030,341 | 14,030,341 | - | - | - |
| Trade and other payables* | 6,294,341 | 6,294,341 | 6,294,341 | - | - | - |
| Derivative liabilities (including non-current portion) | 1,223,574 | 1,223,574 | 931,842 | 200,882 | 90,850 | - |
| Long-term debt (including current maturities) | 119,454,008 | 133,312,219 | 36,690,447 | 30,030,700 | 66,591,072 | - |
| Lease liabilities (including current portion) | 16,293,702 | 27,679,055 | 2,197,575 | 2,035,472 | 5,712,373 | 17,733,635 |
| Cash bonds | 947,360 | 947,688 | - | 931,452 | 15,529 | 707 |
| Cylinder deposits | 270,975 | 270,975 | - | - | - | 270,975 |
| Other noncurrent liabilities** | 47,360 | 47,360 | - | 10,604 | 18,871 | 17,885 |

*excluding specific taxes and other taxes payable, deferred income and others

**excluding cash bonds, cylinder deposits, derivative liabilities, and others

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 Company 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 Company, 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 Company's risk of potential losses due to volatility of international crude and product prices, the Company 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 Company's management.

Other Market Price Risk

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

Capital Management

The Company's capital management policies and programs aim to provide an optimal capital structure that would ensure the Company'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 Company's overall financial position. The Company 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 Company 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 Company monitors capital via carrying amount of equity as shown in the separate statements of financial position. The Company's capital for the covered reporting period is summarized below:

| | 2021 | 2020 |
|-----------------------|---------------------|--------------|
| Total assets | P344,327,481 | P313,540,388 |
| Total liabilities | 250,648,497 | 240,226,663 |
| Total equity | 93,678,984 | 73,313,725 |
| Debt to equity ratio | 2.68:1 | 3.28:1 |
| Asset to equity ratio | 3.68:1 | 4.28:1 |

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally-imposed capital requirements.

34. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Company's financial instruments as of December 31:

| | Note | 2021 | | 2020 | |
|---|-------|-----------------|------------|-----------------|-------------|
| | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets (FA): | | | | | |
| Cash and cash equivalents | 5 | P27,153,625 | 27,153,625 | P20,205,654 | P20,205,654 |
| Trade and other receivables | 7 | 30,311,296 | 30,311,296 | 22,651,307 | 22,651,307 |
| Advances to a subsidiary | 9 | 1,159,707 | 1,159,707 | 1,238,004 | 1,238,004 |
| FA at amortized cost | | 58,624,628 | 58,624,628 | 44,094,965 | 44,094,965 |
| FA at FVOCI | 6, 13 | 52,990 | 52,990 | 11,100 | 11,100 |
| Proprietary membership shares | 6 | 297,863 | 297,863 | 275,303 | 275,303 |
| Derivative assets not designated as cash flow hedge | 6 | 543,909 | 543,909 | 218,272 | 218,272 |
| FA at FVPL | | 841,772 | 841,772 | 493,575 | 493,575 |
| Total financial assets | | P59,519,390 | 59,519,390 | P44,599,640 | P44,599,640 |

| | Note | 2021 | | 2020 | |
|--|------|-----------------|-------------|-----------------|--------------|
| | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial liabilities (FL): | | | | | |
| Short-term loans | 14 | P94,207,500 | P94,207,500 | P72,693,460 | P72,693,460 |
| Liabilities for crude oil and petroleum products | 15 | 21,566,465 | 21,566,465 | 14,030,341 | 14,030,341 |
| Trade and other payables* | 16 | 5,274,207 | 5,274,207 | 6,294,341 | 6,294,341 |
| Long-term debt including current portion | 17 | 102,645,752 | 102,645,752 | 119,454,008 | 119,454,008 |
| Derivative liabilities designated as cash flow hedge | 19 | 116,239 | 116,239 | 591,598 | 591,598 |
| Cash bonds | 19 | 448,841 | 448,841 | 947,360 | 947,360 |
| Cylinder deposits | 19 | 298,285 | 298,285 | 270,975 | 270,975 |
| Other noncurrent liabilities** | 19 | 37,715 | 37,715 | 47,359 | 47,359 |
| Other FL | | 224,595,004 | 224,595,004 | 214,329,442 | 214,329,442 |
| Derivative liabilities not designated as cash flow hedge | | 485,154 | 485,154 | 631,976 | 631,976 |
| Total financial liabilities | | P225,080,158 | 225,080,158 | P214,961,418 | P214,961,418 |

*excluding specific taxes and other taxes payable, deferred income and others

**excluding cash bonds, cylinder deposits, derivative liabilities, and others

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 a Subsidiary. 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 a subsidiary, 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 2021 and 2020 are 7.54% and 7.45% 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 Company'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 Company 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 Company designated the following derivative financial instruments as cash flow hedges (Note 33):

| December 31, 2021 | Maturity | | | Total |
|--|------------------|--------------------|---------------------|------------|
| | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | |
| Foreign Currency Risk | | | | |
| Call spread swaps: | | | | |
| Notional amount | US\$40,000 | US\$ - | US\$ - | US\$40,000 |
| Average strike rate | P51.96 to P54.47 | P - | P - | - |
| Foreign Currency and Interest Rate Risk | | | | |
| Cross currency swap: | | | | |
| Notional amount | US\$20,000 | US\$20,000 | US\$10,000 | US\$50,000 |
| Average strike rate | P47.00 to P57.00 | P47.00 to P56.50 | P47.00 to P56.50 | - |
| Fixed interest rate | 4.19% to 5.75% | 4.19% to 5.75% | 4.19% to 5.75% | - |
| Interest Rate Risk | | | | |
| Interest rate collar: | | | | |
| Notional amount | US\$15,000 | US\$30,000 | US\$15,000 | US\$60,000 |
| Interest rate | 0.44% to 1.99% | 0.44% to 1.99% | 0.44% to 1.99% | - |

| December 31, 2020 | Maturity | | | Total |
|--|------------------|--------------------|---------------------|-------------|
| | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | |
| Foreign Currency Risk | | | | |
| Call spread swaps: | | | | |
| Notional amount | US\$50,000 | US\$50,000 | US\$ - | US\$100,000 |
| Average strike rate | P52.41 to P54.87 | P52.41 to P55.02 | P - | - |
| Foreign Currency and Interest Rate Risk | | | | |
| Cross currency swap: | | | | |
| Notional amount | US\$20,000 | US\$30,000 | US\$30,000 | US\$80,000 |
| Average strike rate | P47.00 to P57.00 | P47.00 to P56.83 | P47.00 to P56.50 | - |
| Fixed interest rate | 4.19% to 5.75% | 4.19% to 5.75% | 4.19% to 5.75% | - |
| Interest Rate Risk | | | | |
| Interest rate collar: | | | | |
| Notional amount | US\$15,000 | US\$30,000 | US\$45,000 | US\$90,000 |
| Interest rate | 0.44% to 1.99% | 0.44% to 1.99% | 0.44% to 1.99% | - |

The table below summarizes the amounts pertaining to the designated hedged item.

| December 31, 2021 | Change in Fair Value Used for Measuring Hedge Ineffectiveness | Hedging Reserve | Cost of Hedging Reserve |
|---|---|-----------------|-------------------------|
| Foreign Currency Risk | | | |
| US dollar-denominated loan | (P7,539) | P - | P5,655 |
| Foreign Currency and Interest Rate Risks | | | |
| US dollar-denominated loan | 66,970 | (71,612) | 65,146 |
| Interest Rate Risks | | | |
| US dollar-denominated loan | 3,820 | (2,865) | - |

| December 31, 2020 | Change in Fair Value Used for Measuring Hedge Ineffectiveness | Hedging Reserve | Cost of Hedging Reserve |
|---|---|-----------------|-------------------------|
| Foreign Currency Risk | | | |
| US dollar-denominated loan | P85,263 | P - | (P40,309) |
| Foreign Currency and Interest Rate Risks | | | |
| US dollar-denominated loan | 467,207 | (187,109) | 94,396 |
| Interest Rate Risks | | | |
| US dollar-denominated loan | 28,028 | (19,620) | - |

There are no balances remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The table below summarizes the amounts pertaining to the designated hedging instrument as of December 31, 2021 and 2020.

| December 31, 2021 | Notional Amount | Carrying Amount | | Line Item in the Separate 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 | Amount Reclassified from Cost of Hedging Reserve to Profit or Loss | Line Item in the Separate Statements of Comprehensive Income Affected by the Reclassification |
|--|-------------------|-----------------|----------------|--|---|-----------------------------------|--|--|---|
| | | Assets | Liabilities | | | | | | |
| Foreign Currency Risk Call spread swaps | US\$40,000 | P19,739 | P12,199 | Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities | P7,539 | P4,205 | (P27,678) | P60,919 | Other income (expenses) - net |
| Foreign Currency and Interest Rate Risks Cross currency swap | US\$50,000 | P31,734 | P98,704 | Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities | (66,970) | (215,779) | (276,410) | 167,789 | Interest Expense and other financing charges, and Other income (expenses) - net |
| Interest Rate Risk Interest rate collar | US\$60,000 | P1,517 | P5,336 | Other noncurrent assets and Derivative liabilities | (3,820) | (15,840) | - | 15,840 | Interest Expense and other financing charges |

| December 31, 2020 | Notional Amount | Carrying Amount | | Line Item in the Separate 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 | Amount Reclassified from Cost of Hedging Reserve to Profit or Loss | Line Item in the Separate Statements of Comprehensive Income Affected by the Reclassification |
|--|-----------------|-----------------|-------------|--|---|-----------------------------------|--|--|---|
| | | Assets | Liabilities | | | | | | |
| Foreign Currency Risk | US\$100,000 | P11,100 | P96,363 | Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities | (P85,263) | (P23,159) | P27,678 | P165,512 | Other income (expenses) - net |
| Foreign Currency and Interest Rate Risks | | | | | | | | | |
| Cross currency swap | US\$80,000 | P - | P467,207 | Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities | (467,207) | (233,850) | 129,460 | 199,867 | Interest Expense and other financing charges, and Other income (expenses) - net |
| Interest Rate Risk | | | | | | | | | |
| Interest rate collar | US\$90,000 | P - | P28,028 | Other noncurrent assets and Derivative liabilities | (28,028) | (8,657) | - | 8,657 | Interest Expense and other financing charges |

No ineffectiveness was recognized in the 2021 and 2020 separate statements of comprehensive 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, 2021 | | December 31, 2020 | |
|--|-------------------|-------------------------|-------------------|-------------------------|
| | Hedging Reserve | Cost of Hedging Reserve | Hedging Reserve | Cost of Hedging Reserve |
| Balance at beginning of year | (P206,729) | P54,087 | (P200,966) | (P21,773) |
| Changes in fair value: | | | | |
| Foreign currency risk | 27,678 | 4,205 | (27,678) | (23,159) |
| Foreign currency risk and interest rate risk | 448,227 | (215,779) | (102,466) | (233,850) |
| Interest Rate Risk | 24,208 | (15,840) | (35,226) | (8,657) |
| Amount reclassified to profit or loss: | | | | |
| Foreign currency risk | (27,678) | 60,919 | 27,678 | 165,512 |
| Foreign currency risk and interest rate risk | (276,410) | 167,789 | 129,460 | 199,867 |
| Interest rate risk | - | 15,840 | - | 8,657 |
| Income tax effect | (63,773) | (420) | 2,469 | (32,510) |
| Balance at end of year | (P74,477) | P70,801 | (P206,729) | P54,087 |

Derivative Instruments not Designated as Hedges

The Company 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 separate statements of comprehensive income. Details are as follows:

Call Spread Swaps. As of December 31, 2021, the Company has no outstanding call spread swaps. As of December 31, 2021 and 2020, the net negative fair value of these call spread swaps amounted to nil and P25,704, respectively.

Cross Currency Swaps

As of December 31, 2021, the Company has outstanding cross currency swaps with a notional amount US\$10 million maturing on May 2022. As of December 31, 2021 and 2020, the net negative fair value of these cross currency swaps amounted to P6,209 and P96,259, respectively.

Interest Rate Collar

As of December 31, 2021, the Company has outstanding interest rate collar with a notional amount US\$15 million maturing on May 2022. As of December 31, 2021 and 2020, the net negative fair value of this interest rate collar amounted to P878 and P920, respectively.

Freestanding Derivatives

Freestanding derivatives consist of commodity and currency hedges entered into by the Company.

Currency Forwards. As of December 31, 2021 and 2020, the Company has outstanding foreign currency forward contracts with aggregate notional amount of US\$495 million and US\$320 million, respectively, and with various maturities in 2021 and 2020. As of December 31, 2021 and 2020, the net fair value of these currency forwards amounted to P383,544 and (P15,614), respectively.

Commodity Swaps. The Company has outstanding swap agreements covering its oil requirements, with various maturities in 2021 and 2020. Under the agreements, payment is made either by the Company or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. Total outstanding equivalent notional quantity covered by the commodity swaps were 17,402 thousand barrels and 25,292 thousand barrels for 2021 and 2020, respectively. The estimated net payouts for these transactions amounted to (P317,689) and (P275,207) as of December 31, 2021 and 2020, respectively.

Commodity Options. As of December 31, 2021 and 2020, the Company 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 Petron. 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, 2021 and 2020, the total outstanding notional amount of currency forwards embedded in nonfinancial contracts is minimal. These nonfinancial 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, 2021 and 2020, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2021 and 2020, the Company recognized marked-to-market losses from freestanding and embedded derivatives amounting to P361,003 and P2,473,270, respectively (Note 25).

Fair Value Changes on Derivatives not Designated as Cash Flow Hedge

The net movements in the fair value of derivative transactions in 2021 and 2020 are as follows:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|-------------------|-------------|
| Fair value at beginning of year | | (P413,704) | P231,240 |
| Net changes in fair value during the year | 25 | 361,003 | (2,473,270) |
| Fair value of settled instruments | | 111,456 | 1,828,326 |
| Fair value at end of year | | P58,755 | (P413,704) |

Fair Value Hierarchy

Financial assets and liabilities measured at fair value in the separate 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, 2021 and 2020. 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 that are not based on observable market data.

| | 2021 | 2020 |
|------------------------|------------------|-------------|
| | Level 2 | Level 2 |
| Financial Assets: | | |
| FVPL | P297,863 | P275,303 |
| Derivative assets | 596,899 | 229,372 |
| Financial Liabilities: | | |
| Derivative liabilities | (601,393) | (1,223,574) |

The Company has no financial instruments valued based on Level 1 and 3 as of December 31, 2021 and 2020. During the year, there were no transfers into and out of Level 2 fair value measurements.

35. 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 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:

- 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.
- Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- 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.
- 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.
- Exemption from real property tax on production equipment or machinery.
- Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016.

On August 19, 2019, the BOI approved the Company's application for the ITH incentive.

The Company did not avail of the ITH in 2020. 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. On December 29, 2021, the Company's Certificate of Registration was renewed.

36. 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 Company'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. Lease of equipment for gasoline service stations and other related structures.
- c. Sales on wholesale or retail operation of service stations, retail outlets, restaurants, convenience stores and the like.
- d. Export sales of various petroleum and non-fuel products to other countries such as China, Taiwan, Singapore, Iraq, Indonesia, Malaysia, Korea, Vietnam, Egypt and India.
- e. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.
- f. 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 general payment terms with customers are combination of prepayments and credit terms from a period of 30 to 60 days from invoice date.

The Company 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.

Major Customer

The Company does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Company.

The following table presents information on the business segment of the Company as of and for the years ended December 31, 2021 and 2020:

| | Retail | Lubes | Gasul | Industrial | Others | Total |
|-------------------------------|--------------------|-------------------|--------------------|--------------------|--------------------|---------------------|
| 2021 | | | | | | |
| Revenue | P99,001,372 | P4,442,562 | P18,222,143 | P56,027,415 | P59,374,332 | P237,067,824 |
| Property, plant and equipment | 2,138,862 | 30,858 | 80,303 | 8,569 | 144,074,252 | 146,332,844 |
| Capital expenditures | 993,993 | 3,996 | 21,628 | 953 | 13,700,588 | 14,721,158 |
| 2020 | | | | | | |
| Revenue | 76,643,342 | 3,127,419 | 15,151,749 | 43,748,325 | 35,740,101 | 174,410,936 |
| Property, plant and equipment | 2,929,048 | 35,205 | 105,722 | 13,121 | 141,759,011 | 144,842,107 |
| Capital expenditures | 995,129 | 881 | 11,675 | 128 | 8,062,640 | 9,070,453 |

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 revenue information regarding the geographical segments of the Company for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|----------------------|---------------------|--------------|
| Local | P223,244,922 | P166,612,654 |
| Export/international | 13,822,902 | 7,798,282 |
| Total | P237,067,824 | P174,410,936 |

Disaggregation of Revenue

The following tables shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Company's business segments for the years ended December 31, 2021 and 2020:

| | Retail | Lubes | Gasul | Industrial | Others | Total |
|----------------------|--------------------|-------------------|--------------------|--------------------|--------------------|---------------------|
| 2021 | | | | | | |
| Local | P99,001,372 | P4,225,342 | P18,222,143 | P56,027,415 | P45,768,650 | P223,244,922 |
| Export/international | - | 217,221 | - | - | 13,605,681 | 13,822,902 |
| 2020 | | | | | | |
| Local | 76,643,342 | 3,016,869 | 15,113,981 | 43,748,325 | 28,090,137 | 166,612,654 |
| Export/international | - | 110,550 | 37,768 | - | 7,649,964 | 7,798,282 |

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"

37. Events After the Reporting Date

a. Dividend Declaration and Distributions

On January 18, 2022, the Company paid distributions amounting to US\$11.50 million (P786,907) to the holders of the US\$500 million SPCS.

On February 10, 2022, the Company paid distributions amounting to US\$906.25 thousand (P46,461) to the holders of the US\$100 million RPS.

On March 1, 2022, the Company paid distributions amounting to US\$60 thousand (P3,075) to the holders of the US\$6 million RPS.

b. Acquisition of Mema Holdings, Inc.

On February 16, 2022, the Company paid P104,124 for the acquisition of 10,000,000 common shares with par value of P1.00 per share representing 100% of the authorized capital stock of Mema Holdings Inc. (Mema), a corporation duly organized and existing under and by virtue of Philippine laws. Mema is a holding company proposed by the management to be considered, among others, as a vehicle and holding company for the venture by the Company into fuel hauling and logistics services. The acquisition cost approximates the fair value of net assets acquired.

38. Other Matters

a. Lease Agreements with PNOC

On October 20, 2017, the Company filed with the Regional Trial Court (RTC) of Mandaluyong City a complaint against PNOC for the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Company.

The subject landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by the 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. 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 alleges that PNOC committed a fundamental breach of the lease agreements when it refused to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

On December 11, 2017, the trial court granted the Company's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting the 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, 2020, 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, 2020. The Company also filed a motion for summary judgment on May 17, 2020. In a resolution dated November 13, 2020, 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 P143,000, 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 Petron filed their respective notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. Petron filed its appellant's brief in October 2020. PNOC filed its appellant's brief in November 2020. In a decision dated December 13, 2021, the Court of Appeals dismissed both appeals of Petron and PNOC and affirmed the resolution of the trial court as described above. The Court of Appeals upheld Petron's position that PNOC committed a substantial breach of its contractual obligation under the lease agreements when it dishonored the automatic renewal clause in the lease agreements and threatened to terminate Petron's lease thereby depriving the Petron a long-term lease consistent with its business requirements, which was the primordial consideration in the Deeds of Conveyance. The Court of Appeals ruled, however, that, consistent with jurisprudence, while rescission repeals the contract from its inception, it does not disregard all the consequences that the contract has created and that it was therefore only proper that Petron paid PNOC the rentals for the use and enjoyment of the properties which PNOC could have enjoyed by virtue of the Deeds of Conveyance were it not for the lease agreements. On January 11, 2022, Petron filed its motion for reconsideration insofar as the decision dismissed the Petron's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration. The parties await the order of the Court Appeals on the motions filed.

b. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by the Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the 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 Company not criminally liable, but the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the Regional Trial Court of Guimaras by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292,000. The cases were pending as of December 31, 2021. 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 Company to file its comment on plaintiffs' petition within 10 days. On February 6, 2020, the 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.

c. Effect of COVID-19

Since the start of the global pandemic, the Company, 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 country. The reduced economic activities and travel restrictions due to lockdowns in many countries significantly affected the Company's volume.

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 substantial net loss in 2020.

With Organization of Petroleum Exporting Countries (OPEC) and Russia agreeing to output cuts, recovery in oil prices was seen starting May 2020. From then on international oil prices began to climb steadily. Dubai averaged to about \$71/bbl in 2021 as against \$42/bbl in 2020.

The gradual opening-up of economies and easing up of pandemic restrictions especially in the West alongside robust vaccination efforts around the world contributed much to the recovery of demand to reach pre-pandemic level by the 4th quarter of 2021. On the supply-side, consistent effort of oil producing countries to manage supply also supported the escalation in oil prices amidst some resurgences in COVID-19 cases from new variants.

The Company saw fuel consumption began to pick up as shown by the gradual improvement in domestic sales volume in 2021 compared to 2020. Revenues in 2021 rose by 40% to P237 billion. Combined with improvement in refining margins, this resulted to a modest net income in 2021 of P2.7 billion, a reversal of P11.2 billion net loss in 2020.

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 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.

d. Impact of Ukraine - Russia Conflict

In relation to the ongoing conflict between Russia and Ukraine of which changes in economic conditions developed as a consequence of the Russian invasion of Ukraine in February 2022 and the resulting economic sanctions by the international community, Petron currently does not foresee issues on its oil supply on a short or medium-term basis as Petron does not have term crude supply contracts with Russia. The Company primarily sources its crude requirement from the Middle East. However, based on recent events and market sentiments, oil prices are expected to be high during the crisis and in the event of a protracted conflict, oil supply could become tight.

The extent to which the ongoing conflict will affect the Company will depend on future developments, including the actions and decisions taken or not taken by the OPEC and other oil producing countries, international community, and the Philippine government which are highly uncertain and cannot be quantified nor determined at this point.

e. Construction of Coco-Methyl Ester Plant

On November 24, 2021, the Executive Committee of the BOD of the Company approved Management's proposal to construct a coco-methyl ester plant (the "CME Plant") with an initial but expandable capacity of 60 million liters per year, enough to meet the Company's current requirements at 2% CME blend. The CME Plant will serve the Company's CME requirements for bio-diesel sales. With a projected cost of P1.2 billion, the CME Plant will be located in and integrated with the Refinery to leverage on the Bataan Refinery's support facilities, minimize freight costs, and benefit from the tax incentives granted by the AFAB. Completion and operation are targeted within two (2) years with commercial operations beginning 2024.

f. Other Proceedings

The Company 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 Company's business, financial condition or results of operations.

g. The Company has unused letters of credit totaling approximately P31,660,367 and P7,055,492 as of December 31, 2021 and 2020, respectively.

39. Supplementary Information Required by the BIR

The BIR has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to the separate financial statements. The Company presented the required supplementary tax information as a separate schedule attached to its annual income tax return.



SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, 1307 Metro Manila Philippines

Tel: (632) 818-0921 Fax: (632) 818-5293 Email: mis@sec.gov.ph



The following document has been received:

Receiving: AARON PAGKATIPUNAN

Receipt Date and Time: March 25, 2022 04:17:24 PM

Company Information

SEC Registration No.: 0000031171

Company Name: Petron Corporation

Industry Classification: E40200

Company Type: Stock Corporation

Document Information

Document ID: OST1032520228268475

Document Type: Financial Statement

Document Code: FS

Period Covered: December 31, 2021

Submission Type: Consolidated

Remarks: None



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Petron Corporation and Its Subsidiaries** (collectively referred to as the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2021 and 2020**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

A handwritten signature in blue ink, appearing to read "R. Ang", written over a horizontal line.

RAMON S. ANG
President, Chief Executive Officer and Acting Chairman

A handwritten signature in blue ink, appearing to read "Emmanuel E. Erana", written over a horizontal line. To the left of the signature is a small blue stamp or mark.


EMMANUEL E. ERANA
Senior Vice President and Chief Finance Officer

Signed this 8th day of March 2022

SUBSCRIBED AND SWORN TO before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 08 2022, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

| Name | Competent Evidence of Identity | Date/Place of Issue |
|-------------------|--------------------------------|---------------------|
| Ramon S. Ang | | |
| Emmanuel E. Eraña | | |

Doc. No. 307 ;
Page No. 75 ;
Book No. IV ;
Series of 2022


MARIA CRISSELDA N. TAMONDONG
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
Appointment No. 0582-21
Until December 31, 2022
Attorney's Roll No. 71094
PTR No. 4896453/01-28-22/Mandaluyong
IBP No. 184247/02-03-22/RSM
MCLE Compliance No. VI-0023071/4-24-2019

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

With Independent Auditors' Report



R.G. Manabat & Co.
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Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
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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, 2021 and 2020, 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, 2021, and notes, comprising 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, 2021 and 2020, and of its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021, 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)



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 (P438,057 million)

Refer to Note 3, *Significant Accounting Policies* and Note 38, *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 (P67,684 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 (P8,235 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 the review of component auditor's work and use of their own valuation specialist to assist 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, 2021, 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, 2021 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, actions taken to eliminate threats or safeguards applied.

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 8854088

Issued January 3, 2022 at Makati City

March 18, 2022

Makati City, Metro Manila

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

| | | December 31 | |
|--|----------------------------|-----------------|----------|
| | Note | 2021 | 2020 |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 5, 35, 36 | P36,406 | P27,053 |
| Financial assets at fair value | 6, 15, 35, 36 | 1,005 | 603 |
| Investments in debt instruments | 7, 35, 36 | - | 184 |
| Trade and other receivables - net | 4, 8, 29, 35, 36 | 51,745 | 27,195 |
| Inventories - net | 4, 9 | 67,684 | 44,922 |
| Other current assets | 15, 29 | 31,195 | 32,337 |
| Total Current Assets | | 188,035 | 132,294 |
| Noncurrent Assets | | | |
| Investments in debt instruments | 7, 35, 36 | - | 197 |
| Investment in shares of stock of an associate | 2, 14 | 1,012 | - |
| Property, plant and equipment - net | 4, 10, 12, 38 | 171,602 | 168,831 |
| Right-of-use assets - net | 4, 11 | 5,648 | 6,045 |
| Investment property - net | 4, 10, 12 | 29,175 | 30,049 |
| Deferred tax assets - net | 4, 28 | 2,172 | 2,190 |
| Goodwill - net | 4, 13 | 8,235 | 8,031 |
| Other noncurrent assets - net | 4, 6, 15, 35, 36 | 1,541 | 2,088 |
| Total Noncurrent Assets | | 219,385 | 217,431 |
| | | P407,420 | P349,725 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Short-term loans | 16, 34, 35, 36 | P109,196 | P77,704 |
| Liabilities for crude oil and petroleum products | 17, 29, 32, 35, 36 | 42,641 | 22,320 |
| Trade and other payables | 18, 29, 31, 34, 35, 36, 40 | 14,001 | 15,402 |
| Lease liabilities - current portion | 4, 32, 34, 35 | 1,335 | 1,243 |
| Derivative liabilities | 35, 36 | 997 | 1,124 |
| Income tax payable | | 302 | 162 |
| Current portion of long-term debt - net | 19, 34, 35, 36 | 21,580 | 31,114 |
| Total Current Liabilities | | 190,052 | 149,069 |
| Noncurrent Liabilities | | | |
| Long-term debt - net of current portion | 19, 34, 35, 36 | 81,065 | 88,340 |
| Retirement benefits liability - net | 31 | 3,327 | 3,705 |
| Deferred tax liabilities - net | 28 | 3,784 | 3,084 |
| Lease liabilities - net of current portion | 4, 32, 34, 35 | 14,220 | 14,561 |
| Asset retirement obligation | 4, 20 | 2,857 | 2,867 |
| Other noncurrent liabilities | 21, 35, 36 | 1,202 | 1,904 |
| Total Noncurrent Liabilities | | 106,455 | 114,461 |
| Total Liabilities | | 296,507 | 263,530 |

Forward

| | | December 31 | |
|--|-------------|--------------------|-------------|
| | Note | 2021 | 2020 |
| Equity Attributable to Equity Holders of the Parent Company | | | |
| | 22 | | |
| Capital stock | | P9,485 | P9,485 |
| Additional paid-in capital | | 37,500 | 37,500 |
| Capital securities | | 62,712 | 36,481 |
| Retained earnings | | 30,232 | 29,799 |
| Equity reserves | | (18,341) | (18,371) |
| Treasury stock | | (18,000) | (15,122) |
| Total Equity Attributable to Equity Holders of the Parent Company | | 103,588 | 79,772 |
| Non-controlling Interests | 13 | 7,325 | 6,423 |
| Total Equity | | 110,913 | 86,195 |
| | | P407,420 | P349,725 |

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Million Pesos, Except Per Share Data)

| | <i>Note</i> | 2021 | 2020 | 2019 |
|--|-------------|-----------------|-----------|----------|
| SALES | 29, 32, 38 | P438,057 | P286,033 | P514,362 |
| COST OF GOODS SOLD | 23 | 407,558 | 277,320 | 483,855 |
| GROSS PROFIT | | 30,499 | 8,713 | 30,507 |
| SELLING AND ADMINISTRATIVE EXPENSES | 24 | (14,557) | (14,389) | (15,815) |
| OTHER OPERATING INCOME | 4, 30 | 1,273 | 1,047 | 1,507 |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES | 27, 38 | (10,008) | (11,313) | (13,490) |
| INTEREST INCOME | 27, 38 | 564 | 780 | 1,340 |
| SHARE IN NET INCOME OF AN ASSOCIATE | 14 | 8 | - | - |
| OTHER EXPENSES - Net | 27 | (482) | (1,049) | (312) |
| | | (23,202) | (24,924) | (26,770) |
| INCOME (LOSS) BEFORE INCOME TAX | | 7,297 | (16,211) | 3,737 |
| INCOME TAX EXPENSE (BENEFIT) | 28, 37, 38 | 1,161 | (4,798) | 1,434 |
| NET INCOME (LOSS) | | P6,136 | (P11,413) | P2,303 |
| Attributable to: | | | | |
| Equity holders of the Parent Company | 33 | P5,369 | (P11,380) | P1,701 |
| Non-controlling interests | 13 | 767 | (33) | 602 |
| | | P6,136 | (P11,413) | P2,303 |
| BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | 33 | P0.05 | (P1.58) | (P0.17) |

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Million Pesos)

| | <i>Note</i> | 2021 | 2020 | 2019 |
|---|-------------|---------------|-----------|----------|
| NET INCOME (LOSS) | | P6,136 | (P11,413) | P2,303 |
| OTHER COMPREHENSIVE LOSS | | | | |
| <i>Item that will not be reclassified to profit or loss</i> | | | | |
| Equity reserve for retirement plan | 31 | (597) | (631) | (2,531) |
| Income tax benefit (expense) | 28 | (213) | 191 | 751 |
| | | (810) | (440) | (1,780) |
| <i>Items that may be reclassified to profit or loss</i> | | | | |
| Income (loss) on cash flow hedges | 36 | 202 | 100 | (208) |
| Exchange differences on translation of foreign operations | | 880 | (1,330) | (1,133) |
| Unrealized fair value gains on investments in debt instruments at fair value through other comprehensive income | 7 | - | 1 | 15 |
| Share in other comprehensive income of a joint venture | | - | 10 | - |
| Income tax benefit (expense) | 28 | (65) | (30) | 58 |
| | | 1,017 | (1,249) | (1,268) |
| OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax | | 207 | (1,689) | (3,048) |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax | | P6,343 | (P13,102) | (P745) |
| Attributable to: | | | | |
| Equity holders of the Parent Company | | P5,399 | (P12,852) | (P1,167) |
| Non-controlling interests | 13 | 944 | (250) | 422 |
| | | P6,343 | (P13,102) | (P745) |

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Million Pesos)

| | Note | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | Non-controlling Interests | Total Equity | |
|---|------|---|----------------------------|--------------------|-------------------|----------------|-----------------------------|------------------|------------------|-----------------|---------------------------|-----------------|-------|
| | | Capital Stock | Additional Paid-in Capital | Capital Securities | Retained Earnings | | Equity Reserves | | | Treasury Stock | | | Total |
| | | | | | Appropriated | Unappropriated | Reserve for Retirement Plan | Other Reserves | | | | | |
| As of December 31, 2020 | | P9,485 | P37,500 | P36,481 | P15,000 | P14,799 | (P5,148) | (P13,223) | (P15,122) | P79,772 | P6,423 | P86,195 | |
| Net income on cash flow hedges - net of tax | 36 | - | - | - | - | - | - | 137 | - | 137 | - | 137 | |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | 707 | - | 707 | 173 | 880 | |
| Equity reserve for retirement plan - net of tax | | - | - | - | - | - | (814) | - | - | (814) | 4 | (810) | |
| Other comprehensive income (loss) | | - | - | - | - | - | (814) | 844 | - | 30 | 177 | 207 | |
| Net income for the year | | - | - | - | - | 5,369 | - | - | - | 5,369 | 767 | 6,136 | |
| Total comprehensive income (loss) for the year | | - | - | - | - | 5,369 | (814) | 844 | - | 5,399 | 944 | 6,343 | |
| Cash dividends | 22 | - | - | - | - | (1,899) | - | - | - | (1,899) | (42) | (1,941) | |
| Distributions paid | 22 | - | - | - | - | (3,037) | - | - | - | (3,037) | - | (3,037) | |
| Issuance of capital securities | 22 | - | - | 26,231 | - | - | - | - | - | 26,231 | - | 26,231 | |
| Redemption of preferred shares | 22 | - | - | - | - | - | - | - | (2,878) | (2,878) | - | (2,878) | |
| Appropriation of retained earnings | 22 | - | - | - | 3 | (3) | - | - | - | - | - | - | |
| Reversal of appropriation | 22 | - | - | - | (8,000) | 8,000 | - | - | - | - | - | - | |
| Transactions with owners | | - | - | 26,231 | (7,997) | 3,061 | - | - | (2,878) | 18,417 | (42) | 18,375 | |
| As of December 31, 2021 | | P9,485 | P37,500 | P62,712 | P7,003 | P23,229 | (P5,962) | (P12,379) | (P18,000) | P103,588 | P7,325 | P110,913 | |

Forward

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | |
|---|---|---------------|----------------------------|--------------------|-------------------|----------------|-----------------------------|----------------|-----------|----------------|--------|---------------------------|--------------|
| | Note | Capital Stock | Additional Paid-in Capital | Capital Securities | Retained Earnings | | Equity Reserves | | | Treasury Stock | Total | Non-controlling Interests | Total Equity |
| | | | | | Appropriated | Unappropriated | Reserve for Retirement Plan | Other Reserves | | | | | |
| 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 | |
| Net income on cash flow hedges - net of tax | 36 | - | - | - | - | - | - | 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) | 4 | (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 | 22 | - | - | - | - | (2,515) | - | - | - | (2,515) | (100) | (2,615) | |
| Distributions paid | 22 | - | - | - | - | (1,816) | - | - | - | (1,816) | - | (1,816) | |
| Issuance of redeemable perpetual securities | 22 | - | - | 11,298 | - | - | - | - | - | 11,298 | - | 11,298 | |
| Transactions with owners | | - | - | 11,298 | - | (4,331) | - | - | - | 6,967 | (100) | 6,867 | |
| As of December 31, 2020 | | P9,485 | P37,500 | P36,481 | P15,000 | P14,799 | (P5,148) | (P13,223) | (P15,122) | P79,772 | P6,423 | P86,195 | |

Forward

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | |
|---|---|---------------|----------------------------|--------------------|-------------------|----------------|-----------------------------|----------------|-----------|----------------|--------|---------------------------|--------------|
| | Note | Capital Stock | Additional Paid-in Capital | Capital Securities | Retained Earnings | | Equity Reserves | | | Treasury Stock | Total | Non-controlling Interests | Total Equity |
| | | | | | Appropriated | Unappropriated | Reserve for Retirement Plan | Other Reserves | | | | | |
| 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 | 36 | - | - | - | - | - | - | (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 | 22 | - | - | - | - | (2,515) | - | - | - | (2,515) | (178) | (2,693) | |
| Distributions paid | 22 | - | - | - | - | (1,697) | - | - | - | (1,697) | - | (1,697) | |
| Issuance of preferred shares | 22 | - | 17,847 | - | - | - | - | - | 2,000 | 19,847 | - | 19,847 | |
| Redemption of preferred shares | 22 | - | - | - | - | - | - | - | (7,122) | (7,122) | - | (7,122) | |
| Issuance of redeemable perpetual securities | 22 | - | - | 302 | - | - | - | - | - | 302 | - | 302 | |
| Reversal of retained earnings appropriation | 22 | - | - | - | (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 | |

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Million Pesos)

| | <i>Note</i> | 2021 | 2020 | 2019 |
|---|-------------|-----------------|-----------|----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income (loss) before income tax | | P7,297 | (P16,211) | P3,737 |
| Adjustments for: | | | | |
| Share in net income of an associate | 14 | (8) | - | - |
| Depreciation and amortization | 26, 38 | 9,848 | 9,490 | 13,245 |
| Interest expense and other financing charges | 27, 38 | 10,008 | 11,313 | 13,490 |
| Retirement benefits costs | 31 | 289 | 289 | 70 |
| Interest income | 27 | (564) | (780) | (1,340) |
| Unrealized foreign exchange losses (gains) - net | | 2,811 | (2,308) | (2,573) |
| Other losses (gains) - net | | (1,228) | (994) | 139 |
| Operating income before working capital changes | | 28,453 | 799 | 26,768 |
| Changes in noncash assets, certain current liabilities and others | 34 | (29,322) | 12,031 | 11,847 |
| Cash generated from (used in) operations | | (869) | 12,830 | 38,615 |
| Contribution to retirement fund | 31 | (810) | (315) | (940) |
| Interest paid | | (9,274) | (10,758) | (12,722) |
| Income taxes paid | | (365) | (110) | (949) |
| Interest received | | 650 | 886 | 1,358 |
| Net cash flows provided by (used in) operating activities | | (10,668) | 2,533 | 25,362 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Additions to property, plant and equipment | 10 | (9,195) | (8,167) | (17,547) |
| Proceeds from sale of property and equipment | | 131 | 144 | 43 |
| Acquisition of investment property | 12 | (695) | (591) | (2,466) |
| Proceeds from sale of investment property | | - | - | 116 |
| Increase in other noncurrent assets | | - | (43) | (582) |
| Proceeds from disposal (acquisition) of: | | | | |
| Investment in subsidiary - net | 13 | - | 181 | - |
| Investments in debt instruments | 7 | - | 39 | (31) |
| Net cash flows used in investing activities | | (9,759) | (8,437) | (20,467) |

Forward

| | <i>Note</i> | 2021 | 2020 | 2019 |
|--|-------------|------------------|-----------|-----------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from availment of loans and bonds | 34 | P227,057 | P151,408 | P386,875 |
| Payments of: | | | | |
| Loans and bonds | 34 | (215,431) | (155,604) | (381,558) |
| Lease liabilities | 30, 34 | (2,226) | (2,361) | (1,128) |
| Cash dividends and distributions | 22, 34 | (4,655) | (4,423) | (4,100) |
| Issuance of preferred shares | 22 | - | - | 19,847 |
| Redemption of preferred shares | 22 | (2,878) | - | (7,122) |
| Issuance of capital securities | 22 | 26,231 | 11,298 | 302 |
| Net cash flows provided by financing activities | | 28,098 | 318 | 13,116 |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | | |
| | | 1,682 | (1,579) | (1,198) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | | |
| | | 9,353 | (7,165) | 16,813 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | | |
| | | 27,053 | 34,218 | 17,405 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | | |
| | 5 | P36,406 | P27,053 | P34,218 |

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Reporting Entity

Petron Corporation (the “Parent Company” or “Petron”) was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the Parent Company’s corporate term to December 22, 2066. Under its Articles of Incorporation (AOI), the Parent Company’s has a corporate life of 50 years or for such longer period as may hereafter be authorized by the laws of the Philippines. Pursuant to the Revised Corporation Code of the Philippines, which took effect in February 2019, the Parent Company shall have a perpetual existence because the Parent Company did not elect to retain its specific corporate term under its AOI.

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 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 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, 12 terminals and facilities, and a network of more than 720 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, 2021, the Parent Company's public float stood at 26.72%.

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 8, 2022.

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 |
|---|-------------------------|--------|--------------------------|
| | 2021 | 2020 | |
| Overseas Ventures Insurance Corporation Ltd. (Ovincor) | 100.00 | 100.00 | Bermuda |
| Petrogen Insurance Corporation (Petrogen)* | - | 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 |
| 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 was deconsolidated on February 4, 2021 as a result of loss of control following the decrease in ownership interest from 100% to 25.06% with SMC's subscription to 1,494,973 shares of Petrogen (Note 14).*

Ovincor is 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, 2021 and 2020, 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).

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, 2021 and 2020, 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, 2021 and 2020, 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 2021 and 2020.

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.

3. Significant Accounting Policies

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

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

The Group has adopted the following new and amended standards and interpretations starting January 1, 2021 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of the new and amended standards and interpretations did not have a material effect on the Group's consolidated financial statements.

- Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16, Leases). The amendments introduce 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.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2021. However, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

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

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to PFRS 16 Leases). The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

- 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 an entity'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 an entity 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 cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprise both incremental costs and an allocation of other direct costs.

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). The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include 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. It applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
 - 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.
 - Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement*. It applies to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). 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. Earlier application is permitted.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1, *Presentation of Financial Statements*). 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 an entity 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 an entity'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, with early application permitted.

In November 2021, the International Accounting Standards Board issued the Exposure Draft, Non-Current Liabilities with Covenants after considering stakeholder feedback on the December 2020 tentative agenda decision issued by the IFRS Interpretations Committee about the amendments. The exposure draft proposes to again amend IAS 1 as follows:

- Conditions which the entity must comply within twelve months after the reporting period will have no effect on the classification as current or non-current.
- Additional disclosure requirements will apply to non-current liabilities subject to such conditions to enable the assessment of the risk that the liability could become repayable within twelve months.
- Separate presentation in the statement of financial position will be required for non-current liabilities for which the right to defer settlement is subject to conditions within 12 months after the reporting period.
- The effective date of the amendments will be deferred to no earlier than January 1, 2024.

Comments on the Exposure Draft is due on March 21, 2022.

- Definition of Accounting Estimates (Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors). To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remain unchanged. The amendments also provide examples on the application of the new definition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, Making Materiality Judgments). The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:
 - requiring companies to disclose their material accounting policies rather than their significant accounting policies;
 - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
 - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments to PFRS Practice Statement 2 includes guidance and additional examples on the application of materiality to accounting policy disclosures.

The amendments are effective from January 1, 2023. Earlier application is permitted.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, Income Taxes). The amendments clarify that that the initial recognition exemption does not apply to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning obligations. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other appropriate component of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.
- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4 Insurance Contracts. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:
 - a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
 - b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
 - c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

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, 2025. 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. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9 will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 Financial Instruments 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. 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 other comprehensive income.

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. 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. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

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

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

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

The Group's liabilities arising from its trade transactions 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.

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 “Hedging reserve” account in the consolidated statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in 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, 2021 and 2020 (Note 36).

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, 2021 and 2020 (Note 36).

Inventories

Inventories are carried at the lower of cost and 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.

Prepaid Expenses and Other Current Assets

Prepaid expenses represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in the consolidated statements of income as they are consumed or expire with the passage of time.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

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 at 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 value 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 as 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 identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures

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

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 considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in shares of stock of associates and joint ventures are accounted for using the equity method.

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture and then recognizes the loss as part of "Share in net income of an associate and joint venture" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in an associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

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

The Group's 25.06% interest in Petrogen, accounted for as an investment in an associate, 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 investment in associate and 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 joint ventures presented as part of "Other expenses - Net" account. As of December 31, 2021, the Group has capital commitments amounting to P1.5 and nil for TBSB and PDSI, respectively. The Group has no contingent liabilities in relation to its interest in these associate and 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 for land, are stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less 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. Cost also includes related asset retirement obligation (ARO), if any. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as 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.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. 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. CPIP is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, depreciation 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 - 35 |
| 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 are computed using the double-declining balance method.

The remaining useful lives, residual values, and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation 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

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

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

Group as a Lessee

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

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

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

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

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

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

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

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

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

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. 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 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, which commences 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 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, 2021 and 2020, 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 are 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 all its 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

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 Group. Also, the Group has the sole and absolute discretion to defer payment of any or all of the distribution (Note 22).

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.

Equity Reserve

The equity reserve includes the effect of transactions with non-controlling interests and equity adjustments.

Translation Reserve

The translation reserve comprises of all foreign currency differences arising from the translation of the financial statements of foreign operations.

Reserve for Retirement Plan

The reserve for retirement plan represents re-measurements 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).

Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

The hedging reserve also includes cost of hedging which reflects gain or loss on the portion excluded from the designated hedging instrument that relates to the forward element of forward contracts, time value of options and foreign currency basis spread which are initially recorded in other comprehensive income.

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 38 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.

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.

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. The Group has entered into various lease agreements as lessor. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases.

Rent income recognized as "Other operating income" in the consolidated statements of income amounted to P1,273, P1,047 and P1,507 in 2021, 2020 and 2019, respectively. Rent income recognized as part of "Other expenses - net" account in the consolidated statements of comprehensive income amounted to P63 each in 2021, 2020 and 2019 (Note 27). Revenues from the customers' use of loaned equipment amounted to P1,153, P1,150 and P1,100 in 2021, 2020 and 2019, respectively (Note 38).

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 36.

Evaluating Control or Significant Influence over its Investees. Determining whether the Group has control or significant influence in an investee requires significant judgment. The Group has assessed it has lost its control over Petrogen upon the decrease in ownership interest from 100% to 25.06% in 2021. The Group has no longer the power, in practice, to govern the financial and operating policies of Petrogen, to appoint or remove the majority of the members of the BOD of Petrogen and to cast majority votes at meetings of the BOD of Petrogen. However, the Group has determined that it exercises significant influence over Petrogen by virtue of its representation in the BOD of Petrogen (Note 14).

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.

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 2021, 2020 and 2019, 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, MLC, SLPHI, ARC and PEDC, as they opted to apply OSD (Note 28).

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 P28, P67 and P294 in 2021, 2020 and 2019 respectively (Notes 8, 24 and 27). Receivables written-off amounted to P6 in 2021, P8 in 2020 and P375 in 2019 (Note 8).

The carrying amount of trade and other receivables amounted to P51,745 and P27,195 as of December 31, 2021 and 2020, 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 2021 and 2020. The carrying amounts of other financial assets at amortized cost are as follows:

| | Note | 2021 | 2020 |
|------------------------------------|-------------|----------------|---------|
| Cash in banks and cash equivalents | 5 | P35,318 | P25,970 |
| Investments in debt instruments | 7 | - | 255 |
| Noncurrent deposits | 15 | 128 | 121 |
| | | P35,446 | P26,346 |

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 P67,684 and P44,922 as of the end of 2021 and 2020, 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 P37 in 2021, nil in 2020 and P564 in 2019 (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 2021, 2020 and 2019, the Group provided an additional loss on inventory obsolescence amounting to nil, P73, and P31, 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 36.

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 P171,602 and P168,831 as of December 31, 2021 and 2020, respectively. Accumulated depreciation of property, plant and equipment, amounted to P106,424 and P98,902 as of December 31, 2021 and 2020, respectively (Note 10).

Right-of-use assets, net of accumulated depreciation, amounted to P5,648 and P6,045 as of December 31, 2021 and 2020, respectively. Accumulated depreciation of right-of-use asset amounted to P1,728 and P1,639 at December 31, 2021 and 2020, respectively (Note 11).

Investment property, net of accumulated depreciation, amounted to P29,175 and P30,049 as of December 31, 2021 and 2020, respectively. Accumulated depreciation of investment property amounted to P17,852 and P15,345 at December 31, 2021 and 2020, respectively (Note 12).

Intangible assets with finite useful lives, net of accumulated amortization, amounted to P139 and P138 as of December 31, 2021 and 2020, respectively (Note 15). Accumulated amortization of Intangible assets with finite useful lives amounted to P708 and P662 at December 31, 2021 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 P43,119 and P42,460 respectively as of December 31, 2021 and 2020 (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% in 2021 and 2020 and discount rates of 7.7% and 6.3% in 2021 and 2020, 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 2021, 2020 and 2019 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, 2021 and 2020.

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 P2,172 and P2,190 as of December 31, 2021 and 2020, respectively (Note 28).

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 31 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 P434, P430 and P196 in 2021, 2020 and 2019, respectively. Remeasurement losses of the net defined retirement obligation recognized in OCI amounted to P597, P631 and P2,531 in 2021, 2020 and 2019, respectively. The retirement benefits liability amounted to P3,459, and P3,808 as of December 31, 2021 and 2020, respectively (Note 31).

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 1.85% to 6.83% 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 P2,877 and P2,867 as of December 31, 2021 and 2020, respectively (Note 20).

5. Cash and Cash Equivalents

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|-----------------------|-------------|----------------|---------|
| Cash on hand | | P1,088 | P1,083 |
| Cash in banks | | 8,972 | 4,253 |
| Short-term placements | | 26,346 | 21,717 |
| | 35, 36 | P36,406 | P27,053 |

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 2.75% in 2021, 0.01% to 5.75% in 2020 and 0.13% to 6.25% in 2019 (Note 27).

6. Financial Assets at Fair Value

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|---------------|------|
| Proprietary membership shares | | P298 | P275 |
| Derivative assets not designated as cash flow hedge | | 687 | 322 |
| Derivative assets designated as cash flow hedge | | 53 | 12 |
| | 35, 36 | 1,038 | 609 |
| Less noncurrent portion | 15 | 33 | 6 |
| | | P1,005 | P603 |

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 36).

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 15).

Changes in fair value of assets at FVPL recognized in the consolidated statements of income in 2021, 2020 and 2019 amounted to P23, (P9) and P30, respectively (Note 27) 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> | 2021 | 2020 |
|------------------------|-------------|-------------|------|
| Government securities | | P - | P225 |
| Other debt instruments | | - | 156 |
| | 14, 35, 36 | - | 381 |
| Less current portion | | - | 184 |
| | | P - | P197 |

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 (Note 27).

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

| | Note | 2021 | 2020 |
|--------------------------------------|-------------------|-------------|------|
| Due in one year or less | | P - | P184 |
| Due after one year through six years | | - | 197 |
| | <i>14, 35, 36</i> | P - | P381 |

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

| | Note | 2021 | 2020 |
|------------------------------------|-------------------|-------------|------|
| Financial assets at amortized cost | | P - | P255 |
| Financial assets at FVOCI | | - | 126 |
| | <i>14, 35, 36</i> | P - | P381 |

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

| | Note | 2021 | 2020 |
|---|-------------------|--------------|------|
| Financial Assets at FVOCI | | | |
| Balance as of January 1 | | P126 | P163 |
| Disposals* | | (126) | (37) |
| Amortization of premium | | - | (1) |
| Unrealized fair value gains | | - | 1 |
| Balance as of December 31 | | - | 126 |
| Financial Assets at Amortized Cost | | | |
| Balance as of January 1 | | 255 | 257 |
| Additions | | - | 69 |
| Disposals* | | (255) | (71) |
| Balance as of December 31 | | - | 255 |
| | <i>14, 35, 36</i> | P - | P381 |

*Disposal in 2021 was due to deconsolidation of Petrogen (see Note 14).

8. Trade and Other Receivables

This account consists of:

| | Note | 2021 | 2020 |
|--|---------------|----------------|---------|
| Trade | 35 | P32,705 | P19,372 |
| Related parties - trade | 29, 35 | 2,684 | 932 |
| Allowance for impairment loss on trade receivables | | (839) | (823) |
| | | 34,550 | 19,481 |
| Government | | 14,853 | 5,292 |
| Related parties - non-trade | 29 | 1,193 | 1,636 |
| Others | | 1,338 | 958 |
| Allowance for impairment loss on non-trade receivables | | (189) | (172) |
| | | 17,195 | 7,714 |
| | <i>35, 36</i> | P51,745 | P27,195 |

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 P13,273 and P482 as of December 31, 2021 and 2020, 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 2021 and 2020 is shown below:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|---------------|--------|
| Balance at beginning of year | | P1,302 | P1,260 |
| Additions | 24 | 28 | 67 |
| Write off | 4 | (6) | (8) |
| Reversal/reclassifications | | 3 | - |
| Currency translation adjustment | | 16 | (17) |
| Balance at end of year | | 1,343 | 1,302 |
| Less noncurrent portion for long-term receivables | 35 | 315 | 307 |
| | | P1,028 | P995 |

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 P6 and P8 in 2021 and 2020, 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, 2021 and 2020:

| | Weighted Average Loss Rate | Gross Carrying Amount | ECL |
|--------------------------|---------------------------------------|----------------------------------|---------------|
| December 31, 2021 | | | |
| Retail | 2.46% | P4,470 | P110 |
| Lubes | 1.24% | 646 | 8 |
| Gasul | 4.47% | 1,186 | 53 |
| Industrial | 2.08% | 17,104 | 355 |
| Others | 1.71% | 29,367 | 502 |
| | | P52,773 | P1,028 |

| | Weighted Average Loss Rate | Gross Carrying Amount | ECL |
|-------------------|-------------------------------|--------------------------|------|
| December 31, 2020 | | | |
| Retail | 2.62% | P4,350 | P114 |
| Lubes | 0.16% | 621 | 1 |
| Gasul | 6.96% | 790 | 55 |
| Industrial | 3.99% | 7,760 | 310 |
| Others | 3.51% | 14,669 | 515 |
| | | P28,190 | P995 |

9. Inventories

This account consists of:

| | 2021 | 2020 |
|--|----------------|---------|
| Crude oil and others | P32,573 | P17,433 |
| Petroleum | 26,168 | 19,414 |
| Materials and supplies | 5,458 | 5,503 |
| Lubes, greases and aftermarket specialties | 3,485 | 2,572 |
| | P67,684 | P44,922 |

The cost of these inventories amounted to P68,291 and P45,535 as of December 31, 2021 and 2020, 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 P994 and P142 as of December 31, 2021 and 2020, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P390,379, P263,078 and P463,028 in 2021, 2020 and 2019, respectively (Note 23).

Research and development costs on these products constituted the expenses incurred for internal projects in 2021, 2020 and 2019 (Note 24).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2021 and 2020 are as follows:

| | Note | 2021 | 2020 |
|------------------------------|------|-------------|--------|
| Balance at beginning of year | | P613 | P1,104 |
| Additions/reductions: | | | |
| Inventory obsolescence | 4 | (43) | 73 |
| Inventory write-down | 4 | 37 | - |
| Reversals | | - | (564) |
| Balance at end of year | | P607 | P613 |

The losses and reversals are included as part of "Cost of goods sold" account in the consolidated statements of income. Reversal of write-down corresponds to inventories sold during the year (Note 23).

10. Property, Plant and Equipment

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

| | Note | Buildings and Improvements and Related Facilities | Refinery and Plant Equipment | Service Stations and Other Equipment | Computers, Office and Motor Equipment | Land and Leasehold Improvements | Construction in-Progress | Total |
|--|------|--|------------------------------------|---|--|---------------------------------------|-----------------------------|-----------------|
| Cost | | | | | | | | |
| January 1, 2020, as previously reported | | P22,717 | P192,451 | P19,280 | P5,652 | P4,162 | P16,872 | P261,134 |
| Adjustments due to reclassification from other noncurrent assets | | - | 422 | - | - | - | - | 422 |
| January 1, 2020, 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) | (143) | (336) |
| Currency translation adjustment | | (271) | (430) | (315) | (64) | (68) | (294) | (1,442) |
| December 31, 2020 | | 23,497 | 194,249 | 19,784 | 5,887 | 4,134 | 20,182 | 267,733 |
| Additions | | 113 | 1,903 | 149 | 111 | 92 | 7,164 | 9,532 |
| Disposals/reclassifications | | 880 | 9,918 | (89) | 271 | 98 | (11,200) | (122) |
| Reclassification to/from investment property | 12 | (223) | - | - | - | (50) | (10) | (283) |
| Currency translation adjustment | | 296 | 751 | 243 | 61 | 50 | (235) | 1,166 |
| December 31, 2021 | | 24,563 | 206,821 | 20,087 | 6,330 | 4,324 | 15,901 | 278,026 |
| Accumulated Depreciation | | | | | | | | |
| January 1, 2020, as previously reported | | 13,205 | 61,390 | 12,832 | 4,672 | 1,094 | - | 93,193 |
| Adjustments due to reclassification from other noncurrent assets | | - | 96 | - | - | - | - | 96 |
| January 1, 2020, 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) | (20) | (44) | (84) | 3 | - | (218) |
| Reclassification to/from investment property | 12 | - | - | - | - | (7) | - | (7) |
| Currency translation adjustment | | (197) | (318) | (126) | (51) | (1) | - | (693) |
| December 31, 2020 | | 13,793 | 65,244 | 13,690 | 4,994 | 1,181 | - | 98,902 |
| Depreciation | | 875 | 4,687 | 941 | 459 | 91 | - | 7,053 |
| Disposals/reclassifications | | (47) | (1) | (13) | (65) | 4 | - | (122) |
| Reclassification to/from investment property | 12 | - | - | - | - | (4) | - | (4) |
| Currency translation adjustment | | 173 | 241 | 134 | 46 | 1 | - | 595 |
| December 31, 2021 | | 14,794 | 70,171 | 14,752 | 5,434 | 1,273 | - | 106,424 |
| Carrying Amount | | | | | | | | |
| December 31, 2020 | | P9,704 | P129,005 | P6,094 | P893 | P2,953 | P20,182 | P168,831 |
| December 31, 2021 | | P9,769 | P136,650 | P5,335 | P896 | P3,051 | P15,901 | P171,602 |

In 2021 and 2020, 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 2021, 2020 and 2019 based on management's assessment of impairment indicators.

Certain fully depreciated property, plant and equipment with aggregate costs of P25,485 and P21,741 as at December 31, 2021 and 2020, respectively, are still being used in the Group's operations.

The Group capitalized interest amounting to P337, P313 and P114 in 2021, 2020 and 2019, respectively (Notes 16, 19, 27 and 30). The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 1.34% to 8.21% in 2021 and from 1.45% to 8.20% in 2020.

Capital Commitments

As of December 31, 2021 and 2020, the Group has outstanding commitments to acquire property, plant and equipment amounting to P6,161 and P12,506, respectively.

11. Right-of-Use Assets

The movements and balances of right-of-use assets as of and for the years ended December 31 follow:

| | Land | Buildings and Improvements and Related Facilities | Service Stations and Other Equipment | Total |
|---------------------------------|---------------|---|--------------------------------------|---------------|
| Cost | | | | |
| January 1, 2020 | P5,526 | P1,055 | P24 | P6,605 |
| Additions | 204 | 2 | - | 206 |
| Remeasurements | 867 | 39 | - | 906 |
| Currency translation adjustment | (30) | (3) | - | (33) |
| December 31, 2020 | 6,567 | 1,093 | 24 | 7,684 |
| Additions | 171 | 421 | - | 592 |
| Remeasurements | (517) | (406) | - | (923) |
| Currency translation adjustment | 20 | 3 | - | 23 |
| December 31, 2021 | 6,241 | 1,111 | 24 | 7,376 |
| Accumulated Depreciation | | | | |
| January 1, 2020 | 872 | 221 | 3 | 1,096 |
| Remeasurements | (115) | (1) | - | (116) |
| Depreciation | 440 | 225 | 3 | 668 |
| Currency translation adjustment | (8) | (1) | - | (9) |
| December 31, 2020 | 1,189 | 444 | 6 | 1,639 |
| Remeasurements | (132) | (406) | - | (538) |
| Depreciation | 415 | 201 | 3 | 619 |
| Currency translation adjustment | 6 | 2 | - | 8 |
| December 31, 2021 | 1,478 | 241 | 9 | 1,728 |
| Carrying Amount | | | | |
| December 31, 2020 | P5,378 | P649 | P18 | P6,045 |
| December 31, 2021 | P4,763 | P870 | P15 | P5,648 |

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 P1,070 and P1,115 in 2021 and 2020, respectively (Note 27 and 30).

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 P314, P8 and P4, respectively, in 2021, and P251, P13 and P3, respectively, in 2020 (Note 30).

The Group had total cash outflows for leases of P2,862 and P2,972 in 2021 and 2020, respectively (Note 30).

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

12. Investment Property

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

| | Note | Land | Land and Leasehold Improvements | Buildings and Improvements | Right-of-Use | Total |
|---|------|---------------|---------------------------------|----------------------------|---------------|----------------|
| Cost | | | | | | |
| January 1, 2020 | | P9,253 | P5,676 | P17,562 | P11,543 | P44,034 |
| 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) |
| December 31, 2020 | | 9,208 | 5,744 | 18,070 | 12,372 | 45,394 |
| Additions | | 5 | 204 | 486 | 117 | 812 |
| Disposals/reclassifications | | - | - | 118 | (131) | (13) |
| Reclassifications from/to property, plant and equipment | 10 | (46) | 96 | 233 | - | 283 |
| Currency translation adjustment | | 86 | 213 | 252 | - | 551 |
| December 31, 2021 | | 9,253 | 6,257 | 19,159 | 12,358 | 47,027 |
| Accumulated Depreciation | | | | | | |
| 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) |
| December 31, 2020 | | - | 4,194 | 9,321 | 1,830 | 15,345 |
| Depreciation | | - | 329 | 720 | 884 | 1,933 |
| Disposals/reclassifications | | - | - | 40 | (154) | (114) |
| Reclassifications from/to property, plant and equipment | 10 | - | (4) | - | - | (4) |
| Currency translation adjustment | | - | 269 | 423 | - | 692 |
| December 31, 2021 | | - | 4,788 | 10,504 | 2,560 | 17,852 |
| Carrying Amount | | | | | | |
| December 31, 2020 | | P9,208 | P1,550 | P8,749 | P10,542 | P30,049 |
| December 31, 2021 | | P9,253 | P1,469 | P8,655 | P9,798 | P29,175 |

In 2021 and 2020, 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).

No impairment loss was required to be recognized in 2021, 2020 and 2019 based on management's assessment of impairment indicators.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment property that generated income in 2021, 2020 and 2019.

The fair value of investment property amounting to P43,119 and P42,460 as of December 31, 2021 and 2020, 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 P27,166 and P26,138 as of December 31, 2021 and 2020, respectively, were 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 P6,017 and P4,820 as of December 31, 2021 and 2020, respectively, were determined by using the depreciated replacement cost method. The net present value of lease liability recognized in investment property as of December 31, 2021 and 2020 represents the remaining fair value amounting to P9,936 and P11,502, respectively.

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.

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:

Ovincor

On June 22, 2021 and December 9, 2021, the Executive Committee of the BOD of the Parent Company approved the proposal of Management for an additional investment in Ovincor amounting to US\$1 million and US\$5.2 million, respectively. This is to expand Ovincor's capability to retain a bigger share of insurance cover for the Parent Company. The additional investments were paid on August 19, 2021 and December 15, 2021, respectively.

Goodwill

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

| | 2021 | 2020 |
|---|---------------|--------|
| Cost | | |
| Balance at beginning of year | P8,031 | P8,319 |
| Translation adjustments | 204 | (288) |
| Net carrying amount at end of year | P8,235 | P8,031 |

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, 2021 and 2020, is allocated at the POGI Group cash generating unit (CGU) instead of each individual acquiree company's CGU as it is expected that the POGI Group CGU will benefit from the synergies created from the acquiree companies in combination.

The Group tested the goodwill for impairment. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the CGU and was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results. Management believes that this five-year forecast period was justified due to the long-term nature of the business.
- A discount rate of 7.7% in 2021 and 6.3% in 2020 was applied based on the weighted average cost of capital using the Capital Asset Pricing Model (CAPM).
- Terminal growth rate of 3.0% in 2021 and 2020 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 2021 and 2020 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 2021, 2020 and 2019 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, 2021 | | December 31, 2020 | |
|--|-------------------|-----------------|-------------------|----------|
| | NVRC | PMRMB | NVRC | PMRMB |
| Non-controlling Interests Percentage | 14.45% | 26.60% | 14.45% | 26.60% |
| Carrying amount of non-controlling interest | P467 | P6,858 | P451 | P5,972 |
| Current assets | P617 | P25,192 | P664 | P9,606 |
| Noncurrent assets | 9,415 | 27,287 | 9,317 | 25,869 |
| Current liabilities | (1,219) | (25,486) | (1,211) | (12,446) |
| Noncurrent liabilities | (3,791) | (2,942) | (3,906) | (2,281) |
| Net assets | P5,022 | P24,051 | P4,864 | P20,748 |
| Net income (loss) attributable to non-controlling interests | P12 | P755 | P11 | (P44) |
| Other comprehensive income (loss) attributable to non-controlling interests | P - | P177 | P - | (P217) |
| Sales | P395 | P109,483 | P415 | P76,733 |
| Net income (loss) | P159 | P2,842 | P155 | (P376) |
| Other comprehensive income (loss) | - | 24 | - | (60) |
| Total comprehensive income (loss) | P159 | P2,866 | P155 | (P436) |
| Cash flows provided by (used in) operating activities | P123 | (P3,832) | P234 | P1,147 |
| Cash flows used in investing activities | (5) | (1,938) | (3) | (4,332) |
| Cash flows provided by (used in) financing activities | (158) | 7,175 | (212) | 2,995 |
| Effects of exchange rate changes on cash and cash equivalents | - | - | - | (20) |
| Net increase (decrease) in cash and cash equivalents | (P40) | P1,405 | P19 | (P210) |

14. Investment in Shares of Stock of an Associate

Petrogen was incorporated and registered with the Philippine SEC on August 23, 1996 primarily to engage in the business of non-life insurance and re-insurance.

On September 10, 2019 and December 16, 2019, the Parent Company subscribed to additional 31,250 and 93,750 common shares, respectively, of Petrogen at P1,000.00 per share for a total consideration of P125, pursuant to the increase in the capital stock of Petrogen which was approved by the SEC on November 4, 2019. As at December 31, 2019, Petrogen has a total of 475,001 common shares issued and outstanding.

On October 21, 2020, the BOD of Petrogen approved the declaration of stock dividends in the total amount of P25 equal to 25,000 shares with par value of P1,000 per share and was subsequently approved by the Insurance Commission on January 4, 2021.

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 a par value of P1,000 per share. On the same date, Petrogen's BOD 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 the SEC approval on February 8, 2021 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 effective February 4, 2021. The carrying amount of the Parent Company's investment in Petrogen at deconsolidation date amounted to P991. The Group recognized P13 gain on deconsolidation.

The Group recognized P8 as share in net income of Petrogen accounted for using equity method.

Below summarizes the derecognized accounts at the deconsolidation date:

| | |
|-----------------------------------|-------------|
| Cash and cash equivalents | P3,677 |
| Trade and other receivables - net | 568 |
| Investments in debt instruments | 381 |
| Other current assets | 91 |
| Deferred tax assets - net | 10 |
| Trade and other payables | (733) |
| Deposits for future subscription | (3,000) |
| Equity reserves | (3) |
| Total | P991 |

Following are the condensed financial information of Petrogen as of and for the period ended December 31, 2021:

| | December 31, 2021 |
|---|--------------------------|
| Percentage of ownership | 25.06% |
| Current assets | P7,075 |
| Noncurrent assets | 649 |
| Current liabilities | (3,686) |
| Net assets | P4,038 |
| Revenue | P1,749 |
| Net income | P40 |
| Share in net assets | P1,012 |
| Carrying amount of investment in shares of stock of an associate | P1,012 |

As of December 31, 2021, the Parent company owns 25.06% of Petrogen accounted for as an investment in an associate.

15. Other Assets

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|--|-------------|----------------|---------|
| Current | | | |
| Prepaid taxes | | P26,754 | P22,038 |
| Input VAT | | 3,011 | 7,698 |
| Prepaid expenses | 29 | 1,097 | 2,101 |
| Special-purpose fund | | 158 | 158 |
| Assets held for sale | | - | 13 |
| Tax recoverable | | 5 | 131 |
| Others - net | | 170 | 198 |
| | | P31,195 | P32,337 |
| Noncurrent | | | |
| Input VAT | | P127 | P588 |
| Catalyst - net | | 489 | 552 |
| Prepaid rent | | 202 | 290 |
| Derivative assets designated as cash flow hedge | 6, 35, 36 | 33 | 6 |
| Noncurrent deposits | 35, 36 | 128 | 121 |
| Intangibles - net | 4 | 139 | 138 |
| Others - net | | 423 | 393 |
| | | P1,541 | P2,088 |

The "Others - net" under "Noncurrent" account includes marketing assistance to dealers and other prepayments amounting to P262, P256 and P268 as of December 31, 2021, 2020 and 2019, respectively, net of amortization amounting to P57, P75 and P154 in 2021, 2020 and 2019, respectively.

The amortization of prepaid rent amounted to nil in 2021, P4 in 2020 and nil in 2019.

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 P67, P86 and P83 in 2021, 2020 and 2019, respectively (Notes 24 and 26).

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 P176, P261 and P242 in 2021, 2020 and 2019, respectively (Notes 23 and 26).

As of December 31, 2020, assets held for sale pertain to two condominium properties acquired through dacion en pago.

16. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 1 to 181 days and annual interest ranging from 1.18% to 2.95% in 2021, 0.92% to 6.75% in 2020 and 2.30% to 8.50% in 2019 (Note 27). 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 P2,089 in 2021, P3,418 in 2020 and P4,065 in 2019 (Note 27). Interest expense amounting to P115 was capitalized as part of property, plant and equipment in 2021 while P174 in 2020 and P33 in 2019 (Note 10).

17. 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 32.

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

| | <i>Note</i> | 2021 | 2020 |
|-----------------|-------------|----------------|---------|
| Third parties | | P42,586 | P22,301 |
| Related parties | 29 | 55 | 19 |
| | 35, 36 | P42,641 | P22,320 |

18. Trade and Other Payables

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|--|-------------|----------------|---------|
| Trade | | P4,427 | P6,386 |
| Specific taxes and other taxes payable | | 4,615 | 4,072 |
| Accrued payroll | | 200 | 73 |
| Due to related parties | 29 | 1,470 | 1,118 |
| Accrued interest | | 668 | 633 |
| Accrued rent | | 330 | 303 |
| Dividends payable | 34 | 829 | 505 |
| Asset Retirement Obligation - current | | 20 | - |
| Insurance liabilities | | 154 | 288 |
| Retention payable | | 78 | 180 |
| Retirement benefits liability | 31 | 132 | 103 |
| Deferred liability on consumer loyalty program | | 814 | 1,406 |
| Others | 40 | 264 | 335 |
| | 35, 36 | P14,001 | P15,402 |

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 40), 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 P1,211 and P1,158 in 2021 and 2020, respectively (Note 38).

19. Long-term Debt

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

| | <i>Note</i> | 2021 | 2020 |
|---|-------------------|----------------|---------|
| Unsecured Peso-Denominated (net of debt issue costs) | | | |
| Term loan of 5.4583% due until 2022 | <i>(a)</i> | P1,000 | P1,998 |
| Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023 | <i>(b)</i> | 6,979 | 19,944 |
| Term loan of 5.5276% due quarterly until 2024 | <i>(d)</i> | 5,878 | 8,008 |
| Term loan of 5.7584% due until 2022 | <i>(e)</i> | 2,497 | 4,990 |
| Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025 | <i>(f)</i> | 19,867 | 19,832 |
| Fixed retail bond of 3.4408% due until 2025 and 4.3368% due until 2027 | <i>(k)</i> | 17,779 | - |
| Term loan of 4.5900% due until 2025 | <i>(i)</i> | 4,356 | 4,970 |
| Unsecured Foreign Currency-Denominated (net of debt issue costs) | | | |
| Floating rate dollar loan - US\$1,000 million due until 2022 | <i>(c)</i> | P7,219 | P13,530 |
| Floating rate dollar loan - US\$800 million due until 2024 | <i>(g)</i> | 22,992 | 32,334 |
| Floating rate yen loan - JP¥15 billion due until 2025 | <i>(h)</i> | 6,556 | 6,845 |
| Floating rate dollar loan - US\$150 million due until 2023 | <i>(j)</i> | 7,522 | 7,003 |
| | <i>34, 35, 36</i> | 102,645 | 119,454 |
| Less current portion | | 21,580 | 31,114 |
| | | P81,065 | P88,340 |

- 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 2021 and 2020, 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. The Parent Company redeemed its P13,000 Series A retail bonds on October 27, 2021.

- 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\$86 million and US\$57 million in 2021 and US\$221 million and US\$148 million in 2020 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, 2021, the P9,107 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 2021 and 2020, 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 22), 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. In 2021 and 2020, US\$228 million and US\$115 million portion of the facility has been paid, respectively.

- 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. Due to the global discontinuation of JPY LIBOR by December 31, 2021, an amendment was made to the JPY Facility adopting the Tokyo Overnight Average Rate (TONA) as the new benchmark rate. Beginning December 29, 2021, the floating interest rate on the JPY15 billion facility is based on TONA 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. In 2021, P625 amortization of principal has been paid.
- 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.
- k. On October 12, 2021, the Parent Company issued P18,000 retail bonds divided into Series E due in 2025 (P9,000) and Series F due in 2027 (P9,000) with interest rates of 3.4408% p.a. and 4.3368% p.a., respectively. The Bonds are listed on the Philippine Dealing & Exchange Corp. The proceeds were used for the redemption of the Company's Series A Bonds, the partial financing of the Power Plant project and payment of existing indebtedness.

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 of December 31, 2021 and 2020, 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 P5,220, P5,727 and P6,893 for the years ended 2021, 2020 and 2019, respectively (Note 27). Interest amounting to P130 was capitalized in 2021, P49 in 2020 and P21 in 2019 (Note 10).

Movements in debt issue costs follow:

| | <i>Note</i> | 2021 | 2020 |
|------------------------------|-------------|---------------|--------|
| Balance at beginning of year | | P1,368 | P1,240 |
| Additions | | 229 | 731 |
| Amortization for the year | 27 | (615) | (603) |
| Balance at end of year | | P982 | P1,368 |

Repayment Schedule

As of December 31, 2021 and 2020, the annual maturities of long-term debt are as follows (Note 35):

2021

| Year | Gross Amount | Debt Issue Costs | Net |
|-----------------|---------------------|-------------------------|-----------------|
| 2022 | P21,869 | P289 | P21,580 |
| 2023 | 31,599 | 299 | 31,300 |
| 2024 | 23,785 | 121 | 23,664 |
| 2025 | 17,374 | 161 | 17,213 |
| 2026 and beyond | 9,000 | 112 | 8,888 |
| | P103,627 | P982 | P102,645 |

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 |
| | P120,822 | P1,368 | P119,454 |

20. Asset Retirement Obligation

Movements in the ARO are as follows:

| | <i>Note</i> | 2021 | 2020 |
|--|-------------|---------------|--------|
| Balance at beginning of year | | P2,867 | P1,720 |
| Additions | | 133 | 1 |
| Accretion for the year | 27 | 252 | 77 |
| Effect of change in estimates | 4 | 86 | 503 |
| Effect of change in discount rate | | (457) | 568 |
| Settlement | | (4) | (2) |
| Balance at end of year including current portion | | P2,877 | P2,867 |

21. Other Noncurrent Liabilities

This account consists of:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|---------------|--------|
| Cylinder deposits | | P687 | P617 |
| Cash bonds | | 450 | 947 |
| Derivative liabilities designated as cash flow hedge | | 25 | 292 |
| Others | | 40 | 48 |
| | 35, 36 | P1,202 | P1,904 |

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

22. 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, 2021 and 2020, the Parent Company had 144,720 and 144,979 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.

On November 3, 2021, the Parent Company redeemed its 2,877,680 Series 2B Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 7, 2021. The redemption was approved by the Parent Company's BOD on March 9, 2021.

As of December 31, 2021 and 2020, the Parent Company had 20,000,000 and 22,877,680 (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, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|----------------------------|-----------|-----------|
| Series 2B Preferred Shares | - | 30 |
| Series 3A Preferred Shares | 9 | 8 |
| Series 3B Preferred Shares | 24 | 24 |
| | 33 | 62 |

b. Retained Earnings

Declaration of Cash Dividends

On various dates in 2019, 2020 and 2021, 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 |
|-------------|-----------|---------------------|-------------------|--------------------|
| 2019 | | | | |
| Common | P0.10000 | March 12, 2019 | March 27, 2019 | April 11, 2019 |
| Series 2A | 15.75000 | March 12, 2019 | April 4, 2019 | May 3, 2019 |
| Series 2B | 17.14575 | March 12, 2019 | April 4, 2019 | May 3, 2019 |
| Series 2A | 15.75000 | March 12, 2019 | July 12, 2019 | August 5, 2019 |
| Series 2B | 17.14575 | March 12, 2019 | July 12, 2019 | August 5, 2019 |
| Series 2A | 15.75000 | August 6, 2019 | October 11, 2019 | November 4, 2019 |
| Series 2B | 17.14575 | August 6, 2019 | October 11, 2019 | November 4, 2019 |
| Series 3A | 17.17825 | August 6, 2019 | September 2, 2019 | September 25, 2019 |
| Series 3B | 17.84575 | August 6, 2019 | September 2, 2019 | September 25, 2019 |
| Series 3A | 17.17825 | November 5, 2019 | December 2, 2019 | December 26, 2019 |
| Series 3B | 17.84575 | November 5, 2019 | December 2, 2019 | December 26, 2019 |
| Series 2B | 17.14575 | November 5, 2019 | January 14, 2020 | February 3, 2020 |
| Series 3A | 17.17825 | November 5, 2019 | March 2, 2020 | March 25, 2020 |
| Series 3B | 17.84575 | November 5, 2019 | March 2, 2020 | March 25, 2020 |
| 2020 | | | | |
| 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 |
| 2021 | | | | |
| Series 2B | P17.14575 | March 9, 2021 | April 7, 2021 | May 3, 2021 |
| Series 3A | 17.17825 | March 9, 2021 | June 2, 2021 | June 25, 2021 |
| Series 3B | 17.84575 | March 9, 2021 | June 2, 2021 | June 25, 2021 |
| Series 2B | 17.14575 | May 3, 2021 | July 8, 2021 | August 3, 2021 |
| Series 3A | 17.17825 | May 3, 2021 | September 2, 2021 | September 27, 2021 |
| Series 3B | 17.84575 | May 3, 2021 | September 2, 2021 | September 27, 2021 |
| Series 2B | 17.14575 | August 3, 2021 | October 7, 2021 | November 3, 2021 |
| Series 3A | 17.17825 | August 3, 2021 | November 29, 2021 | December 27, 2021 |
| Series 3B | 17.84575 | August 3, 2021 | November 29, 2021 | December 27, 2021 |
| Series 3A | 17.17825 | November 9, 2021 | March 3, 2022 | March 25, 2022 |
| Series 3B | 17.84575 | November 9, 2021 | March 3, 2022 | March 25, 2022 |
| Series 3A | 17.17825 | November 9, 2021 | June 3, 2022 | June 27, 2021 |
| Series 3B | 17.84575 | November 9, 2021 | June 3, 2022 | June 27, 2021 |

Total cash dividends declared by the Parent Company amounted to P1,899 for 2021 and P2,515 both in 2020 and 2019.

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.

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 Plant project which is expected to be completed by the second half of 2022.

On October 7, 2021, the BOD of PEDC approved the appropriation of its retained earnings amounting to P3 for acquisition of three lots located in Bulacan which is expected to be completed by the second half of 2022.

The appropriated retained earnings attributable to the equity holders of the Parent Company as of December 31, 2021 and 2020 amounted to P7,003 and P15,000, respectively.

- c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint ventures and an associate amounting to P33,573, P26,345 and P28,791 as of December 31, 2021, 2020 and 2019, 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:

| | 2021 | 2020 | 2019 |
|--|------------------|-----------|-----------|
| Balance at beginning of year | (P13,223) | (P12,195) | (P11,091) |
| Net loss on cash flow hedges, net of tax | (718) | (393) | (145) |
| Changes in fair value of investment in debt instruments | 866 | 464 | 10 |
| Cumulative translation adjustment | 696 | (1,109) | (969) |
| Share in other comprehensive loss of a joint venture | - | 10 | - |
| Balance at end of year | (P12,379) | (P13,223) | (P12,195) |

e. 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.

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 US\$500 million SPCS were made on the following dates: July 16, 2021 (P770), January 15, 2021 (P737), July 17, 2020 (P814), January 17, 2020 (P834), July 18, 2019 (P838), January 18, 2019 (P859)

On April 19, 2021, Petron issued US\$550 million Senior Perpetual Capital Securities (SPCS) at an issue price of 100%, with an initial distribution rate of 5.95% per annum. The securities were listed in the Singapore Exchange Securities Trading Limited on April 20, 2021. The net proceeds were used for the repayment of indebtedness and for general corporate purposes.

Payments of distributions pertaining to US\$550 million SPCS was made on October 18, 2021 amounting to P1,108.

These 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.

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. The Parent Company has a right to defer the distribution under certain conditions.

Distributions to holders of the RPS were made on November 27, 2021 (P3), August 27, 2021 (P3), May 27, 2021 (P3), February 27, 2021 (P3), 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, 2021 (P59), September 22, 2021 (P59), June 22, 2021 (P57), March 22, 2021 (P57), 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, 2021 (P45), August 10, 2021 (P46), May 10, 2021 (P43), February 10, 2021 (P44) and 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.

23. Cost of Goods Sold

This account consists of:

| | <i>Note</i> | 2021 | 2020 | 2019 |
|----------------------------------|-------------|-----------------|----------|----------|
| Inventories | 9 | P390,379 | P263,078 | P463,028 |
| Depreciation and amortization | 26 | 5,099 | 4,802 | 8,430 |
| Materials and supplies | | 3,431 | 2,969 | 4,099 |
| Purchased services and utilities | | 1,387 | 1,567 | 2,101 |
| Personnel expenses | 25 | 1,413 | 1,463 | 1,771 |
| Others | 30, 32 | 5,849 | 3,441 | 4,426 |
| | | P407,558 | P277,320 | P483,855 |

Distribution or transshipment costs included as part of inventories amounted to P6,035, P8,290 and P11,380 in 2021, 2020 and 2019, respectively.

Others include manufacturing and overhead costs such as maintenance and repairs, taxes and licenses, insurance and rent.

24. Selling and Administrative Expenses

This account consists of:

| | <i>Note</i> | 2021 | 2020 | 2019 |
|--|-------------|----------------|---------|---------|
| Depreciation and amortization | 26 | P4,749 | P4,688 | P4,815 |
| Purchased services and utilities | | 3,524 | 3,988 | 4,597 |
| Personnel expenses | 25 | 3,219 | 3,103 | 3,318 |
| Maintenance and repairs | | 1,429 | 1,177 | 1,342 |
| Materials and office supplies | | 673 | 422 | 528 |
| Advertising | | 318 | 421 | 696 |
| Taxes and licenses | | 309 | 340 | 360 |
| Rent | 30 | 220 | 130 | 38 |
| Impairment losses on trade and other receivables | 4, 8 | 28 | 67 | 35 |
| Others | 9 | 88 | 53 | 86 |
| | | P14,557 | P14,389 | P15,815 |

Selling and administrative expenses include research and development costs amounting to P62, P66 and P76 in 2021, 2020 and 2019, respectively (Note 9).

25. Personnel Expenses

This account consists of:

| | <i>Note</i> | 2021 | 2020 | 2019 |
|---|-------------|---------------|--------|--------|
| Salaries, wages and other employee costs | 29 | P4,264 | P4,194 | P4,919 |
| Retirement benefits costs - defined benefit plan | 29, 31 | 289 | 289 | 70 |
| Retirement benefits costs - defined contribution plan | 29 | 79 | 83 | 100 |
| | | P4,632 | P4,566 | P5,089 |

The above amounts are distributed as follows:

| | <i>Note</i> | 2021 | 2020 | 2019 |
|-------------------------------------|-------------|---------------|--------|--------|
| Costs of goods sold | 23 | P1,413 | P1,463 | P1,771 |
| Selling and administrative expenses | 24 | 3,219 | 3,103 | 3,318 |
| | | P4,632 | P4,566 | P5,089 |

26. Depreciation and Amortization

This account consists of:

| | Note | 2021 | 2020 | 2019 |
|--------------------------------------|-------------|---------------|--------|---------|
| Cost of goods sold: | | | | |
| Property, plant and equipment | 10 | P4,794 | P4,363 | P8,081 |
| Right-of-use assets | 11 | 129 | 178 | 107 |
| Other assets | 15 | 176 | 261 | 242 |
| | 23 | 5,099 | 4,802 | 8,430 |
| Selling and administrative expenses: | | | | |
| Property, plant and equipment | 10 | 2,259 | 2,168 | 2,254 |
| Right-of-use assets | 11 | 490 | 490 | 595 |
| Investment property | 12 | 1,933 | 1,944 | 1,883 |
| Intangible assets and others | 15 | 67 | 86 | 83 |
| | 24 | 4,749 | 4,688 | 4,815 |
| | 38 | P9,848 | P9,490 | P13,245 |

27. Interest Expense and Other Financing Charges, Interest Income and Other Expenses

This account consists of:

| | Note | 2021 | 2020 | 2019 |
|---|-------------|----------------|---------|---------|
| Interest expense and other financing charges: | | | | |
| Long-term debt | 19 | P4,490 | P5,080 | P6,423 |
| Short-term loans | 16 | 1,974 | 3,244 | 4,032 |
| Bank charges | | 1,240 | 729 | 920 |
| Accretion on lease liability | 30 | 1,070 | 1,115 | 1,165 |
| Amortization of debt issue costs | 19 | 600 | 598 | 449 |
| Accretion on ARO | 20 | 252 | 77 | 98 |
| Defined benefit obligation | 31 | 201 | 241 | 335 |
| Product borrowings | | 171 | 218 | 65 |
| Others | | 10 | 11 | 3 |
| | 38 | P10,008 | P11,313 | P13,490 |
| Interest income: | | | | |
| Short-term placements | 5 | P400 | P507 | P953 |
| Advances to related parties | 29 | 79 | 94 | 113 |
| Plan assets | 31 | 56 | 100 | 209 |
| Trade receivables | 8 | 19 | 44 | 40 |
| Cash in banks | 5 | 10 | 17 | 7 |
| Investments in debt instruments | 7 | - | 18 | 18 |
| | 38 | P564 | P780 | P1,340 |

Forward

| | Note | 2021 | 2020 | 2019 |
|---|-------------|----------------|----------|----------|
| Other expenses - net: | | | | |
| Marked-to-market gains (losses) - net | 36 | P344 | (P2,428) | (P1,926) |
| Hedging gains (losses) - net | | 104 | (1,121) | (1,783) |
| Changes in fair value of financial assets at FVPL | 6 | 23 | (9) | 30 |
| Foreign currency gains (losses) - net | 35 | (1,242) | 2,363 | 2,609 |
| Others - net | | 289 | 146 | 758 |
| | | (P482) | (P1,049) | (P312) |

The Group recognized nil share in the net income (loss) of PDSI in 2021 and 2020 and P0.12 in 2019 and its share in the net income of TBSB amounting to P1.78 in 2021, P4.16 in 2020 and P1.69 in 2019. These were recorded as part of "Others - net" under "Other expenses - net" account in the consolidated statements of income. Bank charges amounting to P28 was capitalized as part of property, plant and equipment in 2021 while P5 in 2020 and P2 in 2019 (Note 10).

Also included in "Others - net" were the following: (i) rental income amounting to P63 each in 2021, 2020 and 2019 (Note 30); (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 40); (iii) gain on sale of fixed asset amounting to P95 in 2020; (iv) other income due to rent concession amounting to P23 in 2020.

28. Income Taxes

Deferred tax assets and liabilities are from the following:

2021

| | January 1 | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Others | December 31 |
|--|---------------|------------------------------------|---|-------------|-----------------|
| Net retirement benefits liability | P2,195 | (P118) | (P194) | P - | P1,883 |
| Rental | 1,589 | (253) | (74) | - | 1,262 |
| NOLCO | 8,847 | (1,054) | - | - | 7,793 |
| Various allowances, accruals and others | 868 | (350) | - | (9) | 509 |
| Inventory differential | 73 | (245) | - | - | (172) |
| MCIT | 491 | 198 | - | - | 689 |
| ARO | 298 | 146 | - | - | 444 |
| Unutilized tax losses | 358 | 44 | - | - | 402 |
| Fair market value adjustments on business combination | (28) | 1 | - | - | (27) |
| Unrealized foreign exchange gains - net | (984) | 808 | (64) | - | (140) |
| Capitalized taxes and duties on inventories deducted in advance | (1,234) | 470 | - | - | (764) |
| Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others | (4,307) | 702 | - | - | (3,605) |
| Excess of double-declining over straight-line method of depreciation and amortization | (9,060) | (726) | - | - | (9,786) |
| | (P894) | (P377) | (P332) | (P9) | (P1,612) |

2020

| | January 1 | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Others | December 31 |
|--|-----------|------------------------------------|---|--------|-------------|
| Net retirement benefits liability | P2,157 | (P153) | P191 | P - | P2,195 |
| 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) |
| | (P6,086) | P5,018 | P161 | P13 | (P894) |

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 | - | - | (4,609) |
| 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) |

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

| | 2021 | 2020 |
|--------------------------------|-----------------|---------|
| Deferred tax assets - net | P2,172 | P2,190 |
| Deferred tax liabilities - net | (3,784) | (3,084) |
| | (P1,612) | (P894) |

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:

| | 2021 | 2020 | 2019 |
|----------|---------------|----------|--------|
| Current | P784 | P220 | P1,952 |
| Deferred | 377 | (5,018) | (518) |
| | P1,161 | (P4,798) | P1,434 |

As of December 31, 2021, 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 | P4,272 | P491 |
| 2020 | December 31, 2025 | 25,209 | - |
| 2021 | December 31, 2026 | 1,678 | 198 |
| | | P31,159 | P689 |

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 | 2021 | 2020 | 2019 |
|--|-------------|----------------|---------|----------|
| Statutory income tax rate | | 25.00% | 30.00% | 30.00% |
| Increase (decrease) in income tax rate resulting from: | | | | |
| Income subject to Income Tax Holiday (ITH) | 37 | - | - | - |
| Adjustment to income tax rate due to CREATE | | (1.96%) | - | - |
| Interest income subjected to lower final tax | | (0.07%) | 0.14% | (1.84%) |
| Nontaxable income | | (4.67%) | 0.33% | (17.27%) |
| Nondeductible expense | | (4.46%) | 1.49% | 4.27% |
| Nondeductible interest expense | | 0.04% | (0.05%) | 0.61% |
| Changes in fair value of financial assets at FVPL | 27 | - | - | (0.24%) |
| Excess of optional standard deduction over deductible expenses | | (0.17%) | 0.07% | (0.32%) |
| Others, mainly income subject to different tax rates | | 1.47% | (2.38%) | 23.14% |
| Effective income tax rate | | 15.18% | 29.60% | 38.35% |

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).

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act.

The CREATE Act, which seeks to reduce the corporate income tax rates and rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, was passed into law on March 26, 2021 and took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or on April 11, 2021.

Key provisions of the CREATE Act which have an impact on the Group are: (i) reduction of Regular Corporate Income Tax (RCIT) rate from 30% to 25% for domestic and resident foreign corporations effective July 1, 2020; (ii) reduction of MCIT rate from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023; and (iii) repeal of the imposition of improperly accumulated earnings tax. Accordingly, current and deferred taxes as at and for the year ended December 31, 2021 were computed and measured using the applicable income tax rates as at December 31, 2021 (i.e. 25% RCIT, 1% MCIT) for financial reporting purposes.

The impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE Law are as follows:

| | Increase (decrease) |
|---|--------------------------------|
| ASSETS | |
| Prepaid expenses and other current assets | P4 |
| Deferred tax assets | (224) |
| | (P220) |
| LIABILITIES | |
| Deferred tax liabilities | P28 |
| | 28 |
| EQUITY | |
| Equity reserves | 366 |
| Retained earnings | (174) |
| | 192 |
| | (P220) |
| INCOME TAX EXPENSE | |
| Current | (P4) |
| Deferred | (170) |
| | (P174) |

29. 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> | Year | Revenues from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|----------------------|--------------------------------|-------------|--|---|--|--|------------------|---------------|
| Retirement Plan | <i>8, 31, a</i> | 2021 | P78 | P - | P1,138 | P - | On demand; | Unsecured; |
| | | 2020 | 93 | - | 1,562 | - | long-term; | no impairment |
| | | 2019 | 113 | - | 1,971 | - | interest bearing | |
| Intermediate Parent | <i>b, e, f, h, i</i> | 2021 | 18 | 167 | 17 | 333 | On demand; | Unsecured; |
| | | 2020 | 7 | 174 | 11 | 251 | non-interest | no impairment |
| | | 2019 | 13 | 228 | 8 | 95 | bearing | |
| Under Common Control | <i>14, b, c, d, h, i, j, k</i> | 2021 | 7,911 | 4,095 | 2,629 | 2,307 | On demand; | Unsecured; |
| | | 2020 | 4,764 | 4,445 | 1,157 | 1,918 | non-interest | no impairment |
| | | 2019 | 6,246 | 4,904 | 1,296 | 2,015 | bearing | |
| Associate | <i>l</i> | 2021 | - | 159 | 283 | 101 | On demand; | Unsecured; |
| | | 2020 | - | - | - | - | non-interest | no impairment |
| | | 2019 | - | - | - | - | bearing | |
| Joint Ventures | <i>c, g, h, i</i> | 2021 | - | - | 2 | - | On demand; | Unsecured; |
| | | 2020 | - | - | 4 | - | non-interest | no impairment |
| | | 2019 | - | 52 | 1 | - | bearing | |
| | | 2021 | P8,007 | P4,421 | P4,069 | P2,741 | | |
| | | 2020 | P4,864 | P4,619 | P2,734 | P2,169 | | |
| | | 2019 | P6,372 | P5,184 | P3,276 | P2,110 | | |

- As of December 31, 2021 and 2020, 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 31).
- 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 various lease agreements with San Miguel Properties, Inc. for office space covering 6,683 square meters and certain parcel of lands where service stations are located.
- The Parent Company has existing lease agreements with SMC covering certain parcel of lands where service stations are located.
- The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.

- g. TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.
- h. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.
- i. Amounts owed to related parties consist of trade and non-trade payables.
- j. In 2015, NVRC leased out certain parcels of its land to SMC Consolidated Power Corporation for a period of 25 years.
- k. The Parent Company sold 1,000 shares in 2020 and 50,000 shares in 2019 to a related party at a gain of P3 representing the remaining 0.17% interest in Manila North Harbour Port, Inc.
- l. On February 4, 2021, Petrogen became an associate of the Parent Company as a result of loss of control following the decrease in ownership interest from 100% to 25.06% with SMC's subscription to 1,494,973 shares in Petrogen (Note 14).
- m. On February 22, 2021, the Asset Purchase Agreement with San Miguel Foods, Inc. and Foodcrave Marketing, Inc. for the acquisition of the Treats convenience store business by the Group was executed, for an aggregate purchase price of P68.
- n. The compensation and benefits of key management personnel of the Group, by benefit type, included in the "Personnel expenses" account as follows (Note 25):

| | 2021 | 2020 | 2019 |
|---|-------------|------|------|
| Salaries and other short-term employee benefits | P749 | P741 | P756 |
| Retirement benefits costs - defined benefit plan | 104 | 109 | 29 |
| Retirement benefits costs - defined contribution plan | 31 | 33 | 27 |
| | P884 | P883 | P812 |

30. 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 32). 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:

| | Note | 2021 | 2020 | 2019 |
|--|-------------|---------------|---------|---------|
| Interest on lease liabilities | 11 | P1,070 | P1,115 | P1,165 |
| Income from sub-leasing | | (796) | (1,054) | (1,395) |
| Income from rent concession | 27 | - | (23) | - |
| Expenses relating to the variable portion of lease payments | | 4 | 3 | 7 |
| Expenses relating to short-term leases | | 314 | 251 | 62 |
| Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | | 8 | 13 | 32 |
| | | P600 | P305 | (P129) |

Rent expense amounting to P14 is included in cost of goods sold - others in 2021, P13 in 2020 and P63 in 2019 (Note 23). Interest expense amounting to P64 was capitalized as part of property, plant and equipment in 2021, P85 in 2020 while P58 in 2019 (Note 10).

Amounts recognized in consolidated statements of cashflows:

| | Note | 2021 | 2020 | 2019 |
|---|-------------|--------------|-------|-------|
| Interest paid under operating activities | 34 | P310 | P344 | P1165 |
| Cash outflows for short term and low value lease | | 326 | 267 | 101 |
| Principal lease payments under financing activities | 34 | 2,226 | 2,361 | 2,361 |

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.

| | 2021 | 2020 |
|----------------------|---------------|---------|
| Less than one year | P992 | P794 |
| One to two years | 520 | 614 |
| Two to three years | 318 | 610 |
| Three to four years | 275 | 577 |
| Four to five years | 267 | 532 |
| More than five years | 2,632 | 9,286 |
| | P5,004 | P12,413 |

Rent income recognized in profit or loss amounted to:

| | Note | 2021 | 2020 | 2019 |
|------------------------|-------------|---------------|--------|--------|
| Other operating income | | P1,273 | P1,047 | P1,507 |
| Others - net | 27 | 63 | 63 | 63 |
| | | P1,336 | P1,110 | P1,570 |

31. 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, 2021. 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) | | |
|---|--|----------|----------|---------------------------|--------|---------|---|----------|----------|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| Balance at beginning of year | (P4,864) | (P4,738) | (P5,779) | P1,056 | P1,083 | P3,279 | (P3,808) | (P3,655) | (P2,500) |
| Recognized in Profit or Loss | | | | | | | | | |
| Current service cost | (289) | (289) | (370) | - | - | - | (289) | (289) | (370) |
| Past service cost - curtailment** | - | - | 435 | - | - | - | - | - | 435 |
| Interest expense* | (201) | (241) | (335) | - | - | - | (201) | (241) | (335) |
| Interest income* | - | - | - | 56 | 100 | 209 | 56 | 100 | 209 |
| Settlement loss** | - | - | (135) | - | - | - | - | - | (135) |
| | (490) | (530) | (405) | 56 | 100 | 209 | (434) | (430) | (196) |
| Recognized in Other Comprehensive Income | | | | | | | | | |
| Remeasurements: | | | | | | | | | |
| Actuarial gains (losses) arising from: | | | | | | | | | |
| Experience adjustments | (77) | (64) | (592) | - | - | - | (77) | (64) | (592) |
| Changes in financial assumptions | 235 | (64) | (54) | - | - | - | 235 | (64) | (54) |
| Changes in demographic assumptions | 29 | 138 | 137 | - | - | - | 29 | 138 | 137 |
| Return on plan asset excluding interest | - | - | - | (784) | (641) | (2,022) | (784) | (641) | (2,022) |
| | 187 | 10 | (509) | (784) | (641) | (2,022) | (597) | (631) | (2,531) |
| Others | | | | | | | | | |
| Benefits paid | 711 | 357 | 1,934 | (611) | (301) | (1,861) | 100 | 56 | 73 |
| Contributions | - | - | - | 1,310 | 815 | 1,478 | 1,310 | 815 | 1,478 |
| Translation adjustment | (30) | 37 | 21 | - | - | - | (30) | 37 | 21 |
| | 681 | 394 | 1,955 | 699 | 514 | (383) | 1,380 | 908 | 1,572 |
| Balance at end of year | (P4,486) | (P4,864) | (P4,738) | P1,027 | P1,056 | P1,083 | (P3,459) | (P3,808) | (P3,655) |

*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 27).

**The significant reduction in the Parent Company's headcount resulted in non-routine benefit payments during the year. This led to the recognition of settlement loss and curtailment of past service cost in 2019.

The above net defined benefit retirement liability was recognized in the consolidated statements of financial position as follows:

| | Note | 2021 | 2020 |
|---|-------------|---------------|--------|
| Trade and other payables | 18 | P132 | P103 |
| Retirement benefits liability (noncurrent portion) | | 3,327 | 3,705 |
| | | P3,459 | P3,808 |

Retirement benefits costs (income) recognized in the consolidated statements of income by the Parent Company amounted to P212, P214 and (P40) in 2021, 2020 and 2019, respectively.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P77, P75 and P110 in 2021, 2020 and 2019, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2021 and 2020.

Plan assets consist of the following:

| | 2021 | 2020 |
|---------------------------|-------------|------|
| Shares of stock: | | |
| Quoted | 72% | 76% |
| Unquoted | 12% | 11% |
| Government securities | 11% | 8% |
| Cash and cash equivalents | 4% | 2% |
| Others | 1% | 3% |
| | 100% | 100% |

Investment in Shares of Stock. As of December 31, 2021 and 2020, the Group's plan assets include 459,156,097 common shares of Petron with fair market value per share of P3.17 and P3.99 as of December 31, 2021 and 2020, respectively, and 14,250,900 common shares of SMC with fair market value per share of P114.90 and P128.10 as of December 31, 2021 and 2020, respectively.

The Parent Company's plan recognized a loss on the investment in marketable securities of Petron and SMC amounting to P565, P451 and P1,780 in 2021, 2020 and 2019, 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 P20 in 2021, P66 in 2020 and P73 in 2019.

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, 2021 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 P526 to its defined benefit retirement plan in 2022.

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:

| | 2021 | 2020 | 2019 |
|-------------------------|-----------------------|----------------|----------------|
| Discount rate | 5.00% to 5.20% | 3.95% to 5.00% | 5.22% to 5.73% |
| Future salary increases | 4.00% to 5.75% | 4.00% to 5.75% | 5.00% to 6.50% |

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 17 years as of December 31, 2021 and 6 to 18 years as of December 31, 2020.

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:

| 2021 | Defined Benefit Liabilities | |
|----------------------|------------------------------------|---------------------------|
| | 1 Percent Increase | 1 Percent Decrease |
| Discount rate | (P99) | P138 |
| Salary increase rate | 324 | (288) |

| 2020 | Defined Benefit Liabilities | |
|----------------------|------------------------------------|---------------------------|
| | 1 Percent Increase | 1 Percent Decrease |
| Discount rate | (P319) | P339 |
| Salary increase rate | 138 | (124) |

The Parent Company has advances to PCERP amounting to P1,138 and P1,562 as of December 31, 2021 and 2020, respectively, included as part of "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 29). The advances are subject to interest of 5% in 2021 and 2020 (Note 29).

In 2021 and in 2020, portion of the Parent Company's interest bearing advances to PCERP were converted into contribution to the retirement plan (Note 29).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2021 and 2020 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, 2021 and 2020 .

32. 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 KPC was mutually agreed to be terminated by the parties effective January 1, 2021.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 70% of crude and condensate volume processed are from EMEPMI with balance of around 30% 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, 2021 and 2020 (Note 17).

Toll Service Agreement with Innospec Limited (Innospec). PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement, PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P96, P97 and P113 in 2021, 2020 and 2019, 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 P191, starting 2017, 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 2018 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2022 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, 2021 and 2020, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 40).

33. Basic and Diluted Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share amounts are computed as follows:

| | 2021 | 2020 | 2019 |
|---|----------------|-----------|----------|
| Net income (loss) attributable to equity holders of the Parent Company | P5,369 | (P11,380) | P1,701 |
| Dividends on preferred shares for the year | (1,899) | (1,578) | (1,578) |
| Distributions to the holders of capital securities | (3,037) | (1,816) | (1,697) |
| Net income (loss) attributable to common shareholders of the Parent Company (a) | P433 | (P14,774) | (P1,574) |
| Weighted average number of common shares outstanding (in millions) (b) | 9,375 | 9,375 | 9,375 |
| Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b) | P0.05 | (P1.58) | (P0.17) |

As of December 31, 2021, 2020 and 2019, the Parent Company has no potential dilutive debt or equity instruments.

34. 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):

| | 2021 | 2020 | 2019 |
|---|------------------|----------|----------|
| Decrease (increase) in assets: | | | |
| Trade and other receivables | (P24,308) | P16,401 | (P2,977) |
| Inventories | (22,104) | 27,456 | (8,569) |
| Other assets | 1,923 | (2,260) | 7,940 |
| Increase (decrease) in liabilities: | | | |
| Liabilities for crude oil and petroleum products | 17,929 | (16,216) | 14,859 |
| Trade and other payables and others | (2,742) | (12,943) | 1,059 |
| | (29,302) | 12,438 | 12,312 |
| Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, and others | (20) | (407) | (465) |
| | (P29,322) | P12,031 | P11,847 |

- b. Changes in liabilities arising from financing activities:

| | Dividends Payable | Lease Liabilities | Short-term Loans | Long-term Debt | Total |
|--|-------------------|-------------------|------------------|-----------------|-----------------|
| Balance as of January 1, 2021 | P505 | P15,804 | P77,704 | P119,454 | P213,467 |
| Changes from financing cash flows: | | | | | |
| Payment of principal | - | (2,226) | - | - | (2,226) |
| Proceeds from availment of loans | - | - | 209,285 | 17,772 | 227,057 |
| Payments of loans | - | - | (178,210) | (37,221) | (215,431) |
| Dividends and distributions declared | 4,979 | - | - | - | 4,979 |
| Dividends and distributions paid | (4,655) | - | - | - | (4,655) |
| Total changes from financing cash flows | 324 | (2,226) | 31,075 | (19,449) | 9,724 |
| New leases | - | 843 | - | - | 843 |
| Interest expense | - | 1,376 | - | - | 1,376 |
| Interest paid | - | (310) | - | - | (310) |
| Effects of changes in foreign exchange rates | - | 68 | 417 | 2,026 | 2,511 |
| Other charges | - | - | - | 614 | 614 |
| Balance as of December 31, 2021 | P829 | P15,555 | P109,196 | P102,645 | P228,225 |

| | Dividends Payable | Lease Liabilities | Short-term Loans | Long-term Debt | Total |
|--|-------------------|-------------------|------------------|----------------|-----------|
| Balance as of January 1, 2020 | P496 | P15,749 | P71,090 | P133,077 | P220,412 |
| Changes from financing cash flows: | | | | | |
| Payment of principal | - | (2,361) | - | - | (2,361) |
| Proceeds from availment 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 |
| Balance as of December 31, 2020 | P505 | P15,804 | P77,704 | P119,454 | P213,467 |

35. 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:

| | 2021 | | 2020 | |
|--|----------------------------|--------------------------|----------------------------|--------------------------|
| | US Dollar (in millions) | Phil. Peso Equivalent | US Dollar (in millions) | Phil. Peso Equivalent |
| Assets | | | | |
| Cash and cash equivalents | 569 | 29,012 | 455 | 21,827 |
| Trade and other receivables | 522 | 26,624 | 137 | 6,589 |
| Other assets | 16 | 815 | 18 | 869 |
| | 1,107 | 56,451 | 610 | 29,285 |
| Liabilities | | | | |
| Short-term loans | 294 | 14,989 | 124 | 5,971 |
| Liabilities for crude oil and petroleum products | 793 | 40,465 | 434 | 20,853 |
| Long-term debts (including current maturities) | 880 | 44,859 | 1,266 | 60,786 |
| Other liabilities | 538 | 27,416 | 134 | 6,430 |
| | 2,505 | 127,729 | 1,958 | 94,040 |
| Net foreign currency-denominated monetary liabilities | (1,398) | (71,278) | (1,348) | (64,755) |

The Group incurred net foreign currency gains (losses) amounting to (P1,242), P2,363 and P2,609 in 2021, 2020 and 2019, respectively (Note 27), which were mainly countered by marked-to-market and realized hedging gains (losses) (Note 27). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of December 31 are shown in the following table:

| | Php to US\$ |
|--------------------------|---------------|
| December 31, 2021 | 50.999 |
| December 31, 2020 | 48.023 |
| December 31, 2019 | 50.635 |

Managing of foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign currency movements affect reported equity through the retained earnings and equity reserves arising from increases or decreases in unrealized and realized foreign currency gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of December 31, 2021 and 2020:

| 2021 | P1 Decrease in the US Dollar Exchange Rate | | P1 Increase in the US Dollar Exchange Rate | |
|---|---|---------------------|---|---------------------|
| | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| Cash and cash equivalents | (P416) | (P465) | P416 | P465 |
| Trade and other receivables | (56) | (509) | 56 | 509 |
| Other assets | (11) | (13) | 11 | 13 |
| | (483) | (987) | 483 | 987 |
| Short-term loans | - | 294 | - | (294) |
| Liabilities for crude oil and petroleum products | 380 | 1,059 | (380) | (1,059) |
| Long-term debts (including current maturities) | 880 | 660 | (880) | (660) |
| Other liabilities | 13 | 174 | (13) | (174) |
| | 1,273 | 2,187 | (1,273) | (2,187) |
| | P790 | P1,200 | (P790) | (P1,200) |

| 2020 | P1 Decrease in the US Dollar Exchange Rate | | P1 Increase in the US Dollar Exchange Rate | |
|---|---|---------------------|---|---------------------|
| | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| Cash and cash equivalents | (P351) | (P349) | P351 | P349 |
| Trade and other receivables | (14) | (148) | 14 | 148 |
| Other assets | (5) | (17) | 5 | 17 |
| | (370) | (514) | 370 | 514 |
| Short-term loans | 20 | 118 | (20) | (118) |
| Liabilities for crude oil and petroleum products | 262 | 618 | (262) | (618) |
| Long-term debts (including current maturities) | 1,266 | 886 | (1,266) | (886) |
| Other liabilities | 36 | 123 | (36) | (123) |
| | 1,584 | 1,745 | (1,584) | (1,745) |
| | P1,214 | P1,231 | (P1,214) | (P1,231) |

Exposures to foreign currency rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates mainly to long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings prior to deployment of funds to their intended use in operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term volatility on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on consolidated statements of income.

Managing interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity through the retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported consolidated statements of income, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P449 and P538 in 2021 and 2020, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table. As of December 31, 2021 and 2020, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

| 2021 | <1 Year | 1-<2 Years | 2-<3 Years | 3-<4 Years | 4-<5 Years | >5 Years | Total |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------|---------------|-----------------|
| Fixed Rate | | | | | | | |
| Philippine peso denominated | P6,893 | P10,393 | P16,057 | P16,425 | P - | P9,000 | P58,768 |
| Interest rate | 4.59% - 5.8% | 4.59% - 5.5% | 4.59% - 7.8% | 4.59% - 8.1% | - | 4.30% | - |
| Floating Rate | | | | | | | |
| US\$ denominated (expressed in Php) | 13,078 | 19,307 | 5,828 | - | - | - | 38,213 |
| Interest rate* | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | | | | |
| JPY denominated (expressed in Php) | 1,899 | 1,899 | 1,899 | 949 | - | - | 6,646 |
| Interest rate* | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | | | |
| | P21,870 | P31,599 | P23,784 | P17,374 | P - | P9,000 | P103,627 |

*The Parent Company reprices every month but has been given an option to reprice every 3 or 6 months.

| 2020 | <1 Year | 1-<2 Years | 2-<3 Years | 3-<4 Years | 4-<5 Years | >5 Years | Total |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|---------------|------------|-----------------|
| Fixed Rate | | | | | | | |
| Philippine peso denominated | P19,268 | P6,893 | P10,393 | P16,057 | P7,425 | P - | P60,036 |
| Interest rate | 4.0% - 5.8% | 4.6% - 5.8% | 4.5% - 5.5% | 4.6% - 7.8% | 4.6% - 8.1% | | |
| Floating Rate | | | | | | | |
| US\$ denominated (expressed in Php) | 12,294 | 17,837 | 18,180 | 5,489 | - | - | 53,800 |
| Interest rate* | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | | | |
| JPY denominated (expressed in Php) | - | 1,996 | 1,996 | 1,996 | 998 | - | 6,986 |
| Interest rate* | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | 1, 3, 6 mos. Libor + margin | | | |
| | 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.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by Trade Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statements of financial position or in the notes to the consolidated financial statements, as summarized below:

| | Note | 2021 | 2020 |
|------------------------------------|-------------|----------------|---------|
| Cash in banks and cash equivalents | 5 | P35,318 | P25,970 |
| Derivative assets | 6 | 740 | 334 |
| Investments in debt instruments | 7 | - | 381 |
| Trade and other receivables - net | 8 | 51,745 | 27,195 |
| Noncurrent deposits | 15 | 128 | 121 |
| | | P87,931 | P54,001 |

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 38.

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, 2021 and 2020:

| Trade Accounts Receivables Per Class | | | | |
|---|----------------|----------------|----------------|----------------|
| | Class A | Class B | Class C | Total |
| December 31, 2021 | | | | |
| Retail | P2,464 | P1,561 | P445 | P4,470 |
| Lubes | 571 | 72 | 2 | 645 |
| Gasul | 955 | 118 | 113 | 1,186 |
| Industrial | 7,485 | 7,110 | 2,509 | 17,104 |
| Others | 8,460 | 3,417 | 107 | 11,984 |
| | P19,935 | P12,278 | P3,176 | P35,389 |

| Trade Accounts Receivables Per Class | | | | |
|---|----------------|----------------|----------------|--------------|
| | Class A | Class B | Class C | Total |
| December 31, 2020 | | | | |
| 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 |
| | P8,677 | P9,546 | P2,081 | P20,304 |

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 P4,720 and P4,784 as of December 31, 2021 and 2020, 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.

| 2021 | | | | | | |
|---|------------------------------------|------------------------------------|--------------------------------|--------------------------|---------------------------|----------------|
| | 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 | P35,318 | P - | P - | P - | P - | P35,318 |
| Trade and other receivables | - | 51,745 | 1,028 | - | - | 52,773 |
| Derivative assets not designated as cash flow hedge | - | - | - | 687 | - | 687 |
| Derivative assets designated as cash flow hedge | - | - | - | - | 53 | 53 |
| Investments in debt instruments | - | - | - | - | - | - |
| Long-term receivables - net | - | - | 315 | - | - | 315 |
| Noncurrent deposits | 128 | - | - | - | - | 128 |
| | P35,446 | P51,745 | P1,343 | P687 | P53 | P89,274 |

| 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 |
| | P26,346 | P27,195 | P1,302 | P322 | P138 | P55,303 |

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, 2021 and 2020.

| 2021 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | >1 Year - 2 Years | >2 Years - 5 Years | Over 5 Years |
|--|-----------------|-----------------------|----------------|-------------------|--------------------|--------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | P36,406 | P36,406 | P36,406 | P - | P - | P - |
| Trade and other receivables | 51,745 | 51,745 | 51,745 | - | - | - |
| Derivative assets (including non-current portion) | 740 | 740 | 707 | 19 | 14 | - |
| Proprietary membership shares | 298 | 298 | 298 | - | - | - |
| Noncurrent deposits | 128 | 128 | - | - | 3 | 125 |
| Financial Liabilities | | | | | | |
| Short-term loans | 109,196 | 109,474 | 109,474 | - | - | - |
| Liabilities for crude oil and petroleum products | 42,641 | 42,641 | 42,641 | - | - | - |
| Trade and other payables* | 7,598 | 7,598 | 7,598 | - | - | - |
| Derivative liabilities (including non-current portion) | 1,022 | 1,022 | 997 | 23 | 2 | - |
| Long-term debts (including current maturities) | 102,645 | 114,995 | 26,448 | 34,870 | 44,371 | 9,306 |
| Lease liability (including current portion) | 15,555 | 25,320 | 2,146 | 2,047 | 5,442 | 15,685 |
| Cash bonds | 450 | 450 | 14 | 419 | 17 | - |
| Cylinder deposits | 687 | 687 | - | - | - | 687 |
| Other noncurrent liabilities** | 38 | 38 | - | 4 | 17 | 17 |

*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

**excluding cash bonds, cylinder deposits and derivative liabilities

| 2020 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | >1 Year - 2 Years | >2 Years - 5 Years | Over 5 Years |
|--|-----------------|-----------------------|----------------|-------------------|--------------------|--------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | 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 |
| Financial Liabilities | | | | | | |
| 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

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:

| | 2021 | 2020 |
|------------------------|-----------------|----------|
| Total assets | P407,420 | P349,725 |
| Total liabilities | 296,507 | 263,530 |
| Total equity | 110,913 | 86,195 |
| Debt to equity ratio | 2.7:1 | 3.1:1 |
| Assets to equity ratio | 3.7:1 | 4.1:1 |

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.

36. 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 | 2021 | | 2020 | |
|---|-------|-----------------|----------------|-----------------|------------|
| | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets (FA): | | | | | |
| Cash and cash equivalents | 5 | P36,406 | P36,406 | P27,053 | P27,053 |
| Trade and other receivables | 8 | 51,745 | 51,745 | 27,195 | 27,195 |
| Investments in debt instruments | 7 | - | - | 255 | 255 |
| Noncurrent deposits | 15 | 128 | 128 | 121 | 121 |
| FA at amortized cost | | 88,279 | 88,279 | 54,624 | 54,624 |
| Investments in debt instruments | 7 | - | - | 126 | 126 |
| Derivative assets designated as cash flow hedge | 6 | 53 | 53 | 12 | 12 |
| FA at FVOCI | | 53 | 53 | 138 | 138 |
| Financial assets at FVPL | 6 | 298 | 298 | 275 | 275 |
| Derivative assets not designated as cash flow hedge | 6, 15 | 687 | 687 | 322 | 322 |
| FA at FVPL | | 985 | 985 | 597 | 597 |
| Total financial assets | | P89,317 | P89,317 | P55,359 | P55,359 |

| | Note | 2021 | | 2020 | |
|--|------|-----------------|-----------------|-----------------|------------|
| | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial liabilities (FL): | | | | | |
| Short-term loans | 16 | P109,196 | P109,196 | P77,704 | P77,704 |
| Liabilities for crude oil and petroleum products | 17 | 42,641 | 42,641 | 22,320 | 22,320 |
| Trade and other payables* | 18 | 7,598 | 7,598 | 9,402 | 9,402 |
| Long-term debt including current portion | 19 | 102,645 | 102,645 | 119,454 | 119,454 |
| Derivative liabilities designated as cash flow hedge | 21 | 116 | 116 | 592 | 592 |
| Cash bonds | 21 | 450 | 450 | 947 | 947 |
| Cylinder deposits | 21 | 687 | 687 | 617 | 617 |
| Other noncurrent liabilities** | 21 | 40 | 40 | 48 | 48 |
| Other FL | | 263,373 | 263,373 | 231,084 | 231,084 |
| Derivative liabilities not designated as cash flow hedge | | 906 | 906 | 824 | 824 |
| Total financial liabilities | | P264,279 | P264,279 | P231,908 | P231,908 |

*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 2021 and 2020 are 7.54% and 7.45% 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 35).

| December 31, 2021 | Maturity | | | Total |
|--|------------------|--------------------|---------------------|--------|
| | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | |
| Foreign Currency Risk | | | | |
| Call Spread Swaps | | | | |
| Notional amount | US\$40 | US\$ - | US\$ - | US\$40 |
| Average strike rate | P51.96 to P54.47 | P - | P - | - |
| Foreign Currency and Interest Rate Risk | | | | |
| Cross Currency Swap | | | | |
| Notional amount | US\$20 | US\$20 | US\$10 | US\$50 |
| Average strike rate | P47.00 to P57.00 | P47.00 to P56.50 | P47.00 to P56.50 | - |
| Fixed interest rate | 4.19% to 5.75% | 4.19% to 5.75% | 4.19% to 5.75% | - |
| Interest Rate Risk | | | | |
| Interest Rate Collar | | | | |
| Notional amount | US\$15 | US\$30 | US\$15 | US\$60 |
| Interest rate | 0.44% to 1.99% | 0.44% to 1.99% | 0.44% to 1.99% | - |

| December 31, 2020 | Maturity | | | Total |
|--|------------------|--------------------|---------------------|---------|
| | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | |
| Foreign Currency Risk | | | | |
| Call Spread Swaps | | | | |
| Notional amount | US\$50 | US\$50 | US\$ - | US\$100 |
| Average strike rate | P52.41 to P54.87 | P52.41 to P55.02 | P - | - |
| Foreign Currency and Interest Rate Risk | | | | |
| Cross Currency Swap | | | | |
| 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% | - |
| Interest Rate Risk | | | | |
| Interest Rate Collar | | | | |
| 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% | - |

The table below summarizes the amounts pertaining to the designated hedged item.

| December 31, 2021 | Change in Fair Value Used for Measuring Hedge | | Cost of Hedging Reserve |
|---|---|-----------------|-------------------------|
| | Ineffectiveness | Hedging Reserve | |
| Foreign Currency Risk | | | |
| US dollar-denominated loan | (P8) | P - | P6 |
| Foreign Currency and Interest Rate Risks | | | |
| US dollar-denominated loan | 67 | (72) | 65 |
| Interest Rate Risks | | | |
| US dollar-denominated loan | 4 | (3) | - |

| December 31, 2020 | Change in Fair Value Used for Measuring Hedge | | Cost of Hedging Reserve |
|---|---|-----------------|-------------------------|
| | Ineffectiveness | Hedging Reserve | |
| Foreign Currency Risk | | | |
| US dollar-denominated loan | P85 | P - | (P40) |
| Foreign Currency and Interest Rate Risks | | | |
| US dollar-denominated loan | 467 | (187) | 94 |
| Interest Rate Risks | | | |
| US dollar-denominated loan | 28 | (20) | - |

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, 2021 and 2020.

| December 31, 2021 | 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\$40 | P20 | P12 | Financial assets at FVPL, Derivative liabilities | P8 | P4 | (P28) | P61 | Other income (expenses) - net |
| Foreign Currency and Interest Rate Risks | | | | | | | | | |
| Cross currency swap | 50 | 32 | 99 | Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities | (67) | (216) | (276) | 168 | Interest expense and other financing charges, Other income (expenses) - net |
| Interest Rate Risk | | | | | | | | | |
| Interest rate collar | 60 | 1 | 5 | Derivative liabilities, Other noncurrent assets | (4) | (16) | - | 16 | Interest expense and other financing charges |

| 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 | 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 | 90 | - | 28 | Other noncurrent assets, Derivative liabilities | (28) | (9) | - | 9 | Interest Expense and other financing charges |

No hedging ineffectiveness was recognized in the 2021 and 2020 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, 2021 | | December 31, 2020 | |
|--|-------------------|-------------------------|-------------------|-------------------------|
| | Hedging Reserve | Cost of Hedging Reserve | Hedging Reserve | Cost of Hedging Reserve |
| Balance at beginning of year | (P207) | P54 | (P201) | (P21) |
| Changes in fair value: | | | | |
| Foreign currency risk | 28 | 4 | (28) | (23) |
| Foreign currency risk and interest rate risk | 448 | (216) | (102) | (234) |
| Interest rate risk | 24 | (16) | (35) | (9) |
| Amount reclassified to profit or loss: | | | | |
| Foreign currency risk | (28) | 61 | 28 | 166 |
| Foreign currency risk and interest rate risk | (276) | 168 | 129 | 200 |
| Interest rate risk | - | 16 | - | 9 |
| Income tax effect | (64) | - | 2 | (34) |
| Balance at end of year | (P75) | P71 | (P207) | P54 |

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, 2021, the Group has no outstanding call spread swaps. As of December 31, 2021 and 2020, the net negative fair value of these call spread swaps amounted to nil and P26, respectively.

Cross Currency Swaps. As of December 31, 2021, the Group has outstanding cross currency swaps with a notional amount US\$10 million maturing on May 17, 2022. The net negative fair value of these cross currency swap amounted to P6 in 2021 and P96 in 2020.

Interest Rate Collar. As of December 31, 2021, the Group has outstanding interest rate collar with a notional amount US\$15 million maturing on May 17, 2022. The net negative fair value of this interest rate collar amounted to P1 in 2021 and P0.92 in 2020.

Freestanding Derivatives

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Group.

Currency Forwards. As of December 31, 2021 and 2020, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$698 million and US\$395 million, respectively, and with various maturities in 2022 and 2021. As of December 31, 2021 and 2020, the net negative fair value of these currency forwards amounted to P330 and P48, respectively.

Commodity Swaps. The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2023 and 2022. 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 24.6 million barrels and 32.8 million barrels for 2021 and 2020, respectively. The estimated net payouts for these transactions amounted to (P543) and (P754) as of December 31, 2021 and 2020, respectively.

Commodity Options. As of December 31, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2021, 2020 and 2019, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P344, (P2,428) and (P1,926), respectively (Note 27).

Fair Value Changes on Derivatives not Designated as Cash Flow Hedge

The net movements in the fair value of derivative transactions in 2021 and 2020 are as follows:

| | <i>Note</i> | 2021 | 2020 |
|---|-------------|---------------|---------|
| Fair value at beginning of year | | (P924) | P195 |
| Net changes in fair value during the year | 27 | 344 | (2,428) |
| Fair value of settled instruments | | 1,219 | 1,309 |
| Fair value at end of year | | P639 | (P924) |

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, 2021 and 2020. 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.

| | 2021 | 2020 |
|---------------------------------|----------------|---------|
| | Level 2 | Level 2 |
| Financial Assets | | |
| FVPL | P298 | P275 |
| Derivative assets | 740 | 334 |
| Investments in debt instruments | - | 126 |
| Financial Liabilities | | |
| Derivative liabilities | (1,022) | (1,416) |

The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2021 and 2020. During the year, there were no transfers between and into and out of Level 1 and Level 2 fair value measurements.

37. 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. On December 29, 2021, the Parent Company's Certificate of Registration was renewed.

38. 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, Malaysia, South Korea, Singapore, Vietnam, Egypt, Indonesia, Iraq and India.
- 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, 2021, 2020 and 2019.

| | Petroleum | Insurance | Leasing** | Marketing | Elimination/ Others** | Total |
|-------------------------------|-----------|-----------|-----------|-----------|--------------------------|----------|
| 2021 | | | | | | |
| Revenue: | | | | | | |
| External sales | P435,582 | P - | P1,153 | P906 | P416 | P438,057 |
| Inter-segment sales | 175,205 | 125 | 395 | - | (175,725) | - |
| Operating income | 16,860 | 112 | 240 | 48 | (45) | 17,215 |
| Net income | 7,749 | 116 | 159 | 48 | (1,936) | 6,136 |
| Assets and liabilities: | | | | | | |
| Segment assets* | 457,506 | 2,891 | 10,032 | 612 | (65,793) | 405,248 |
| Segment liabilities* | 318,567 | 977 | 4,863 | 142 | (31,826) | 292,723 |
| Other segment information: | | | | | | |
| Property, plant and equipment | 171,029 | - | - | 93 | 480 | 171,602 |
| Depreciation | 9,930 | - | 85 | 16 | (183) | 9,848 |
| Interest expense | 10,149 | - | 300 | 2 | (443) | 10,008 |
| Interest income | 653 | 4 | 230 | 2 | (325) | 564 |
| Income tax expense | 1,141 | 3 | 8 | 7 | 2 | 1,161 |

*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 |
|-------------------------------|-----------|-----------|-----------|-----------|--------------------------|----------|
| 2020 | | | | | | |
| 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 | 374 | (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 | 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 | 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.

Inter-segment sales transactions amounted to P175,736, P86,854 and P229,121 for the years ended December 31, 2021, 2020 and 2019, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2021, 2020 and 2019:

| | Retail | Lube | Gasul | Industrial | Others | Total |
|-------------------------------|-----------------|---------------|----------------|----------------|-----------------|-----------------|
| 2021 | | | | | | |
| Revenue | P206,337 | P5,318 | P24,947 | P71,354 | P127,626 | P435,582 |
| Property, plant and equipment | 7,943 | 32 | 217 | 9 | 162,828 | 171,029 |
| Capital expenditures | 1,363 | 4 | 22 | 1 | 14,433 | 15,823 |
| 2020 | | | | | | |
| 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 |
| 2019 | | | | | | |
| 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 |

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, 2021 and 2020.

| | 2021 | 2020 |
|---------------|-----------------|----------|
| Local | P311,567 | P282,871 |
| International | 93,681 | 64,664 |
| | P405,248 | P347,535 |

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, 2021, 2020 and 2019.

| | Petroleum | Insurance | Leasing** | Marketing | Elimination/ Others** | Total |
|----------------------|-----------------|------------|---------------|-------------|--------------------------|-----------------|
| 2021 | | | | | | |
| Local | P221,676 | P4 | P1,548 | P906 | (P912) | P223,222 |
| Export/international | 390,111 | 121 | - | - | (175,397) | 214,835 |
| 2020 | | | | | | |
| Local | 165,139 | - | 1,565 | 674 | (558) | 166,820 |
| Export/international | 205,109 | 76 | - | - | (85,972) | 119,213 |
| 2019 | | | | | | |
| Local | 299,668 | 60 | 1,506 | 961 | (750) | 301,445 |
| Export/international | 440,865 | 42 | - | - | (227,990) | 212,917 |

**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.

39. Events After the Reporting Date

a. Dividend Declaration and Distributions

On January 18, 2022, the Parent Company paid distributions amounting to US\$11.50 million (P787) to the holders of the US\$500 million SPCS.

On February 10, 2022, the Parent Company paid distributions amounting to US\$906.25 thousand (P46) to the holders of the US\$100 million RPS

On March 1, 2022, the Parent Company paid distributions amounting to US\$60 thousand (P3) to the holders of the US\$6 million RPS.

b. Acquisition of Mema Holdings, Inc.

On February 16, 2022, the Parent Company paid P104 for the acquisition of 10,000,000 common shares with par value of P1.00 per share representing 100% of the authorized capital stock of Mema Holdings, Inc. (Mema), a corporation duly organized and existing under and by virtue of Philippine laws. Mema is a holding company proposed by the management to be considered, among others, as a vehicle and holding company for the venture by the Parent Company into fuel hauling and logistics services. The acquisition cost approximates the fair value of net assets acquired.

40. 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 PNOC and Petron filed their respective notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. Petron filed its appellant's brief in October 2020. PNOC filed its appellant's brief in November 2020. In a decision dated December 13, 2021, the Court of Appeals dismissed both appeals of Petron and PNOC and affirmed the resolution of the trial court as described above. The Court of Appeals upheld Petron's position that PNOC committed a substantial breach of its contractual obligation under the lease agreements when it dishonored the automatic renewal clause in the lease agreements and threatened to terminate Petron's lease thereby depriving Petron a long-term lease consistent with its business requirements, which was the primordial consideration in the Deeds of Conveyance. The Court of Appeals ruled, however, that, consistent with jurisprudence, while rescission repeals the contract from its inception, it does not disregard all the consequences that the contract has created and that it was therefore only proper that Petron paid PNOC the rentals for the use and enjoyment of the properties which PNOC could have enjoyed by virtue of the Deeds of Conveyance were it not for the lease agreements. On January 11, 2022, Petron filed its motion for reconsideration insofar as the decision dismissed ~~the~~ Petron's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration. The parties await the order of the Court of Appeals on the motions filed.

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 filed an application for a review by the Federal Court (to set aside its own decision). On August 2, 2021, the Federal Court disallowed the review. No further action was taken by POMSB and the decision of the Federal Court has attained finality.

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.

c. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by the Parent company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent company not criminally liable, but the SBMI found the Parent company to have overloaded the vessel. 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, 2021. 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.

d. Effect of COVID-19

Since the start of the global pandemic, 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 substantial net loss of the Group in 2020.

With Organization of Petroleum Exporting Countries (OPEC) and Russia agreeing to output cuts, recovery in oil prices was seen starting May 2020. From then on international oil prices began to climb steadily. Dubai averaged to about \$71/bbl in 2021 as against \$42/bbl in 2020.

The gradual opening-up of economies and easing up of pandemic restrictions especially in the West alongside robust vaccination efforts around the world contributed much to the recovery of demand to reach pre-pandemic level by the 4th quarter of 2021. On the supply-side, consistent effort of oil producing countries to manage supply also supported the escalation in oil prices amidst some resurgences in COVID-19 cases from new variants.

The Group saw fuel consumption began to pick up as shown by the gradual improvement in the Philippine's domestic sales volume in 2021 compared to 2020. However, the prolonged full MCO in Malaysia slightly weighed down volume recovery in the 2nd half of 2021. The Group's consolidated revenues in 2021 rose by more than half to P438,057. Combined with improvement in refining margins, this resulted in modest net income in 2021 of P6,136, a reversal of P11,413 net loss in 2020.

The extent to which the COVID-19 pandemic will continue to impact 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.

e. Impact of Ukraine - Russia Conflict

In relation to the ongoing conflict between Russia and Ukraine of which changes in economic conditions developed as a consequence of the Russian invasion of Ukraine in February 2022 and the resulting economic sanctions by the international community, Petron currently does not foresee issues on its oil supply on a short or medium-term basis as Petron does not have term crude supply contracts with Russia. The Company primarily sources its crude requirement from the Middle East. However, based on recent events and market sentiments, oil prices are expected to be high during the crisis and in the event of a protracted conflict, oil supply could become tight.

The extent to which the ongoing conflict will affect the Group will depend on future developments, including the actions and decisions taken or not taken by the OPEC and other oil producing countries, international community, and the Philippine government which are highly uncertain and cannot be quantified nor determined at this point.

f. Construction of Coco-Methyl Ester Plant

On November 24, 2021, the Executive Committee of the BOD of the Parent Company approved the construction of a coco-methyl ester plant (the "CME Plant") with an initial but expandable capacity of 60 million liters per year, enough to meet the Parent Company's current requirements at 2% CME blend. The CME Plant will serve the Parent Company's CME requirements for bio-diesel sales. With a projected cost of P1,200, the CME Plant will be located in and integrated with the Refinery to leverage on the Bataan Refinery's support facilities, minimize freight costs, and benefit from the tax incentives granted by the AFAB. Completion and operation are targeted within two (2) years with commercial operations beginning 2024.

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 P52,251 and P14,847 as of December 31, 2021 and 2020, respectively.

PETRON CORPORATION AND SUBSIDIARIES
INDEX TO SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2021

Statement of Management's Responsibility for the Consolidated Financial Statements

Report of Independent Auditors on Supplementary Information Filed Separately from the Consolidated Financial Statements

Supplementary Schedules to the Consolidated Financial Statements

| Supplementary Schedules of Annex 68 - J | Page No. |
|---|-------------------|
| A. Financial Assets | NA ^(a) |
| B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties) | NA ^(b) |
| C. Amounts Receivable and Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements | 1 - 2 |
| D. Long-term Debt | 3 |
| E. Indebtedness to Related Parties | NA |
| F. Guarantees of Securities of Other Issuers | NA |
| G. Capital Stock | 4 |

^(a)Balance of Financial Assets at Fair Value Through Profit or Loss is less than 5% of total current assets.

^(b)Balance of account is less than 1% of the total assets of the Group and no individually significant advances over P100,000.

Map of the Conglomerate within which the Group belongs

Financial Soundness Indicators

Schedule of Proceeds from Recent Offering of Securities

Report on Independent Auditors on Supplementary Information Filed Separately from the Separate Financial Statements

Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration



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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation and Subsidiaries (the “Group”) as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated March 18, 2022.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following schedules are the responsibility of the Group’s management:

- Supplementary Schedules of Annex 68-J
- Map of the Conglomerate

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)



These supplementary information are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not required parts of the consolidated financial statements. Such supplementary information have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

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

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 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 8854088

Issued January 3, 2022 at Makati City

March 18, 2022

Makati City, Metro Manila



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Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and Stockholders

Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group") as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated March 18, 2022. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas and calculations, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and no material exceptions were noted.

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
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Makati City, Metro Manila

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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)



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Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of Petron Corporation (the "Company") as at and for the years ended December 31, 2021 and 2020, and have issued our report thereon dated March 18, 2022.

Our audits were made for the purpose of forming an opinion on the separate financial statements taken as a whole. The supplementary information included in the *Reconciliation of Retained Earnings Available for Dividend Declaration* is the responsibility of the Company's management.

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)



This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

R.G. MANABAT & CO.

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DARWIN P. VIROCEL

Partner

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BIR Accreditation No. 08-001987-031-2019

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

PTR No. MKT 8854088

Issued January 3, 2022 at Makati City

March 18, 2022

Makati City, Metro Manila

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Amounts in Millions)

| NAME OF RELATED PARTY | BEGINNING BALANCE | ADDITIONS/ CTA/RECLASS/ OTHERS | AMTS PAID/ DEBIT MEMO | AMOUNTS WRITTEN OFF | TOTAL | CURRENT | NONCURRENT | ENDING BALANCE |
|--|----------------------|--------------------------------------|--------------------------|------------------------|---------------|---------------|--------------|-------------------|
| Petron Corporation | 12,836 | 166,502 | (159,683) | - | 19,655 | 19,474 | 181 | 19,655 |
| Overseas Ventures Insurance Corporation Ltd. | 31 | - | (12) | - | 19 | 19 | - | 19 |
| Petrogen Insurance Corporation | 558 | 4 | (562) | - | - | - | - | - |
| Petron Freeport Corporation | 79 | 102 | (94) | - | 87 | 87 | - | 87 |
| Petron Singapore Trading Pte., Ltd. | 971 | 16,135 | (15,431) | - | 1,675 | 1,675 | - | 1,675 |
| Petron Marketing Corporation | - | - | - | - | - | - | - | - |
| New Ventures Realty Corporation and Subsidiaries | 2,132 | 881 | (941) | - | 2,072 | 922 | 1,150 | 2,072 |
| Petrofuel Logistics, Inc | - | - | - | - | - | - | - | - |
| Petron Global Limited | - | - | - | - | - | - | - | - |
| Petron Finance (Labuan) Limited | - | - | - | - | - | - | - | - |
| Petron Oil And Gas Mauritius Ltd. and Subsidiaries | 38 | 9,325 | (6,049) | - | 3,314 | 3,314 | - | 3,314 |
| Petrochemical Asia (HK) Limited and Subsidiaries | - | - | - | - | - | - | - | - |
| TOTAL | 16,645 | 192,949 | (182,772) | - | 26,822 | 25,491 | 1,331 | 26,822 |

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Amounts in Millions)

| NAME OF RELATED PARTY | BEGINNING BALANCE | ADDITIONS/ CTA/RECLASS/ OTHERS | AMOUNTS COLLECTED/ CREDIT MEMO | AMOUNTS WRITTEN OFF | TOTAL | CURRENT | NONCURRENT | ENDING BALANCE |
|--|----------------------|--------------------------------------|-----------------------------------|------------------------|---------------|---------------|--------------|-------------------|
| Petron Corporation | 3,638 | 18,243 | (18,090) | - | 3,791 | 2,631 | 1,160 | 3,791 |
| Overseas Ventures Insurance Corporation Ltd. | 56 | 4 | (60) | - | - | - | - | - |
| Petrogen Insurance Corporation | 45 | - | (45) | - | - | - | - | - |
| Petron Freeport Corporation | 28 | - | 10 | - | 38 | 38 | - | 38 |
| Petron Singapore Trading Pte., Ltd. | 12,588 | 174,561 | (164,494) | - | 22,655 | 22,655 | - | 22,655 |
| Petron Marketing Corporation | 17 | - | - | - | 17 | 17 | - | 17 |
| New Ventures Realty Corporation and Subsidiaries | 192 | 137 | (91) | - | 238 | 64 | 174 | 238 |
| Petrofuel Logistics, Inc | - | - | - | - | - | - | - | - |
| Petron Global Limited | - | - | - | - | - | - | - | - |
| Petron Finance (Labuan) Limited | - | - | - | - | - | - | - | - |
| Petron Oil And Gas Mauritius Ltd. and Subsidiaries | - | - | - | - | - | - | - | - |
| Petrochemical Asia (Hk) Limited and Subsidiaries | 81 | 2 | - | - | 83 | 83 | - | 83 |
| TOTAL | 16,645 | 192,947 | (182,770) | - | 26,822 | 25,488 | 1,334 | 26,822 |

PETRON CORPORATION AND SUBSIDIARIES

SCHEDULE D - LONG-TERM DEBT

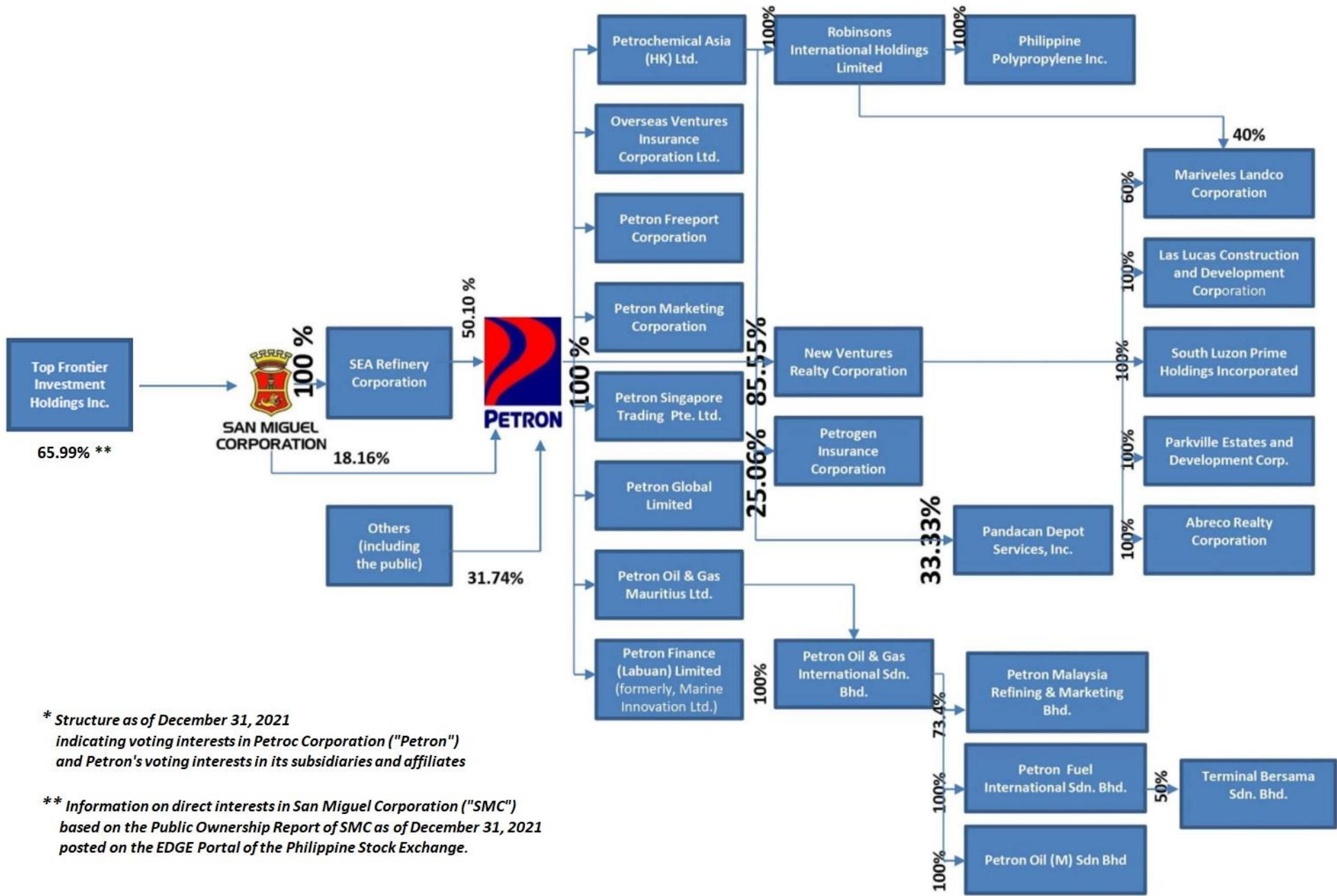
(Amounts in Millions)

| TITLE OF ISSUE | AGENT / LENDER | Outstanding Balance | Amount Shown as Current | Current and Long-term | INTEREST RATES | Number of Periodic Installments | Final Maturity |
|---------------------------------------|--|---------------------------|-------------------------------|--------------------------|----------------|--|-------------------|
| Unsecured term notes and bonds: | | | | | | | |
| <u>Peso denominated:</u> | | | | | | | |
| Fixed | Union Bank of the Philippines | 1,000 | 1,000 | 1,000 | 5.4583% | 2-yr grace period; amortized 5 years | October 2022 |
| Fixed | Philippine Depository and Trust Corp. | - | - | - | 4.0032% | Bullet | October 2021 |
| Fixed | Philippine Depository and Trust Corp. | 7,000 | - | 6,979 | 4.5219% | Bullet | October 2023 |
| Fixed | Banco De Oro | 5,893 | 2,134 | 5,878 | 5.5276% | Amortized quarterly for 7 years | July 2024 |
| Fixed | Bank of the Philippine Islands | 2,500 | 2,496 | 2,497 | 5.7584% | Amortized quarterly beginning on the fifth quarter | December 2022 |
| Fixed | Philippine Depository and Trust Corp. | 13,200 | - | 13,117 | 7.8183% | Bullet | April 2024 |
| Fixed | Philippine Depository and Trust Corp. | 6,800 | - | 6,750 | 8.0551% | Bullet | October 2025 |
| Fixed | Bank of the Philippine Islands | 4,375 | 1,241 | 4,356 | 4.5900% | | April 2025 |
| Fixed | PCCI-TIG | 9,000 | - | 8,890 | 3.4408% | | October 2025 |
| Fixed | PCCI-TIG | 9,000 | - | 8,889 | 4.3368% | | October 2027 |
| | | <u>58,768</u> | <u>6,871</u> | <u>58,356</u> | | | |
| <u>Foreign currency - denominated</u> | | | | | | | |
| Floating | Standard Chartered Bank (Hongkong) Limitec | 7,256 | 7,218 | 7,219 | LIBOR + margin | 2-yr grace period; amortized 5 years | June 2022 |
| Floating | Sumitomo Mitsui Banking Corp. | 6,647 | 1,855 | 6,556 | LIBOR + margin | | Mar 2025 |
| Floating | Standard Chartered Bank (Hongkong) Limitec | 7,650 | - | 7,522 | LIBOR + margin | | Aug 2023 |
| Floating | Standard Chartered Bank (Hongkong) Limitec | 23,307 | 5,636 | 22,992 | LIBOR + margin | | May 2024 |
| | | <u>44,860</u> | <u>14,709</u> | <u>44,289</u> | | | |
| Total Long-term Debt | | P <u>103,628</u> P | P <u>21,580</u> P | P <u>102,645</u> | | | |

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE G - CAPITAL STOCK
DECEMBER 31, 2021

| Title of Issue | Number of Shares Authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties | Directors and executive officers | Others |
|---------------------|-----------------------------|--|--|--|----------------------------------|---------------|
| Common stock | 9,375,104,497 | 9,375,104,497 | Not applicable | 6,858,912,221 | 1,847,488 | 2,514,344,788 |
| Preferred stock | 624,895,503 | | | | | |
| Series 3A Preferred | | 13,403,000 | Not applicable | - | 8,000 | 13,395,000 |
| Series 3B Preferred | | 6,597,000 | Not applicable | - | 20,300 | 6,576,700 |

PETRON GROUP STRUCTURE



* Structure as of December 31, 2021 indicating voting interests in Petroc Corporation ("Petron") and Petron's voting interests in its subsidiaries and affiliates

** Information on direct interests in San Miguel Corporation ("SMC") based on the Public Ownership Report of SMC as of December 31, 2021 posted on the EDGE Portal of the Philippine Stock Exchange.

**PETRON CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS**

| Financial Ratios | Formula | December 31, December 31, | |
|---------------------------------|--|----------------------------------|-------------|
| | | 2021 | 2020 |
| Liquidity | | | |
| a) Current Ratio | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | 0.99 | 0.89 |
| b) Quick Ratio | $\frac{\text{Current Assets less Inventories and Other Current Assets}}{\text{Current Liabilities}}$ | 0.47 | 0.37 |
| Solvency | | | |
| c) Debt to Equity Ratio | $\frac{\text{Total Interest-bearing Liabilities}^b}{\text{Total Equity}}$ | 1.91 | 2.29 |
| d) Asset to Equity Ratio | $\frac{\text{Total Assets}}{\text{Total Equity}}$ | 3.67 | 4.06 |
| e) Interest Rate Coverage Ratio | $\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$ | 1.73 | -0.43 |
| Profitability | | | |
| f) Return on Equity | $\frac{\text{Net Income}^a}{\text{Average Total Equity}}$ | 6.23% | -12.78% |
| g) Return on Assets | $\frac{\text{Net Income}^a}{\text{Average Total Assets}}$ | 1.62% | -3.07% |
| Operating Efficiency | | | |
| h) Volume Growth | $\left(\frac{\text{Current Period Volume}}{\text{Prior Period Volume}} - 1 \right)$ | 4.66% | -26.53% |
| i) Sales Growth | $\left(\frac{\text{Current Period Sales}}{\text{Prior Period Sales}} - 1 \right)$ | 53.15% | -44.39% |
| j) Operating Margin | $\frac{\text{Income from Operating Activities}}{\text{Sales}}$ | 3.93% | -1.62% |

^a trailing 12 months net income

^b excludes lease liabilities

PETRON CORPORATION
SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City
SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As of December 31, 2021
(Amounts in Thousand Pesos)

| | | |
|--|------------------|---------------------|
| Unappropriated retained earnings, <i>as adjusted to available for dividend distribution</i> , beginning | | (P6,719,246) |
| Less: Reversal of prior years' unrealized net income | | (7,618,021) |
| Adjusted Unappropriated retained earnings, beginning | | P898,775 |
| Add: Net income actually earned/realized during the period | | |
| Net income during the period closed to retained earnings | P2,667,232 | |
| Less: Non-actual/ unrealized income, net of tax: | | |
| Fair value gains arising from marked-to-market measurement (<i>P406,234 if gross of tax</i>) | 304,676 | |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS (<i>P75,487 if gross of tax</i>) | 56,615 | |
| Sub-total | 2,305,941 | |
| Net income actually earned during the year | 2,305,941 | 2,305,941 |
| Less: Dividend declarations during the year | (1,899,052) | |
| Distributions paid | (3,037,492) | |
| Reversal of appropriations | 8,000,000 | |
| | 3,063,456 | 3,063,456 |
| TOTAL RETAINED EARNINGS, END OF THE YEAR AVAILABLE FOR DIVIDEND DECLARATION | | P6,268,172 |

PETRON CORPORATION
For the year ended December 31, 2021

Schedule of Proceeds from Recent Offering of Securities to the Public

Issuance of P18 Billion Series E and Series F Fixed Rate Bonds

i. Gross and Net Proceeds (as disclosed in the final prospectus)

The Company estimates that the net proceeds from the Offer shall amount to approximately P 17.78 billion, after deducting the following fees, commissions and expenses:

| In P Millions | |
|--|-------------------|
| Gross Proceeds | P18,000.00 |
| Less: Underwriting fees for the Preferred Shares being sold by the Company | 63.00 |
| Taxes to be paid by the Company | 135.00 |
| Philippine SEC filing and legal research fee | 5.11 |
| Listing application fee | 0.20 |
| Listing maintenance fee | 0.45 |
| Rating fee | 4.05 |
| Trustee fees | 0.13 |
| Registry and paying | 0.50 |
| Estimated legal and other professional fees | 7.80 |
| Estimated other expenses | 0.55 |
| Total Expenses | P216.79 |
| Net Proceeds | P17,783.21 |

The net proceeds of the Offer shall be used for (i) the redemption of the Company's Series A Bonds, (ii) the partial financing of the Power Plant Project, and (iii) payment of existing indebtedness

ii. Actual Gross and Net Proceeds

| In P Millions | |
|--|-------------------|
| Actual Gross Proceeds | P18,000.00 |
| Less: Underwriting Fees, Filing and Processing Fees, Documentary Stamp Tax, Legal and Professional Fees and Other Expenses | 227.95 |
| Actual Net Proceeds | P17,772.05 |

iii. Each Expenditure Item where the Proceeds was Used

In P Millions

| | |
|--|-------------------|
| Actual Net Proceeds | P17,772.05 |
| Less: Redemption of the Series A Bonds | 13,000.00 |
| Payment for power plant project | 1,693.03 |
| Payment of long term loan amortization to: | |
| Bank of the Philippine Islands | 697.49 |
| BDO Unibank, Inc. | 535.71 |
| UnionBank | 250.00 |
| Total Payments | P16,176.23 |
| Balance | P1,595.82 |

iv. Balance of the Proceeds as of the End of the Reporting Period

As of December 31, 2021, balance of proceeds amounted to P1.60 billion.

2021 Sustainability Report

Annex A: Reporting Template

(For additional guidance on how to answer the Topics, organizations may refer to Annex B: Topic Guide)

Contextual Information

| Company Details | |
|--|--|
| Name of Organization | PETRON CORPORATION |
| Location of Headquarters | San Miguel Corporation Head Office Complex, 40 San Miguel Avenue, 1550 Mandaluyong City |
| Location of Operations | Nationwide |
| Report Boundary: Legal entities (e.g. subsidiaries) included in this report* | This Report discloses performance Sustainability indicators from the following: Petron Corporate Head Office, the Petron Bataan Refinery (PBR), our 30 terminals nationwide, select Petron service stations in Luzon, and our corporate social responsibility arm, Petron Foundation, Inc.. |
| Business Model, including Primary Activities, Brands, Products, and Services | <p>Petron Corporation is the largest oil refining and marketing company in the Philippines. We supply approximately one third of the country's total fuel requirements through the operation of our 180,000 barrel-per-day oil refinery in Bataan.</p> <p>Considered one of the most advanced facilities in the region, our refinery processes crude oil into a full range of petroleum products including gasoline, diesel, LPG, jet fuel, kerosene and petrochemicals. From Bataan, we move our products mainly by sea to nearly 30 terminals located across the archipelago. Through our robust distribution network, we fuel strategic industries such as power generation, manufacturing, mining, agribusiness, among others.</p> <p>Petron also supplies jet fuel at key airports to international and domestic carriers. Through over 2,400 service stations – the most extensive in the country – we retail gasoline, diesel, and autoLPG to motorists and the public transport sector.</p> <p>Our wide range of world-class fuels includes Blaze 100 Euro 6, XCS, Xtra Advance, Turbo Diesel and Diesel Max. We also sell our LPG brands Gasul and Fiesta Gas to households and commercial consumers through an extensive retail network.</p> |
| Reporting Period | January 1 to December 31, 2021 |
| Highest Ranking Person responsible for this report | RAMON S. ANG President and CEO |

**If you are a holding company, you could have an option whether to report on the holding company only or include the subsidiaries. However, please consider the principle of materiality when defining your report boundary.*

Materiality Process

Explain how you applied the materiality principle (or the materiality process) in identifying your material topics.¹

¹ See [GRI 102-46](#) (2016) for more guidance.

In determining the materiality of our topics, we relied on our existing materiality test (based on the GRI G3 standards) using the following parameters:

- *Is this already mentioned as an important indicator by stakeholders?*
- *Does this constitute a future challenge for your sector? Is it already discussed by peers?*
- *Is this connected to relevant laws, regulations, international agreements, or voluntary agreements with strategic significance to your organization or to your stakeholders?*
- *Does this constitute an opportunity for your organization?*
- *Does this contribute to the likelihood that a significant risk to your organization occurs?*
- *Is this recognized by scientists / experts as a risk for sustainability?*
- *Does your organization have specialized knowledge or competencies to contribute to sustainability in this area?*
- *Does this contribute to successful implementation of your strategy or does this reinforce the values of your organization?*

Under this materiality matrix, we took stock of all the issues our stakeholders raised and plotted them against those that have the biggest financial or reputational impact on our business. At the same time, we took into consideration items that we believe posed significant risks in terms of information that we deemed proprietary or may compromise our competitive advantage, and therefore detrimental to the Company's sustainability as a business. Both quantitative and qualitative data were subjected to an internal verification process led by our Sustainability Council.

The discussion of our Sustainability indicators includes our Corporate Head Office, the Petron Bataan Refinery (PBR), our 30 terminals nationwide, 23 Petron service station considered as major service stations in Luzon, and our corporate social responsibility arm, Petron Foundation, Inc. (PFI). We likewise report on voluntary initiatives to involve our external stakeholders such as business partners, vendors, suppliers, and contractors. We also discuss current issues and challenges faced by the Company in the context of sustainability in our operations and our corresponding planned actions. Furthermore, Petron's undertakings on joint ventures, subsidiaries, leasing facilities, outsourcing, operations, and involvement in other entities do not affect the comparability from period to period and/ or between organizations. Economic data reporting is consistent with the Petron Corporation 2021 Annual Report.

We continue to better appreciate the sustainability requirements and endeavor to further enhance the Materiality Process in determining our material topics for succeeding reports.

Economic Performance

Direct Economic Value Generated and Distributed

| Disclosure | Amount (in Million Pesos) | Units |
|--|----------------------------------|--------------|
| Direct economic value generated (revenue) | 438,683 | PhP |
| Direct economic value distributed: | | |
| a. Operating costs | 407,775 | PhP |
| b. Employee wages and benefits | 3,218 | PhP |
| c. Payments to suppliers, other operating costs* | | Php |
| d. Dividends given to stockholders and interest payments to loan providers | 14,252 | PhP |
| e. Taxes given to government | 63,002 | PhP |
| f. Investments to community (e.g. donations, CSR) | 39 | PhP |

*Operating costs data already corresponds to Payment to suppliers and contractors

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
|---|--|--|
| <p>Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products. We sell refined petroleum products including LPG, gasoline, diesel, jet fuel, kerosene, solvents, asphalts, and petrochemical feedstocks such as mixed xylene, propylene, and toluene.</p> <p>In the Philippines, Petron has an overall share of 20.8% of the local oil market as of September 2021 in terms of sales volume based on company estimates considering company information and data from the Department of Energy (DOE). The industry data used excludes volumes of direct imports to end users.</p> <p>The major markets in the petroleum industry are Retail, Industrial, LPG and Lube Trades. Petron sells its products to industrial end-users and through a nationwide network of service stations, LPG dealerships, sales centers and other retail outlets. We also supply jet fuel at key airports to international and domestic carriers.</p> <p>In line with efforts to increase our presence in the regional market, we export various petroleum and non-fuel products to Asia-Pacific countries and regions such as Cambodia, Brunei, Singapore, and Malaysia.</p> <p>The importation and sale of petroleum products is highly taxed in the Philippines. In recent years, the government has increased the excise taxes on petroleum products, among others, as part of its overall economic strategy to finance government spending and provide better infrastructure,</p> | <ul style="list-style-type: none"> • Employees • Customers • Business partners (contactors, suppliers) • Financial institutions • Government • Communities | <p>Petron Vision, Mission, and Values</p> <p><u>Vision</u> "To be the Leading Provider of Total Customer Solutions in the Energy Sector and its Derivative Businesses."</p> <p><u>Mission</u> We will achieve this by:</p> <ul style="list-style-type: none"> • Being an integral part of our customers' lives, delivering a consistent customer experience through innovative products and services; • Developing strategic partnerships in pursuit of growth and opportunity; • Leveraging our refining assets to achieve competitive advantage; • Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence; • Caring for our community and environment; • Conducting ourselves with professionalism, integrity, and fairness; • Promoting the best interest of all our stakeholders. <p>Petron's Sustainability Priorities</p> <p><i>Our sustainability priorities represent Petron's integrated approach to deliver on its Vision, Mission, and Values with the most value to and in the best interest of its stakeholders. The harmonious interplay of these priorities gives forward motion to our company even as it shows our dynamism in addressing the evolving needs of our stakeholders.</i></p> <ul style="list-style-type: none"> • Economic Responsibility. We commit to the creation of long-term economic value and mutual advantage for our company and its shareholders. • Strategic Partnerships. We commit to building on shared strengths with business partners and other stakeholders in our quest to serve customers better while |

| <p>health, education, jobs and social protection for the people.</p> | | <p>creating more value for our investors.</p> <ul style="list-style-type: none"> • Product and Service Innovation. We commit to investing in research and development for the continuous enhancement of our products, services, and processes in order to delight our customers, achieve competitive advantage, help shape the industry, and fuel environmental protection. |
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| <p>What are the Risk/s Identified?</p> | <p>Which stakeholders are affected?</p> | <p>Management Approach</p> |
| <p>The following risks may cause adverse impact on Petron’s business operations and constrain the company’s financial performance:</p> <ul style="list-style-type: none"> • Volatility of the prices of crude oil and petroleum products; • Intense competition and cyclicity in global and regional refining capacities. • Any significant disruption in operations or casualty loss at our Refinery and Terminals; • Failure to comply with relevant national and local laws and regulations may result in financial penalties or administrative or legal proceedings against the Company, including the revocation or suspension of the Company’s licenses or operation of its facilities. Continued compliance with safety, health, environmental and zoning laws and regulations may adversely affect Petron’s results of operations and financial condition. • Failure to respond quickly and effectively to product substitution or government-mandated product formulations; • Significant capital expenditures, financing, and expansion of marketing and logistical support, which are subject to a number of risks and uncertainties, and its financial condition and results of | <ul style="list-style-type: none"> • Employees • Customers • Business partners (contactors, suppliers) • Financial institutions • Government • Communities | <p>Petron Corporation follows an enterprise-wide risk management framework for identifying, mapping, and addressing the risk factors that affect or may affect its businesses.</p> <p>The company’s risk management process is a bottom-up approach, with each division mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As Petron’s operations form an integrated value chain, risks emanate from every process. The results of these activities flow up to the management committee and, eventually, the Board. Venue for these are through the company’s annual business planning process and quarterly updates on major risks and mitigation strategies. Oversight and technical assistance are likewise provided by different corporate units.</p> <p>To effectively address the Covid-19 pandemic, Petron enhanced its Business Continuity Plan (BCP) to include a Pandemic Response. All line departments undertook critical functions continuity planning and provided overall business impact data assessment.</p> <p>Since technology plays a critical role in the resiliency the Company’s operations, which was highlighted even more during the pandemic, the Company has reinforced its thrust to leverage IT infrastructure, hardware and software that can support work from home and hybrid work scenarios. Continued thrust on IT network bandwidth and mobile/portable computing devices made it possible for the business to stay</p> |

| <p>operations may be adversely affected by its debt levels.</p> <ul style="list-style-type: none"> • Increase in Petron’s operating costs due to changes in applicable taxes, duties and tariffs; • Fluctuations in the value of the Philippine Peso against the U.S. dollar. • Loss of experienced, skilled and qualified personnel and senior management if Petron is unable to retain their services. • Existing or future claims against the Company, its subsidiaries, associates or joint ventures, or directors or key management. <p>The Covid-19 pandemic remained a critical risk for the Company in 2021 as the health crisis translated into an economic and social concern, disrupting business operations, adversely affecting sales, limiting the mobility of both workforce and consumers, and posing physical health risks to Petron employees and its business partners. Despite the introduction of vaccines to combat the virus and the massive vaccination drive conducted by government together with the private sector, the appearance of other Covid-19 strains stunted the pace of economic recovery and continuing to cast uncertainties for a long-term solution.</p> | | <p>productive despite the disruptions caused by the pandemic. From a software standpoint, the Company’s use of cloud-based productivity and collaboration software and electronic workflow solutions (to replace paper-based forms) facilitated its day-to-day operations while minimizing exposure risks. Lastly, the Company’s IT security measures continued to protect the business from cybersecurity risks and social engineering risks which were heightened during the pandemic.</p> |
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| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
| <p>Petron sees opportunities for the business to further grow through:</p> <ul style="list-style-type: none"> • Maximizing production of high margin refined petroleum products and petrochemicals. • Further increasing market share in the downstream oil market in the Philippines. • Continuing investments to increase operational efficiency | <ul style="list-style-type: none"> • Employees • Customers • Business partners (contactors, suppliers) • Financial institutions • Government • Communities | <p>Over the years, Petron 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. We believe that the downstream oil market in the Philippines remains underserved and has a strong potential for growth. To capture this growth and further strengthen our market position, the Company continues to undertake</p> |

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| <p>and profitability and to increase market reach.</p> <ul style="list-style-type: none"> • Pursuing selective synergistic acquisitions. <p>Specific to the Covid-19 pandemic, Petron saw opportunities for the business to contribute to nation building by ensuring the availability of fuel products to the public, as well as supporting government initiatives to address the pandemic.</p> <p>There was also an opportunity to continue utilizing Treats convenience stores in select Petron service stations to sell San Miguel Food products at discounted prices for communities limited by the lockdowns.</p> | | <p>initiatives that include retail expansion, facilities upgrade, supply chain improvements, and further enhancing customer experience.</p> <p>As regards the Covid-19 pandemic, Petron remained in step with the San Miguel Corporation Corporate HR and the SMC Center for Health Services, Inc. (CHSI) for a strategic response. Petron HR maintains a Covid-19 Steering Committee comprised of Managers, Officers, and Petron Medical Health to monitor and oversee activities related to addressing the pandemic response of the Company.</p> <p>Alignment of our organization structures to ensure our ability to meet demands of the business as well as optimization of our manpower were implemented, for cost efficiency and effectiveness, while considering the welfare of our people as a prime consideration.</p> <p>Also in 2021, we had to adapt to the 'new normal' workplace that allowed for greater flexibility in how we deliver services given the challenges posed by the pandemic. These included harnessing technology to promote continued learning and development programs for our people through online platforms that included mentoring and coaching programs to build a deeper leadership bench, as well as onboarding programs for new hires using these digital platforms as well. These enabled the workforce to meet the challenges and opportunities ahead, leading to sustained performance and engagement.</p> |
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Climate-related risks and opportunities²

| Governance | Strategy | Risk Management | Metrics and Targets |
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| <p>There is a Risk Oversight Committee composed of at least three (3) members of the Board, the majority of whom are independent directors. At least one members of the committee has</p> | <p>Petron recognizes that the industry is at great risk from the effects of climate change. Our major facilities, such as our Refinery and terminals, are located along shorelines, making sea level rise due to global warming a major</p> | <p>While the responsibility for environmental management is shared across the business, Petron's Environment Council assists management in the formulation and implementation of environmental policies,</p> | <p>Goals and targets are set by each facility of the operating units.</p> <p>At the same time, Petron continues to benchmark with the performance and practices of other players in the oil industry to further improve its</p> |

² Adopted from the Recommendations of the Task Force on Climate-Related Financial Disclosures. The TCFD Recommendations apply to non-financial companies and financial-sector organizations, including banks, insurance companies, asset managers and asset owners.

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| <p>relevant and thorough knowledge and experience on risk and risk management. The Committee is responsible for the oversight of the enterprise risk management system of the Company to ensure its functionality and effectiveness.</p> <p>Petron Risk Management (PRiMS) Policy Statement</p> <p>Petron Corporation is committed to an integrated and dynamic risk management framework that systematically identifies, assesses, measures, manages and monitors existing and potential risks confronting the company and its subsidiaries, whether from the environment or inherent in its business processes and systems.</p> <p>Risk management strategies are adopted across the organization to consider the best trade-off between risks and opportunities in order to maximize shareholder value.</p> <p>All managers and risk owners are primarily accountable for risk management.</p> | <p>threat to our operations. Sea level rise is now being considered in the planning stage of our terminal expansion projects.</p> <p><u>Opportunities</u></p> <ul style="list-style-type: none"> ▪ Petron acknowledges that its product is a major source of GHG emissions. Thus we strive to produce more environment-friendly products that result to less emission. ▪ As a resource intensive industry, there is a need to reduce our environment footprint through efficient use of resources (energy, water, etc.) and minimization of waste generation. Carbon, water, and waste footprint can be further reduced to be at par or better than other players in the oil industry. <p><u>Risks</u></p> <ul style="list-style-type: none"> ▪ Costs associated with reducing our environment footprint. ▪ Leaks and releases (spills). | <p>disseminates new regulations, standards, and corporate policies throughout the organization, and shares best practices in environmental management. The refinery, terminals, and retail facilities nationwide have Health, Safety, and Environment (HSE) committees which involve all employees from management to rank and file.</p> | <p>environmental performance.</p> |
| <p>Recommended Disclosures</p> | | | |

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| <p>a) Describe the board's oversight of climate-related risks and opportunities</p> <p>While climate change is not specifically spelled out in Petron's Corporate Governance Manual, this is broadly spelled out in the BOD's mandate:</p> <p>The Board of Directors is responsible for overseeing management of the Company and fostering the long-term success of the Company and securing its sustained competitiveness and profitability in a manner consistent with the fiduciary responsibilities of the Board of Directors and the corporate objectives and best interests of the Company and its stakeholders.</p> <p>Also reflected under the CG Manual are the key internal control features necessary for good corporate governance, such as the duties and responsibilities of the Board of Directors and the board committees, the active operation of the Company in a sound and prudent manner, the presence of organizational and procedural controls supported by an effective management information and risk management</p> | <p>a) <i>Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term</i></p> <p>The Company does not currently have a specific climate change policy or strategy. However, we continue to consider global warming as a significant risk to the continuity of our operations and are continuing to develop initiatives to both mitigate and adapt to possible impacts.</p> | <p>a) <i>Describe the organization's processes for identifying and assessing climate-related risks</i></p> <p>The Company does not currently have a specific climate change policy or strategy. However, we continue to consider global warming as a significant risk to the continuity of our operations and are continuing to develop initiatives to both mitigate and adapt to possible impacts.</p> | <p>a) <i>Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process</i></p> <p>Petron refers to numerous metrics in assessing climate-related risks and opportunities as we believe that what gets measured gets managed. These include, but are not limited to:</p> <ul style="list-style-type: none"> • Requirements in securing ISO certification in our facilities (ISO 14001 for Environment Management). • Integrated Accounting for Greenhouse Gas and Air Emissions for the Petron Bataan Refinery (initiated in 2011 with Philippine Business for the Environment [PBE] and Clean Air Initiative for Asian Cities. • Project CODy, a program at the Petron Bataan Refinery to characterize and measure the various types of wastes and segregate clean from oily wastewater streams in our plant so that we could spot opportunities for water reuse while minimizing wastewater treating cost. • Continued use of GRI G3 environmental indicators on Materials, Energy, Water, Biodiversity, |
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| <p>reporting systems, among others.</p> | | | <p>Emissions, Effluents & Waste, Products and Services, Compliance, and Transportation.</p> |
| <p>b) Describe management’s role in assessing and managing climate-related risks and opportunities</p> <p>In being part of a resource-intensive business that is both a contributor to and a recipient of the effects of climate change, we are unceasing in our efforts to improve our environmental performance to be at par or better than other players in the oil industry.</p> <p>Management continuously conducts assessment and performance assessments through quarterly management and safety reviews. Thus, business performance (actual vis-à-vis targets), compliance with business hurdle rates and financial parameters/ratios, as well as health, safety, and environmental requirements are evaluated periodically.</p> <p>We also have our Corporate Technical Services Group (CTSG)- Environment, under the Vice President for Operations</p> | <p>b) <i>Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy and financial planning.</i></p> <p>The Philippines has experienced a number of climate-related catastrophes in recent years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to climate 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 economy. These types of events may materially disrupt Petron’s business and operations and could have a material adverse effect on our financial condition and results of operations.</p> | <p>b) <i>Describe the organization’s processes for managing climate-related risks</i></p> <p>Petron believes that climate change constitutes a real and serious threat to the planet, its people, and our way of life. Thus, we undertake initiatives to manage climate-related risks:</p> <ul style="list-style-type: none"> • Information and Education Campaign for our facilities (Refinery, Terminals, and service stations) discussing impacts of climate change to our facilities and how to contribute in reducing GHG emissions; • Adoption of mangrove areas for reforestation and other greening programs as carbon sequestration programs; • Climate Change Adaptation Programs are also included in the planning stage of our projects as part of our Environmental Impact Assessment study. This will include adaptation measures on impact of sea level rise, projected rainfall and temperature variations, among others. • We also take pride in the implementation of various management systems in our Refinery and depots, and the adoption of an | <p>b) <i>Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets</i></p> <p>Goals and targets are set by each facility of the operating units.</p> <p>At the same time, Petron continues to benchmark with the performance and practices of other players in the oil industry to further improve its environmental performance.</p> |

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| <p>which is directly responsible for formulating policies and guidelines implemented in our various operating units (Refinery, Terminal Operations, and National Sales). It also manages and coordinates programs and activities, particularly those aimed at reducing Petron's carbon footprint, and creating an environment that promotes health and safety.</p> | | <p>environmental management plan in our service stations. Internal audits on the environmental performance of all our facilities are conducted annually while third-party audits from certifying bodies are conducted. All corrective actions are identified and implemented.</p> <ul style="list-style-type: none"> • We also believe in the continued improvement of our personnel, thus we invest in their training. Recognizing that our environmental footprint encompasses our supply chain, we extend the training on environmental programs to suppliers, contractors, and service providers. | |
| | <p><i>c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios including a 2°C or lower scenario</i></p> <p>The Company does not currently have a climate change strategy that specifically details a 2°C or lower scenario. However, we continue to consider global warming as a significant risk to the continuity of our operations and are continuing to develop initiatives to both mitigate and adapt to possible impacts.</p> | <p><i>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management</i></p> <p>We recognize that our industry is at great risk from the effects of climate change. Our major facilities, such as our Refinery and Terminals, are located along shorelines, making sea level rise due to global warming a major threat to our operations. Sea level rise is now being considered in the planning stage of our Terminal expansion projects.</p> <p>We believe that our efforts at managing our environmental footprint</p> | |

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| | | and mitigating our impact on the environment are key to reducing our vulnerability to climate change. This is critical, not only for us, but for the wider community affected by our operations. We know that while we cannot fully eliminate our impact on the environment and society, we are committed to upholding laws and regulations, installing management systems, and observing best practices in efforts to mitigate any negative effects. We continue to be influenced by the Precautionary Principle in our decision-making process, taking into account any potential harmful outcome even if uncertain. | |
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Procurement Practices

Proportion of spending on local suppliers

| Disclosure | Quantity | Units |
|--|----------|-------|
| Percentage of procurement budget used for significant locations of operations that is spent on local suppliers | 65* | % |

**figures include estimated capital expenditures in addition to operational budget*

| What is the impact and where does it occur? What is the organization’s involvement in the impact? | Which stakeholders are affected? | Management Approach |
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| Petron’s business reaches beyond the economic centers of the country to its most remote areas. Fueling progress in these far-flung places, along with our development initiatives, we foster the potential for a more inclusive growth. For instance, economic opportunities start to arise where there is a Petron service station because our presence supports government’s move to set up farm-to-market | <ul style="list-style-type: none"> • Key Petron business units (Refinery, Operations, National Sales, Supply, Procurement, Business Planning) • Suppliers • Host communities | <p>Vision, Mission, and Values</p> <p>To be the leading provider of total customer solutions in the energy sector and its derivative businesses.</p> <p>We will achieve this by:</p> <ul style="list-style-type: none"> • Being an integral part of our customers’ lives, delivering consistent customer experience through innovative products and services; |

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| <p>roads and other public infrastructure that facilitate productivity. By tapping into the local business network, whether in terms of providing us with services or supplies, we build capacity at the grassroots level and create more partner businesses and contractors that help strengthen our business as we widen our scope.</p> | | <ul style="list-style-type: none"> • Developing strategic partnerships in pursuit of growth and opportunity; • Leveraging our refining assets to achieve competitive advantage; • Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence; • Caring for community and the environment; • Conducting ourselves with professionalism, integrity, and fairness; • Promoting the best interest of all our stakeholders. <p>Petron Sustainability Priorities</p> <ul style="list-style-type: none"> • <u>Economic Responsibility</u> We commit to the creation of long-term economic value and mutual advantage for our company and its shareholders • <u>Operational Efficiency</u> We commit to the continuous improvement of our operations and in our supply chain, guided by global efficiency standards. • <u>Strategic Partnerships</u> We commit to building on shared strengths with business partners and other stakeholders in our quest to serve customers better while creating more value for our investors. • <u>Product and Service Innovation</u> We commit to investing in research and development for the continuous enhancement of our products, services, and processes in order to delight our customers, achieve competitive advantage, help shape the industry, and fuel environmental protection. <p>Petron is unique since it operates in an ecosystem that includes a diverse group of supply chain stakeholders, from large foreign and local contractors to Philippine society's most basic units, the household and the <i>barangay</i>. While the potential for inclusive development is great, the challenge for alignment is enormous. We seek to leverage on our size and scale to extend the sustainability agenda throughout our sphere of influence.</p> |
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| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
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| Being at the forefront of Petron's spending requirements, we make sure that significant savings are generated without sacrificing the quality of goods and services. | <ul style="list-style-type: none"> • Key Petron business units (Refinery, Operations, National Sales, Supply, Procurement, Business Planning) • Suppliers | We continuously implement improvements to our Procurement to enhance efficiencies that maintain competitive advantage and promote savings. These efforts allow us to streamline the process and help us identify opportunities for improvements and establish a strategic sourcing program. |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
| <p>This evolution of Petron's Materials and Services Purchasing Department to Procurement Division has opened opportunities to improve accountability within our network. These changes include:</p> <ul style="list-style-type: none"> • Embedding of ethical practices within procurement processes • Increased transparency in transactions • Optimization of procedures for customer responsiveness • Increased flexibility in determining optimal and efficient strategies • Identification of areas for expertise development | <ul style="list-style-type: none"> • Petron's Procurement Division • Suppliers | <p>Good corporate governance is the foundation of our leadership position. We see Procurement's central role in encouraging the adoption of good governance principles among the suppliers, communicating and cascading ethical practices throughout the supply chain, and increasing the compliance with these principles. Thus, we created a governance group that looks into the development, updating, and consistent application of procurement-related policies and procedures.</p> <p>We continuously review and update our procurement manual and procedures to reflect guidelines on working conditions, business standards and ethics, business integrity, occupational health and safety, environment, workplace harassment, conflict of interest and commercial bribery, company confidentiality, dangerous drugs, and dealing with government intermediaries.</p> |

Anti-corruption

Training on Anti-corruption Policies and Procedures

| Disclosure | Quantity | Units |
|--|-----------------|--------------|
| Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to | 100 | % |
| Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to | 100 | % |
| Percentage of directors and management that have received anti-corruption training | 100 | % |
| Percentage of employees that have received anti-corruption training | 100 | % |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
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| <p>Directors, officers and employees represent the Company and are, thus, responsible for upholding the good name of the Company.</p> <p>Directors and officers and many employees interact with third parties, including the government.</p> | <p><u>Internal stakeholders</u></p> <ul style="list-style-type: none"> • All Petron directors, officers, and employees <p><u>External stakeholders</u></p> <ul style="list-style-type: none"> • Customers • Dealers • Suppliers • Vendors • Contractors • Creditors • financial institutions • joint venture partners • program partners • general public • government | <p>Petron strictly adheres to high standards of ethical conduct.</p> <p>The Board of Directors adopted the revised Code of Conduct and Ethical Business Policy of the Company in May 2018. The Code of Conduct and Ethical Business Policy of the Company expressly provides an anti-corruption policy and the Company Rules and Regulations on Discipline impose disciplinary action for a breach of such anti-corruption policy. Copies of the Code of Conduct are distributed to directors, officers and employees and are readily available with the Human Resources Management and Development Department of the Company. The Code of Conduct is also available on the Petron website www.petron.com and the Petron intranet "Petron Hub".</p> <p>Training on anti-corruption is included in the values and leadership training seminars and employee orientation programs and form part of corporate governance seminars required to be attended by directors and key officers of the Company. Further, labor relations seminars are also conducted which include a module on corruption.</p> <p>Petron also enjoins its customers to observe similar standards of ethical conduct through contractual obligations on anti-corrupt practices.</p> |
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| <p>Corruption incidences can occur during the interaction between a company and the third parties it deals with, including the government.</p> | <p><u>Internal stakeholders</u></p> <ul style="list-style-type: none"> • All Petron directors, officers, and employees <p><u>External stakeholders</u></p> <ul style="list-style-type: none"> • Customers • Dealers • Suppliers • Vendors | <p>The Company has a board-approved Code of Conduct and Ethical Business Policy that sets out the Company's anti-corruption policy and its Company Rules and Regulations on Discipline impose disciplinary action for a breach of such anti-corruption policy. Anti-corruption trainings of directors, officers and employees provide values trainings that are geared towards teaching about the</p> |

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| | <ul style="list-style-type: none"> • Contractors • Creditors • financial institutions • joint venture partners • program partners • general public • government | adverse effects of corruption and developing a behavior of not acting in a corrupt manner. |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
| Availability of more in-depth training on anti-corruption that can enhance awareness and implementation of anti-corruption policies and practices in the Company | <u>Internal stakeholders</u> <ul style="list-style-type: none"> • All Petron directors, officers, and employees <u>External stakeholders</u> <ul style="list-style-type: none"> • Customers • Dealers • Suppliers • Vendors • Contractors • Creditors • financial institutions • joint venture partners • program partners • general public • government | The Company will continue to promote anti-corruption in values and leadership training seminars, employee orientation programs, and labor relations seminars. The Company will also continue to include anti-corruption as a topic in corporate governance seminars required to be attended by directors and key officers of the Company. |

Incidents of Corruption

| Disclosure | Quantity | Units |
|--|----------|-------|
| Number of incidents in which directors were removed or disciplined for corruption | 0 | # |
| Number of incidents in which employees were dismissed or disciplined for corruption | 0 | # |
| Number of incidents when contracts with business partners were terminated due to incidents of corruption | 0 | # |

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| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
| <p>Directors, officers and employees represent the Company and are, thus, responsible for upholding the good name of the Company.</p> <p>By the nature of their positions, they interact with third parties that deal with the Company, including the government.</p> | <u>Internal stakeholders</u> <ul style="list-style-type: none"> • All Petron directors, officers, and employees <u>External stakeholders</u> <ul style="list-style-type: none"> • Customers • Dealers | The Code of Conduct and Ethical Business Policy sets the standards for ethical and business conduct of the directors, officers and employees and expresses the commitment of Petron to conduct its business fairly, honestly, impartially and in good faith, and in an |

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| | <ul style="list-style-type: none"> • Suppliers • Vendors • Contractors • Creditors • financial institutions • joint venture partners • program partners • general public | <p>uncompromising ethical and proper manner.</p> <p>All the directors, officers and employees of the Company are expressly required to comply with this Policy and conduct themselves in a manner that avoids even the mere appearance of improper behavior.</p> <p>Among the standards set by the Code of Conduct and Ethical Business Policy include:</p> <ul style="list-style-type: none"> a) the open, honest and arm’s length dealings with its customers, dealers, suppliers, vendors, contractors, creditors, financial institutions and joint venture partners. b) the supply of products and services of the highest quality backed by efficient after-sales services. c) the conduct of business in a manner that preserves the environment, protects the health and safety of its employees, customers, suppliers, contractors, and other stakeholders and the general public. d) the observance of the vision and the mission of the Company and its core values of professionalism, integrity, fairness, commitment to excellence, and care of the environment, and includes the prohibitions against conflict of interest, bribery, gifts, disclosure of non-public information of the company and misuse of company property, and e) professional competence of the employees. <p>The procedure under the Code of Conduct and Ethical Business Policy requires anyone with any information or knowledge of any prohibited act or violation to promptly report the same to the Department Head, any Vice President, the Human Resources Management Department, the IAD or the General Counsel. Disciplinary measures may be imposed after an investigation.</p> <p>All incoming employees are oriented with the policies of the Company, including the Code of Conduct and Ethical Business Policy. And as part of their pre-employment requirements, all such</p> |
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| | | incoming employees are required to declare in writing (a) all their existing businesses that may directly or indirectly conflict their performance of their duties once hired and their undertaking to inform the Company of any conflict of interest situation that may later arise and (b) their acceptance of the company policies, rules and procedures, including those relating to conflict of interest, gifts, and insider trading. |
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| <ul style="list-style-type: none"> • conflict of interest • bribery/gifts | <p><u>Internal stakeholders</u></p> <ul style="list-style-type: none"> • All Petron directors, officers, and employees <p><u>External stakeholders</u></p> <ul style="list-style-type: none"> • Customers • Dealers • Suppliers • Vendors • Contractors • Creditors • financial institutions • joint venture partners • program partners • general public • government | <p><u>Anti-Bribery and Anti-Corruption</u></p> <p>The Company Corporate Governance Manual embodies the company policy against corrupt practices and the company commitment to do business with integrity by avoiding corruption and bribery of all kinds and by observing all applicable anti-bribery and anti-corruption laws in every jurisdiction in which it does business.</p> <p>The Code of Conduct and Ethical Business Policy also specifically prohibits bribery and any solicitation, receipt, offer or making of any illegal payments, favors, donations or comparable gifts which are intended to obtain business or uncompetitive favors. The said acts are also punishable under Company Rules and Regulations on Discipline with penalties ranging from light suspension to dismissal.</p> <p><u>Conflict of Interest</u></p> <p>The Code of Conduct and Ethical Business Policy expressly provides a proscription against engaging in any activity in conflict with the interest of the Company and it requires a full disclosure of any interest which any employee or his/her immediate family and friends may have in the Company.</p> <p>Employees are also generally restricted from accepting a position of responsibility (such as consultancy or directorship) with any other company or provide freelance services to anyone.</p> |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |

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| Increased awareness on the negative impact of corruption | <p><u>Internal stakeholders</u></p> <ul style="list-style-type: none"> • All Petron directors, officers, and employees <p><u>External stakeholders</u></p> <ul style="list-style-type: none"> • Customers • Dealers • Suppliers • Vendors • Contractors • Creditors • financial institutions • joint venture partners • program partners • general public • government | The Company will continue to promote anti-corruption in values and leadership training seminars, employee orientation programs, and labor relations seminars. The Company will also continue to include anti-corruption as a topic in corporate governance seminars required to be attended by directors and key officers of the Company. |
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Resource Management

Energy consumption within the organization:

| Disclosure | Quantity | Units |
|--|------------|-------|
| Energy consumption (renewable sources) | 318 | GJ |
| Energy consumption (gasoline) | 37,967 | GJ |
| Energy consumption (Fuel gas + LPG) | 9,127,835 | GJ |
| Energy consumption (diesel) | 27,577 | GJ |
| Energy consumption* (catalytic carbon, fuel oil, petroleum carbon, coal) | 23,690,812 | GJ |
| Energy consumption** (electricity) | 34,010,498 | kWh |

*catalytic carbon, fuel oil, petroleum carbon, coal

** (electricity)

Reduction of energy consumption

| Disclosure | Quantity | Units |
|--------------------------------|----------|-------|
| Energy reduction (gasoline) | 0 | GJ |
| Energy reduction (Fuel Gas) | 81,589 | GJ |
| Energy reduction (diesel) | 33 | GJ |
| Energy reduction (electricity) | 73,325 | kWh |
| Energy reduction (gasoline) | 0 | GJ |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
|---|----------------------------------|---------------------|
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| <p>Petron Bataan Refinery accounts for 99.69% of the energy consumption of the organization. The energy consumption has a material impact on the operating cost of the organization.</p> <p>Bulk of the energy utilized comes from fossil fuel. Air emission from fuel combustion will impact the air quality in the area where we operate and in the fenceline communities.</p> | <p>Shareholders Fenceline Communities</p> | <p>Petron Vision, Mission, and Values</p> <p><u>Vision</u> “To be the Leading Provider of Total Customer Solutions in the Energy Sector and its Derivative Businesses.”</p> <p><u>Mission</u> We will achieve this by:</p> <ul style="list-style-type: none"> • Being an integral part of our customers’ lives, delivering a consistent customer experience through innovative products and services; • Developing strategic partnerships in pursuit of growth and opportunity; • Leveraging our refining assets to achieve competitive advantage; • Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence; • Caring for our community and environment; • Conducting ourselves with professionalism, integrity, and fairness; • Promoting the best interest of all our stakeholders. <p>Petron’s Sustainability Priorities</p> <ul style="list-style-type: none"> • <u>Environmental Stewardship</u> We commit to business practices that help protect the environment knowing that this accordingly safeguards the interests of our company and its stakeholders over the long term. • <u>Operational Efficiency</u> We commit to the continuous improvement of our operations and in our supply chain, guided by global efficiency standards. • <u>Product and Service Innovation</u> We commit to investing in research and development for the continuous enhancement of our products, services, and processes in order to delight our customers, achieve competitive advantage, help shape the industry, and fuel environmental protection. <p>Petron Bataan Refinery was able to reduce energy consumption by 81,589 Gj in 2021 by implementing energy efficient measures in its refinery process. The</p> |
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| | | <p>energy conservation programs implemented include upgrading the soot blowers and optimizing combustion efficiency by monitoring and controlling excess air in its furnace. The biggest reduction, accounting to 65% of the energy consumption reduction in PBR, came by switching the mode of operation of a downstream offsite unit from continuous to batch.</p> <p>A total of 624,295 GJ of energy was saved from 2014-2021. Key projects implemented include the installation of Flare Gas Recovery Unit and optimization of steam utilization in process units. Fuel oil consumption was also reduced by maximizing the use of High Pressure Steam from steam generators.</p> <p>Additional energy consumption reduction programs will be implemented in 2022. This RSFFB-3 project, which is expected to be operational by 2H 2022 will greatly improve the energy efficiency of the refinery.</p> <p>Pilot implementation of the use of solar power in service stations started in 2021. Solar panels with 5KW rating were installed in three service stations. Average energy supplied from solar power is 1,000 KWh/month equivalent to 2.5% of the total energy consumption of the three stations. The program will be rolled out to other stations to further increase the percentage of solar power in our energy mix.</p> <p>Since 2013, our terminals have been setting up annual reduction targets in their power consumption to demonstrate continuous improvement in their environmental management system and to attain higher rating in the Ecowatch Program. Typical reduction target ranges from 1-5% per year.</p> <p>Our terminals, who were the first to utilize solar energy within Petron, were able to use 14,351 KWh of solar energy in 2021. It is set to further increase in the coming years by installing additional solar panels for its offices.</p> <p>Petron Corporation has ASEAN Energy Management Scheme (AEMAS)-Certified Energy Managers that are formulating</p> |
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| | | policies and programs to promote energy conservation and efficiency. |
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| Increasing cost of coal and crude oil due to supply constraints and geopolitical issues in Europe will result to high energy prices that translates to higher operating cost. | Stockholders | Petron Corporation will continuously seek stable and alternative sources for its power supply requirements. It will also continue to implement energy conservation programs to temper the effect of rising energy cost. |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
| Numerous programs have already been lined-up for implementation to further reduce energy consumption. The company projects to achieve a total energy consumption reduction 1,704,352 GJ from projects to be implemented or operational from 2022-2025. | <u>Internal stakeholders</u> <ul style="list-style-type: none"> • All Petron directors, officers, and employees <u>External stakeholders</u> <ul style="list-style-type: none"> • Fenceline communities • LGUs • Concerned national government agencies (Department of Energy, DENR, Board of Investments) • general public | Management will continue to explore and evaluate new technologies that may be used to reduce energy consumption from operations and further improve on its energy efficiency programs. The utmost goal is to reduce cost from energy consumption and air pollutant emissions. |

Water consumption within the organization

| Disclosure | Quantity | Units |
|---------------------------|-------------|----------------|
| Water withdrawal* | 128,143,758 | m ³ |
| Water consumption* | 32,040,811 | m ³ |
| Water recycled and reused | 432,287 | m ³ |

*92.22% comes from surface water sources (sea) and recirculated back to the sea after treatment
7.77% comes from groundwater / utility water providers

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| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
| The Company's water consumption is majorly attributed to the operations of Petron Bataan Refinery. Surface water withdrawn | Community | Majority of the Refinery's water consumption is sourced from seawater. It is used for cooling purposes before it is recirculated back to the sea. To prevent groundwater depletion and saltwater |

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| <p>from the sea accounts for 92.22% of the water consumed.</p> <p>The use of water, especially from groundwater sources, competes with the water supply. Overextraction may also result to saltwater intrusion and ground subsidence.</p> <p>Use of groundwater also entails cost from payment of royalties to government agencies.</p> | | <p>intrusion, we installed a seawater desalination plant to supply an equivalent of 21% of the total freshwater requirement.</p> <p>Petron aligns its program on water use with San Miguel Corporation's "Water For All Program" that aims to reduce scarce water consumption. In 2021, we attained 13.78% reduction in scarce water consumption versus 2016 baseline data. This is 24.8% higher than the reduction achieved in 2020. A total of 15,294,473.54 m³ of scarce water was saved from the implementation of water conservation programs since 2016. The volume saved is equivalent to monthly consumption of 509,816 households.</p> <p>Petron has further intensified its program on rainwater harvesting. It was able to collect and utilize 13,260 m³ of rainwater in 2021, 82.8% higher than the volume reported in 2020.</p> <p>Since 2013, our terminals have been setting up annual reduction targets in their water consumption to demonstrate continuous improvement in their environmental management system and to attain higher rating in the Ecowatch Program. Typical reduction target ranges from 1-5% per year.</p> |
| <p>What are the Risk/s Identified?</p> | <p>Which stakeholders are affected?</p> | <p>Management Approach</p> |
| <p>Increasing water demand due to population growth and industrialization in the areas surrounding our community pose a threat to groundwater water supply and availability.</p> | <p>Community</p> | <p>Petron will continue to implement programs to reduce water consumption and explore other water resources to be used other than groundwater.</p> |
| <p>What are the Opportunity/ies Identified?</p> | <p>Which stakeholders are affected?</p> | <p>Management Approach</p> |
| <p>Management has mandated Petron Corporation to maximize use of non-scarce water such as surface water in lieu of groundwater. With this, the company has on-going feasibility studies for two water bodies that are potential alternate sources of non-scarce water.</p> | <p><u>Internal stakeholders</u></p> <ul style="list-style-type: none"> • Petron Management • Petron officers and employees <p><u>External stakeholders</u></p> <ul style="list-style-type: none"> • Fenceline communities • LGUs | <p>Petron Corporation will continue to collaborate with San Miguel Corporation's Water Council to achieve its 2025 reduction target and in utilizing alternative non-scarce sources (e.g. surface water) to replace groundwater extraction.</p> |

| | | |
|--|---|--|
| | <ul style="list-style-type: none"> • government regulatory agencies (Department of Energy, DENR-EMB) • general public | |
|--|---|--|

Materials used by the organization

| Disclosure | Quantity | Units |
|---|---------------|-------|
| Materials used by weight or volume | | |
| • renewable* | 80,654,178 | KL |
| • non-renewable** | 4,185,951,111 | KL |
| Percentage of recycled input materials used to manufacture the organization's primary products and services | 0 | % |

* biofuels

**crude oil and packaging materials

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
|---|----------------------------------|--|
| The organization relies on crude oil as its main raw material. The volatility in the price of crude oil has a significant impact in the operating cost. | Shareholders Customers | The company has a long-term logistics master plan in place to address volatility in crude oil price and maintain market leadership. The master plan involves the supply chain of the organization from the refinery to the terminals and service stations. |
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| The volatility of the crude oil price has a significant effect on the profitability of the company. | Shareholders Customers | Petron continues to enhance its crude optimization program (determines the crude mix that will yield the best product value at the lowest cost) and expand our crude oil supply sources in addition to our major crude oil suppliers. The long-term Logistics Master Plan (LMP) includes programs such as addition of storage tanks to help the company receive, store and process more types of crudes. This allows storage of crude at optimal inventory levels and increase the company's flexibility to supply finished products to the market in spite volatile crude price movements. |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |

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| Strategic acquisition of entities within the supply chain to reduce raw material cost. | Shareholders Suppliers Customers | <p>Petron continues 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.</p> <p>Operating, logistical and product supply synergies with local industry players allow the company to reduce delivery of refined products to its various terminals all over the country, thereby also reducing raw material needs. This lowers the overall industry footprint, including the direct importation of finished products in certain regions. The company continuously pursues these partnerships that result in better value for its customers and other stakeholders.</p> |
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Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

| Disclosure | Quantity | Units |
|---|----------|-------|
| Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | 1 | # |
| Habitats protected or restored | 32 | ha |
| IUCN ³ Red List species and national conservation list species with habitats in areas affected by operations | N/A | |

| What is the impact and where does it occur? What is the organization’s involvement in the impact? | Which stakeholders are affected? | Management Approach |
|---|--|---|
| <p>The nationwide reach of Petron’s operations exposes us to the varying conditions of and risks to our natural environment. Thus we seize opportunities to protect and nurture biodiversity.</p> <p>Specifically our Petron Bawing Terminal is located along the Sarangani Bay Protected Seascape, a proclaimed National Integrated Protected Area System (NIPAS) by virtue of Presidential Proclamation No. 756 issued in 1996. It is also classified as Category V Protected</p> | <ul style="list-style-type: none"> • Fenceline communities • Petron facility in the area • LGUs, local DENR offices | <p>Petron Vision, Mission, and Values</p> <p><u>Vision</u> “To be the Leading Provider of Total Customer Solutions in the Energy Sector and its Derivative Businesses.”</p> <p><u>Mission</u> We will achieve this by:</p> <ul style="list-style-type: none"> • Being an integral part of our customers’ lives, delivering a consistent customer experience through innovative products and services; |

³ International Union for Conservation of Nature

| | | |
|---|--|--|
| <p>Area by the International Union for Conservation of Nature (IUCN).</p> | | <ul style="list-style-type: none"> • Developing strategic partnerships in pursuit of growth and opportunity; • Leveraging our refining assets to achieve competitive advantage; • Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence; • Caring for our community and environment; • Conducting ourselves with professionalism, integrity, and fairness; • Promoting the best interest of all our stakeholders. <p>Petron’s Sustainability Priorities</p> <ul style="list-style-type: none"> • <u>Environmental Stewardship</u> We commit to business practices that help protect the environment knowing that this accordingly safeguards the interests of our company and its stakeholders over the long term. • <u>Operational Efficiency</u> We commit to the continuous improvement of our operations and in our supply chain, guided by global efficiency standards. • <u>Product and Service Innovation</u> We commit to investing in research and development for the continuous enhancement of our products, services, and processes in order to delight our customers, achieve competitive advantage, help shape the industry, and fuel environmental protection. <p>We are also guided by our corporate-wide Health, Safety, and Environment (HSE) Policy, which states that Petron shall:</p> <ul style="list-style-type: none"> • Strive to fully comply with all government regulations relevant to the promotion of health and safety and the preservation of the environment; • Adopt appropriate operational procedures, provide the necessary resources and visible management support, and involve our stakeholders in all related endeavors; • Have stringent goals and targets against which we will measure our performance; and |
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| | | <ul style="list-style-type: none"> Formulate strategies to continuously improve the ways we conduct our business. <p>Specific to Bawing Terminal, Petron prepared a ten (10) year rehabilitation plan for 2020 – 2030 that covers 91,737 m² of foreshore area along the Sarangani Bay Protected Seascape and focusses on addressing its environmental (include water pollution and habitat destruction) and socio-economic issues (alternative livelihood). This rehabilitation plan will be reviewed and updated every ten (10) years, or at a shorter duration if warranted, to account for developments in the area and changes in regulations.</p> |
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| <p>Potential risks can include damage to habitats, displacement of people living in the vicinity of the operations area/s as well as flora and fauna, water- and land-based pollution.</p> <p>Health risks from Covid-19 remained a major concern in 2021 for volunteers from Petron employees and stakeholders, greening activities with physical participation of volunteers e.g. tree planting, coastal cleanup remained suspended.</p> | <ul style="list-style-type: none"> Fenceline communities LGUs DENR/CENRO/MENRO | <p>Environmental sustainability is a critical aspect of our business. We develop our own systems for measuring, managing, and minimizing our environmental footprint and invest in cleaner production and greener product lines. And because our operations are often located within or near critical areas such as coastlines and coastal areas, we invest in rehabilitating the surrounding natural habitats to protect these critical ecosystems and offset our carbon footprint.</p> <p>We also regularly engage with the host LGUs and local DENR offices to coordinate activities related to the protection of the concerned ecosystems.</p> |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
| <p>There are opportunities for Petron to engage stakeholders in shared activities to protect the ecosystems.</p> <p>There is also the chance to introduce science-based solutions or interventions to correct existing practices in environmental management.</p> <p>The physical limitations from the Covid-19 quarantines provided an opportunity to optimize the use of online communication platforms to</p> | <ul style="list-style-type: none"> Fenceline communities LGUs DENR/CENRO/ MENRO NGOs and People's Organizations (POs) Students and teachers Media | <p>We acknowledge that our business has significant impact on the environment and must go beyond compliance with environmental regulations.</p> <p>Because Petron's operations are often located within critical areas such as coastlines and coastal areas, we invest in rehabilitating the surrounding natural habitats to protect these critical environments and offset our carbon footprint.</p> <p>Under the Puno ng Buhay program, Petron adopts mangrove reforestation</p> |

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| <p>reach out to more people for Petron’s environmental advocacy. An example is the virtual environment forum sponsored by Petron as part of the Pawikan Festival of the Province of Bataan, which has generated hundreds in attendance, which are considerably more than the physical attendance generated from previous years’ actual forum in the Pawikan Conservation Center in Morong, Bataan.</p> | | <p>sites in areas where we are present, with the goal of protecting critical watersheds, minimizing carbon footprint, and where able, providing alternative livelihood to its host communities. We have since adopted a total of 30 hectares in Tacloban City, Leyte and Roxas City in Capiz in partnership with the LGUs and CENROs. This has resulted in 1,089 tons of CO₂e sequestered (as of end-April 2019). While the measurement of carbon capture was deferred in 2020 and 2021 due to Covid-19 quarantine restrictions., Petron is looking to resume these activities in the 2nd half of 2022, as quarantine restrictions continue to relax.</p> <p>Similarly, tree planting and cleanup activities by employees and business partners of Petron terminals nationwide and our Bataan Refinery to celebrate Earth Month, Environment Month, and International Coastal Cleanup Day in 2020 were suspended due to the pandemic. These are hoped to be resumed in 2022 subject to the easing of quarantine restrictions and clearance from concerned government agencies.</p> <p>However, Petron was able to continue its support of its advocacy for Pawikan conservation in Bataan Province with a donation to the 2021 Pawikan Festival. Petron sponsored the virtual Environment Forum held among public school students and teachers throughout Bataan.</p> |
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Environmental impact management

Air Emissions

GHG

| Disclosure | Quantity | Units |
|---|-----------|--------------------------|
| Direct (Scope 1) GHG Emissions* | 2,689,882 | Tonnes CO ₂ e |
| Energy indirect (Scope 2) GHG Emissions | 24,329 | Tonnes CO ₂ e |
| Emissions of ozone-depleting substances (ODS)** | N/A | Tonnes |

*We do not use Ozone Depleting substances, hence we have no ODS emissions

| What is the impact and where does it occur? What is the organization’s involvement in the impact? | Which stakeholders are affected? | Management Approach |
|---|----------------------------------|---------------------|
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Petron Bataan Refinery accounts for 99.84% of greenhouse gas emissions. Direct emissions from combustion of fossil fuels accounts for the majority of its greenhouse gas.

Community

Petron Vision, Mission, and Values

Vision

“To be the Leading Provider of Total Customer Solutions in the Energy Sector and its Derivative Businesses.”

Mission

We will achieve this by:

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

Petron’s Sustainability Priorities

- Environmental Stewardship We commit to business practices that help protect the environment knowing that this accordingly safeguards the interests of our company and its stakeholders over the long term.
- Operational Efficiency We commit to the continuous improvement of our operations and in our supply chain, guided by global efficiency standards.
- Product and Service Innovation We commit to investing in research and development for the continuous enhancement of our products, services, and processes in order to delight our customers, achieve competitive advantage, help shape the industry, and fuel environmental protection.

Additionally, continues to formulate and introduce new fuel products that improve fuel economy and lower emissions.

| | | <p>We are also continuously optimizing energy consumption and reduce heat losses to reduce greenhouse gas and air pollutant emission. For 2021, Petron Bataan Refinery was able to reduce its Carbon Intensity (MT CO₂e/MB) by 3.31% versus 2018 baseline data. With the operation of its RSFFB Phase 3 power plant by 2H 2022, the Carbon Intensity is projected to further decline in 2023 by 9.7% vs 2018 baseline.</p> <p>The projected Carbon Intensity (MT CO₂e/MB) is projected to further decrease by 12% in 2025 versus 2018 baseline. This is equivalent to a total of 523,068 MT CO₂e.</p> <p>Since 2013, our terminals have been setting up annual reduction targets in their Greenhouse Gas Emission (GHG) to demonstrate continuous improvement in their environmental management system and to attain higher rating in the Ecowatch Program. Typical reduction target ranges from 1-5% per year.</p> <p>Lastly, we are actively implementing mangrove planting and reforestation programs to help reduce our carbon footprint. The company has planted over one million trees since 2000; additionally, we have adopted at least 30 hectares of mangrove areas in the Visayas for reforestation efforts and we are looking to expand this program in the next few years in all our terminals nationwide, as well as in the Bataan refinery</p> |
|--|---|--|
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| <p>The company recognizes two types of risks identified related to climate change due to greenhouse gas emission.</p> <ul style="list-style-type: none"> • The physical risks are due to extreme weather events, variability of weather patterns, and rising sea levels. This may have an impact on the operating, infrastructure, and insurance cost of the company. • The transition risks related to transition to low-carbon economy to meet the goal of Paris Agreement and COP26 | <p>Shareholders</p> | <p>Petron conducted a risk management review in 2021 that included risk from natural calamities. We have identified facilities at risk of flooding and severe wind hazard due to climate change. Our new and future facilities for construction are already designed to withstand the severe wind hazard (20-year projection period) projection by DOST-PAGASA. We are also rehabilitating our existing facilities to withstand severe winds. The flood control project implemented in our Navotas Terminal has effectively addressed the issue of perennial flooding within the terminal's premises. This will</p> |

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| <p>(Glasgow) to limit global temperature increase to not more than 2°C. The risks include regulatory or policies to be imposed by the government to meet its nationally determined contributions (NDC), market risks on shifting customer preferences, technology risks to transition to lower emissions technology, and reputation risk on the possible stigmatization of the oil industry sector or increased stakeholder concern.</p> | | <p>be our template in addressing flooding issues in our other facilities should the need arises.</p> <p>Physical Risks from Climate Change was already integrated in the Business Continuity Plans (BCP) of our facilities. The recent Typhoon Odette which has affected many parts of Visayas and Mindanao was a litmus test on the effectivity of our BCP. We are proud to report that Petron Corporation was the first oil company to resume operations in Cebu, one of the hardest hit provinces, after Typhoon Odette onslaught. Mandaue Terminal was able to operate after one day down time, while our Mactan Aviation Facility did not experience downtime. Communication lines at the facilities remained operational despite commercial communication lines being cut-off. Furthermore, we were able to send relief manpower from other terminals to augment personnel to ensure unhampered operations.</p> <p>Petron Corporation’s efforts aligns with government priorities detailed in the National Climate Change Action Plan for 2011-2028. This includes areas on water sufficiency, ecological and environment stability, human security, and sustainable energy. Its program on scarce water consumption reduction supports the water sufficiency program. Its program on compliance with Clean Water Act, Ecowatch Program, and biodiversity management supports the action plan on ecology and environment stability. The disaster risk reduction and climate change adaption programs integrated in its Business Continuity Plan focuses on human security. Its program on utilization of renewal energy (e.g. solar), compliance with Biofuels Act of 2006 on ethanol and CME blends in fuels.</p> <p>Petron Corporation is on the process of setting up its governance committee to formulate targets and strategies particularly on reducing its carbon footprint in the medium and long-term. It will further strengthen its climate-related disclosures in the coming years to address requirements of its stakeholders, including financial institutions.</p> |
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| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
|--|---|--|
| <p>The risks associated from the transition to low-carbon economy provides opportunities for Petron to explore and align its strategies moving forward.</p> <p>It is also on the process of conducting gap assessment and preparing road map for the measurement of its Scope 3 emissions with year 2022 as the potential baseline reporting year. The long-term goal is to include its supply chain emissions in its GHG reduction targets.</p> | <p>Fenceline Communities Petron employees</p> | <p>Petron's Carbon Management strategy is as follows:</p> <p><u>Carbon Conservation</u></p> <p>Petron Corporation will continue to implement energy efficiency programs to reduce fuel/energy consumption and greenhouse gas emission.</p> <p><u>Carbon Sequestration</u></p> <p>Petron will continue to implement its mangrove/tree reforestation programs through its Petron Foundation Inc. and in coordination with Local Government Units.</p> <p><u>Carbon Substitution</u></p> <p>Petron will continue to increase its energy usage from renewable energy such as solar power. It will also ensure compliance to the biofuel blend requirement of Biofuels Act of 2006.</p> |

Air pollutants

| Disclosure | Quantity | Units |
|--------------------------------------|------------|-------|
| NO _x | 1,486,953 | kg |
| SO _x | 12,928,809 | kg |
| Persistent organic pollutants (POPs) | 0 | kg |
| Volatile organic compounds (VOCs)* | 140,219 | kg |
| Hazardous air pollutants (HAPs)** | 0 | kg |
| Particulate matter (PM) | 136,651 | kg |

*From fuel burning stationary and mobile sources only

**We do not monitor HAPs since our emissions come from fugitive sources (e.g. storage tanks, loading arms) where emission rate cannot be accurately measured. However, we monitor the impact of the HAPs (e.g. benzene, PCE, H₂S) emissions in the environment by measuring its concentration in the ambient air.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
|--|----------------------------------|--|
| <p>Bulk of air emissions comes from the operations of our Bataan Refinery. Air emissions may contribute to degradation of air quality and impact on the health of the receptors.</p> | <p>Fenceline communities</p> | <p>Petron's health, safety, and environment policy commits to protect and preserve the natural environment, and to promoting the health, safety, and security of our people, customers, contractors, and the general public.</p> <p>To address odor and particulate matter concerns the following are implemented:</p> |

| <p>Odor concerns from the surrounding community may also arise from such air emissions.</p> | | <ul style="list-style-type: none"> • The company has invested in the use of state-of-the-art Circulating Fluidized Bed (CFB) Technology for its power and steam generation. The CFB has air emission treatment units such dedicated baghouse filters to remove particulate matter and dry scrubber (limestone injection) to reduce Sulfur Dioxide emissions. • The refinery also has Flue Gas Desulfurization (FGD) to remove Sulfur Emissions from its Fluidized Catalytic Cracking (FCC) Units. • The Sulfur Recovery Unit (SRU) recovers sulfur in refinery process streams thus avoiding Sulfur Dioxide emissions from flaring. It avoided acid gas flaring by investing in its own sulfur truck to transfer molten sulfur within the refinery process units. • We continue to maintain a team to monitor concerns from the community and coordinate with Petron Bataan Refinery for its resolution. The use of Low Sulfur Fuel and fuel gas since 2020 has significantly reduced concerns from the community. • Petron Bataan Refinery also operates a Community Clinic to help in improving the health of its fenceline communities <p>The Refinery has Continuous Emission Monitoring Systems (CEMS) installed in its significant emissions sources. The CEMS transmits online data to EMB Regional Office for real-time monitoring.</p> <p>It monitors the quality of ambient air in monitoring stations upstream and downstream of its emission sources on a quarterly basis. The concentration of air pollutants in ambient air quality is consistently below the Clean Air Act's maximum prescribed concentration.</p> |
|---|----------------------------------|--|
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| <p>Existing programs implemented are sufficient to address environmental impacts and current regulatory requirements. There are no currently proposed regulations that may pose significant risks to the company.</p> | <p>Shareholders</p> | <p>Petron, through its membership in industry organizations, is actively involved in public consultations done by regulatory agencies to ensure that new regulations will not pose a significant burden to the industries while maintaining the shared objective of protecting the environment.</p> |

| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
|---|----------------------------------|---|
| The implementation of energy efficiency programs and carbon conservation strategy will also result to reduction in air pollutant emissions. | Fenceline communities | The company will continue to explore and implement the use of energy sources and fuel combustion technologies that will result to cleaner and less air pollutant emissions. |

Solid and Hazardous Wastes

Solid Waste

| Disclosure | Quantity | Units |
|-----------------------------|-------------|-------|
| Total solid waste generated | 195,578,595 | kg |
| Reusable* | 906 | kg |
| Recyclable* | 40,921 | kg |
| Composted | 87,650 | kg |
| Incinerated** | 0 | kg |
| Residuals/Landfilled | 195,449,118 | kg |

*We classify reusable and recyclable wastes collectively as Recyclable Waste, hence zero for reusable waste.

**We do not dispose waste through incineration, thus zero figure is reflected

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
|--|-----------------------------------|---|
| <p>All facilities generate solid waste from operations.</p> <p>Disposal of solid waste has an impact on operating cost, although minimal.</p> <p>Bulk of residuals wastes are disposed through engineered landfills.</p> | <p>Community</p> <p>Employees</p> | <p>The organization practices waste minimization, recycling, and reuse to minimize residual wastes disposed to landfills. Composting of biodegradable wastes is practiced in all facilities.</p> <p>To support the waste segregation program of the host communities, cleaned empty drums from terminals are donated to be used as waste segregation bins. In 2021, Petron Corporation donated 1,079 drums, enough to store up to 33,664.8 kg solid waste or equivalent to daily generation of 84,162 individuals.</p> <p>To minimize plastic waste, our Refinery has sustained from 2018 the program that prohibits the use of single-use plastic inside the premises. This has resulted to a reduction in residual waste disposed to the landfill. We attained 100% participation among employees as well as those from the Peninsula School (located within the refinery compound).</p> <p>Our facilities are also implementing program to eliminate the use of Non-</p> |

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| | | <p>Environmentally Acceptable Products (NEAP) classified by National Solid Waste Management Commission.</p> <p>The facilities will continue to monitor solid waste footprint, and benchmark performance within and outside the organization to ensure optimum operations and continuous improvement.</p> <p>There amount of solid waste disposed to landfills in 2021 increased by 1.6% versus 2020. The increase is attributed to higher output from the Refinery's Solid Fuel Fired Power Plant.</p> <p>On the other hand, Petron was able to increase the amount of solid waste composted by 141% compared to 2020 figures. The significant increase is attributed to the implementation of composting program by Petron Bataan Refinery in 2021, with technical assistance provided by Department of Science and Technology (DOST).</p> |
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| <p>The increasing trend on regulating the use of single-use plastic can result in muted growth or decline in the demand for plastic raw materials such as polypropylene, which is produced by Petron Corporation.</p> | <p>Community Employees</p> | <p>Environmental sustainability is a critical aspect of our business. We strike a balance between meeting the demands of our stakeholders and exercising our responsibility to care for and protect the environment.</p> <p>Our environmental stewardship is not only limited to producing eco-friendly products, but also covers the entire life cycle of our products – from production, transportation, and distribution to waste management.</p> <p>Throughout this life cycle, we strive to improve our resource efficiency, increase energy efficiency, and minimize environmental hazards. Resource efficiency entails using minimum resources and recycling the resources used; energy efficiency translates into reducing power consumption; and minimizing environmental hazards means proper disposal of the harmful substances during production, use, and waste processing.</p> |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |

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| <p>The production of environmental-friendly packaging such as biodegradable plastics is an opportunity to tackle the issue on single-use plastics.</p> <p>The practice of waste management in our facilities is also an opportunity for Petron to assist the LGU in implementing R.A. 9003 through its company-wide practice of waste reduction, recycling and reuse, as well as composting, to minimize solid waste disposal in public landfills. We are also providing cleaned used empty drums to communities and stakeholders to serve as waste bins for segregated trash.</p> <p>EMB Regional Office has granted Petron Bataan Refinery's request to re-classify its spent limestone power from its power plant as non-hazardous waste. This paved the way for the refinery to explore beneficial uses of its spent limestone powder, which is currently disposed to engineered landfill.</p> | <p>Fenceline communities and LGUs</p> <p>Various Petron stakeholders (schools, AFP, PNP, PCG, etc.)</p> <p>Petron employees</p> | <p>Petron is aggressive in pursuing environment-friendly solutions in addressing the issue on single-use plastics.</p> <p>We will also continue to seek and explore opportunities for the use and potential application of its spent limestone powder, which accounts for 99.86% of the total solid waste disposed to landfills.</p> |
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Hazardous Waste

| Disclosure | Quantity | Units |
|---|-----------|-------|
| Total weight of hazardous waste generated | 1,324,138 | kg |
| Total weight of hazardous waste transported | 7,372,618 | kg |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
|---|-----------------------------------|--|
| <p>All operating facilities generate hazardous waste. Petron Bataan Refinery accounted for 83% of the total hazardous waste generated in 2021. Waste generated are disposed through DENR-accredited treaters in accordance with regulations. Disposal of hazardous waste entails cost to the operations. It accounts for the bulk of the waste management cost.</p> | <p>Community</p> <p>Employees</p> | <p>The organization has been implementing programs to manage and reduce its footprint on hazardous waste. It has implemented Project Solhaze in its Bataan Refinery to characterize hazardous waste streams and identify opportunities to reduce generation. Among the programs implemented are supplier buy-back of waste catalysts, dewatering of waste sludge, maximized use of phenolic caustic treatment unit to eliminate ex-situ disposal of hazardous</p> |

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| | | <p>spent caustic waste, use of oily sludge as quenching water in the delayed coker unit, use of spent activated carbon and spent clay as fuel in the RSFFB, and more efficient management of hazardous wastes generated in various refinery areas. All these contributed to 69.72% reduction in hazardous waste generation at the Refinery in 2021 versus 2020.</p> <p>In the terminals, implementation of waterless receiving of fuel products in some pier facilities also eliminated generation of oily water. Furthermore, bulk delivery of fuel additives has been implemented in the terminals eliminating the generation of empty steel drums, which are classified as hazardous waste in the regulation (RA 6969).</p> <p>The research and testing center has also shifted to test methods that generates lower or eliminates hazardous waste. An example is the alternative method for determining the TBN of fresh lube oil using FTIR instead of chlorobenzene, thereby reducing TBN hazardous waste, minimizing risk of hazwaste exposure to personnel, workplace and environment. Such alternative test methods resulted to the 32% reduction of chlorinated hazwastes. Proper segregation of product samples tested in the laboratory helped us significantly reduce the waste generated from retained samples at laboratory. We have also implemented programs to minimize solvent washing wastes, a mixture of fuels, lubes, used oil and chemical reagents. We had 15.5% reduction of solvent washing wastes generated last year versus the previous year.</p> <p>Our facilities will continue to monitor their hazardous waste footprint, and benchmark performance within and outside the organization to ensure optimum operations and continuous improvement.</p> |
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| The organization is dependent on the services of third party DENR-accredited hazardous waste transporters/treaters for the | Petron Bataan Refinery and Terminal Operations DENR | The organization has a rigorous vetting process for selecting third party service providers for the transport and disposal of its hazardous waste. Due diligence and |

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| disposal of hazardous wastes. It is jointly liable if environmental incidents (e.g. spills) occur during transport or if wastes are not treated properly. | Accredited hazardous waste transporters/ treaters | regular performance evaluation are done to ensure that all hazardous wastes are disposed in accordance to regulations. |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
| <p>The cost of disposal of hazardous waste accounts for the bulk of waste management expenditure of the organization. Since 2018, Petron Bataan Refinery has reused 3,017 metric tons of hazardous waste in its process. This program, including improvements in its waste handling process, was able to reduce cost of disposal by P28.1 Million.</p> <p>Petron Corporation will continue to explore opportunities to reduce its waste generation and cost of disposal.</p> | <p>Petron Bataan Refinery and Terminal Operations</p> <p>Petron Corporate Environment Group</p> <p>DENR-EMB</p> | <p>Petron Corporation will continuously explore opportunities to reduce its hazardous waste generation by using its hazardous wastes as feed or raw materials for its refinery process.</p> |

Effluents

| Disclosure | Quantity | Units |
|----------------------------------|------------|----------------|
| Total volume of water discharges | 96,105,200 | m ³ |
| Percent of wastewater recycled* | 0.45 | % |

*Recycling of treated wastewater is not practiced, but we have programs to reuse/recycle wastewater generated within the process units to reduce wastewater generation and water consumption

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| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
| <p>Petron Bataan Refinery and the terminals discharge treated wastewater to coastal surface waters. It accounted for 99.67% of the total volume of wastewater discharged in 2021. The organization ensures that all wastewater discharge complies with the wastewater effluent standards of the Clean Water Act.</p> <p>Wastewater discharge, especially if untreated, contributes to water pollution.</p> | <p>Community</p> | <p>Reduction of water consumption and wastewater generation has been a priority of Petron Corporation. Beginning 2010, it implemented Project CODy at the Petron Bataan Refinery to identify all waste streams, characterize its quality, and identify opportunities to reduce, reuse/recycle, or eliminate wastewater generation. The project was further reinforced in 2016 after the completion of its major expansion program. Among the projects implemented are:</p> <ul style="list-style-type: none"> • reuse of stripped sour water • reduction of condensable blowdown |

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| | | <ul style="list-style-type: none"> reduction of wastewater from crude desalter. <p>Since 2018, Petron has reused a total of 6,068,677 m³ of wastewater equivalent to around 1.5% of the total wastewater discharged.</p> <p>The installation of dedicated receiving pipelines at the pier facility of terminals has eliminated the generation of wastewater from product pushing.</p> <p>Coastal cleanups are also done regularly by Petron terminals nationwide in partnership with the host community and other government institutions to reduce marine pollution in areas where it operates.</p> |
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| The issuance of DENR Administrative Order 2021-19 on relaxation of effluent standards for certain parameters applicable to Petron Bataan Refinery has eliminated the risk of non-compliance with effluent standards and upgrade of wastewater treatment facility is no longer necessary. Current programs are sufficient to address environmental impacts. There are currently no potential risks identified with the current regulatory environment. | Petron Bataan Refinery and Terminal Operations DENR-EMB | Petron Corporation will continue to be proactive in its approach on wastewater management. It will continue to invest in treatment technologies and in the efficient operations of its wastewater treatment facilities to ensure consistent compliance with regulatory requirements. |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
| The organization is exploring technologies to increase the percentage of wastewater recycled. This is also aligned with the managements goal to reduce raw water consumption for the operations. | Petron Bataan Refinery and Terminal Operations Petron Corporate Environment Group DENR-EMB | Petron Management encourages personnel to be innovative and make out-of-the box solutions to opportunities and challenges. The Corporate Environment Group has an annual program dubbed Best Environmental Initiative to recognize facilities that implement programs that can reduce environment footprint and thereby increase operational efficiency. Our facilities will continue to monitor water and wastewater footprint, and benchmark performance within and outside the organization to ensure optimum operations and continuous improvement. |

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| | | The waterless receiving implemented in some of the terminals is among the programs recognized. Successful programs implemented in a facility are cascaded and implemented in other facilities to increase its impact. |
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Environmental compliance

Non-compliance with Environmental Laws and Regulations

| Disclosure | Quantity | Units |
|--|----------|-------|
| Total amount of monetary fines for non-compliance with environmental laws and/or regulations | 0 | PhP |
| No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations | None | # |
| No. of cases resolved through dispute resolution mechanism | None | # |

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Which stakeholders are affected? | Management Approach |
|--|---|--|
| The organization did not incur significant monetary fines for non-compliance with environmental laws and/or regulations in 2021. | Petron Bataan Refinery and Terminal Operations Petron Corporate Environment Group Petron Law Division | <p>Both as a company policy and a corporate responsibility, Petron ensures that it complies with all applicable environmental policies and regulations. Our Health, Safety, and Environment policy aims to protect and preserve the natural environment.</p> <p>A Corporate Environment Group provides technical advice to the management on issues concerning environmental management. It guides the environment unit of the various divisions of Petron Corporation, ensuring their compliance while mitigating significant environmental impacts. It is actively involved in industry groups and coordinates closely with regulators to ensure that it is kept abreast with developments on environmental management and regulations.</p> <p>The organization has an environment council that is composed of representatives from the environment group of each operating division. The council serves as an avenue for discussing developments on environmental management and benchmarking of best practices.</p> |

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| | | <p>Petron strives to implement programs beyond the minimum regulatory requirements. The efforts of LPG Gasul San Fernando were recognized by City Environment and Natural Resources Office of LGU San Fernando. The facility was awarded the “Sustainability Award” and “Top 2 – Sustainability and Eco-Friendly Business Establishment Award” in the “2021 Search for Sustainable and Eco-Friendly Business Establishments” for its terminal efficiency and environment conservation programs.</p> |
| What are the Risk/s Identified? | Which stakeholders are affected? | Management Approach |
| <p>The current management approach of the organization is capable to address current compliance obligations. Compliance with prevailing laws and regulations is part and parcel of our work.</p> <p>Risks may arise in the future if there will be new proposed regulations that will have an impact to the operations. Changes in the policy environment demand that we stay ready to adapt and respond to any new regulations.</p> | <p>Petron Bataan Refinery and Terminal Operations</p> <p>Petron Corporate Environment Group</p> <p>Petron Law Division</p> | <p>Petron management will continue to implement a proactive approach in addressing regulatory risks of the company.</p> <p>Through Petron’s Corporate and Technical Services Group (CTSG)-Environment, the company developed the Manual on Philippine Environmental Regulations, a handy but substantial reference for environment laws and policies critical to the oil industry. Intended as a legacy project, this Manual contains six modules that compiled relevant regulatory requirements and customized procedures/ guidelines to address specific regulatory requirements. Each module covers major regulations: Clean Water Act, Clean Air Act, Solid Waste Management Act, Hazardous Waste Management Act, Environmental Impact Assessment, and General Laws. Video Tutorials/guide were also prepared to supplement the modules.</p> <p>The modules serve as guide to Petron employees, especially those involved in environmental management and project management. This will help Management arrive at informed decisions with regards to regulatory compliance requirements on environmental management.</p> |
| What are the Opportunity/ies Identified? | Which stakeholders are affected? | Management Approach |
| <p>Petron is committed to providing fuel and energy products that</p> | <p>Petron Management</p> <p>Petron Bataan Refinery and Terminal Operations</p> | <p>Petron is committed to pursuing good corporate governance and using good corporate governance principles and practices to attain corporate goals. We</p> |

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| <p>deliver maximum performance but are environment friendly.</p> <p>Further, we acknowledge that our business has significant impacts on the environment and therefore must go beyond compliance with environmental regulations.</p> <p>Due to our affiliations in industry and environment organizations, we are an active stakeholder in discussions with the Department of Environment and Natural Resources–Environment Management Bureau (DENR-EMB).</p> <p>Through our involvement in stakeholder consultations, we are able to ensure that the oil and gas industry position and sentiments are considered in the crafting of new regulations.</p> | <p>Petron Corporate Environment Group</p> <p>Petron Law Division</p> <p>DENR-EMB</p> | <p>keep abreast of new developments in, and leading principles and practices on, good corporate governance. We likewise continuously review our own policies and practices as we compete in a continually evolving business environment while taking into account Petron’s corporate objectives and the best interests of its stakeholders and the Company.</p> |
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Employee Management

Employee Hiring and Benefits

Employee data

| Disclosure | Quantity | Units |
|--|----------|-------|
| Total number of employees ⁴ | 2,033 | |
| a. Number of female employees | 555 | # |
| b. Number of male employees | 1478 | # |
| Attrition rate ⁵ | -1.71% | rate |
| Ratio of lowest paid employee against minimum wage | 2.55:1 | ratio |

| List of Benefits | Y/N | % of female employees who availed for the year | % of male employees who availed for the year |
|---|-----|--|--|
| SSS | Y | 36% | 64% |
| PhilHealth | Y | 73% | 27% |
| Pag-ibig | Y | 54% | 46% |
| Parental leaves | Y | 54% | 46% |
| Vacation leaves | Y | 26% | 74% |
| Sick leaves | Y | 28% | 72% |
| Medical benefits (aside from PhilHealth)) | Y | 27% | 73% |
| Housing assistance (aside from Pag-ibig) | Y | 0% | 100% |
| Retirement fund (aside from SSS) | Y | 30% | 70% |

⁴ Employees are individuals who are in an employment relationship with the organization, according to national law or its application ([GRI Standards 2016 Glossary](#))

⁵ Attrition are = (no. of new hires – no. of turnover)/(average of total no. of employees of previous year and total no. of employees of current year)

| | | | |
|---------------------------|---|-----|-----|
| Further education support | Y | 30% | 70% |
| Company stock options | N | N/A | N/A |
| Telecommuting | Y | 27% | 73% |
| Flexible-working Hours | N | N/A | N/A |
| (Others) | | | |

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| <p>What is the impact and where does it occur? What is the organization's involvement in the impact?</p> | <p>Management Approach</p> |
| <p>People Management</p> <p><u>Compensation</u> Petron provides salaries that are competitive enough and above the minimum wage required by government.</p> <p>Organization's commitment in the implementation of government laws concerning the health and wellness of employees and continuously upgrading the company's benefit programs, promotes employees' well-being which is a vital component of a healthy workplace, improving workforce engagement and productivity.</p> | <p>Petron's Sustainability Priorities</p> <ul style="list-style-type: none"> • <u>People Management</u> We commit to the implementation of personnel development and competitive compensation and benefits programs and practices that ensure the success of our company is reflected in the lives of the people that work hard for it. • <u>Health and Safety</u> We commit to fully abiding by laws and regulations that ensure the health and safety of personnel, contractors, and surrounding communities, with the ultimate aim of going beyond compliance. • <u>Strategic Partnerships</u> We commit to building on shared strengths with business partners and other stakeholders in our quest to serve customers better while creating more value for our investors. |
| <p>What are the Risk/s Identified?</p> | <p>Management Approach</p> |
| <p><u>Compensation</u> None since Petron tries to sustain its current salaries that are competitive enough with market to mitigate risks of attrition especially for critical talents.</p> <p><u>Benefits</u> Controlling costs of healthcare benefits while addressing employee benefits strategy priorities.</p> | <p>Management's approach in prioritizing employees' health while managing the costs by enhancing health and wellness programs which can aid in determining onset of disease and dissemination of information regarding health and wellness. This can lead to prevention of disease that can lessen employee's hospitalization.</p> |
| <p>What are the Opportunity/ies Identified?</p> | <p>Management Approach</p> |
| <p><u>Compensation</u> Higher than minimum wage and relatively competitive rates provide Petron opportunity to employ higher qualified employees to ensure productivity and assist in retention.</p> <p><u>Benefits</u> Offering personalized programs and benefit options to employees and their families.</p> | <p>Notwithstanding the huge impact of the pandemic on the business community in general, the Company stood by its commitment to retain existing employee compensation and benefits package, Access to various benefits such as teleconsultation, mental health support, protective personal equipment and free COVID19 testing for employees required to report to work regularly were also provided. Access to vaccines for employees, as well as their extended household members and dependents, were given the highest priority to ensure their safety and resilience against the virus. Our Human Resources group</p> |

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| | <p>was at the forefront of these pandemic-related employee activities, allocating dedicated personnel to closely monitor cases and assist concerns of employees company-wide. These included providing and scheduling free shuttle services for its critical workforce, providing supplies of masks and alcohol especially during the onset when these were in limited amounts, overseeing regular disinfection of the Petron main offices and coordinating with its mother company SMC for vaccine related programs including tie-ups with LGUs, among others.</p> <p>Philippine law only requires employers to provide five (5) days of annual Service Incentive Leave (SIL) to workers who have been with the company for at least one year. The Company allows more than the required five (5) days SIL by providing Vacation Leaves, Sick Leaves, and Emergency Leaves.</p> |
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Employee Training and Development

| Disclosure | Quantity | Units |
|--|----------|----------------|
| Total training hours provided to employees | 49,074 | Hours |
| a. Female employees | 13,397 | Hours |
| b. Male employees | 35,677 | Hours |
| Average training hours provided to employees | 19.58 | Hours |
| a. Female employees | 5.35 | hours/employee |
| b. Male employees | 14.23 | hours/employee |

**while Petron has available data for the total and average training hours for all employees, these are not disaggregated on a per gender basis. We will endeavor to do such data recording for the succeeding reports.*

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| <p>What is the impact and where does it occur? What is the organization’s involvement in the impact?</p> | <p>Management Approach</p> |
| <p>We took great strides in upgrading the learning approach of the organization. We built a favorable work climate that institutionalizes learning through building the right values, skills and reinforced with great leadership.</p> | <p>Petron is committed to serve as a catalyst for positive change by fostering a safe, healthy, and harmonious work environment for our employees and improving the quality of life of our communities. This includes ensuring a steady supply of critical technical and leadership skills in the organization and fostering greater employee commitment.</p> |
| <p>What are the Risk/s Identified?</p> | <p>Management Approach</p> |
| <p>Skills gaps create business gaps. As the pace of technology advancement accelerates, upskilling and reskilling is taking the business by storm. It is essential to understand what makes leaders and their teams tick and pinpoint to their motivations. Growth mindset and program relevance is key to activate learning.</p> | <p>Our Petron employees remain the driving force behind our ability to consistently deliver world-class products and services to our customers, allowing us to sustain our continuing commitment to customers and to extend needed assistance to our fence line communities, especially during the COVID19 pandemic. As such, we place significant</p> |

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| | <p>importance in creating working environments where our employees can professionally flourish, where their well-being and skills are nurtured, and where teamwork can thrive.</p> <p>While 2021 posed a challenge with decreased manpower and workforce capabilities, Petron prioritized in offering more in-house trainings and implemented microlearning strategies to ensure continuity in training programs.</p> <p>In-house training programs and training opportunities offered by SMC were maximized and supported by the online learning platforms. Despite the decrease in manpower and workforce capabilities, learning opportunities increased and were provided at every level of the organization.</p> |
| What are the Opportunity/ies Identified? | Management Approach |
| <p>Digital learning is strategically positioned as a spark to creativity and innovation. We are focused on finding ways to drive engagement, activate employees' competencies and measure the impact of learning. Petron can advance learning by investing significantly in digital learning. Social learning is also key to drive learning engagement within the organization.</p> <p>We secured management buy-in for learning and development. Championing this across the organization is the next big opportunity.</p> | <p>Management believes in developing Petron's human resource through programs designed to give in-depth experience and build skills that are crucial to our long-term success. Ensuring that we have a winning culture requires investment in our people so that they can grow and develop professionally within our organization.</p> |

Labor-Management Relations

| Disclosure | Quantity | Units |
|---|-----------------|--------------|
| % of employees covered with Collective Bargaining Agreements | 25.14 | % |
| Number of consultations conducted with employees concerning employee-related policies | 13 | # |

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| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management Approach |
| <p>The Company has collective bargaining agreements ("CBAs") with three labor unions in the Philippines: (1) Petron Employees Association; (2) Petron Employees Labor Union, and (3) the Bataan Refiners Union of the Philippines.</p> <p>Development and enhancement of reliable communication channels through employee groups and organizations (i.e., Unions) which will eventually cultivate and promote harmonious working environment. This translates to improved adherence</p> | <p>In support of international protocols, Petron adheres to policies that respect the rights of employees to organize and air their grievances and encourage their participation in programs that raise their work productivity and enhance their career growth.</p> <p>Our employee policies are clearly spelled out and disseminated through our Corporate Policy and Personnel Policies and Procedures Manuals. These define our policies on discipline, conflicts of</p> |

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| to Company policies and practices (i.e. operations modules, safety, security and environment) and uninterrupted operations, production and supply. | interest, working hours and rest periods, procedures for reporting irregularities, and sexual harassment, among other things. Petron always strives to protect its employees, contractors, and the immediate community in all areas of our operations. We establish a decent workplace by prioritizing industrial peace and harmonious relations. |
| What are the Risk/s Identified? | Management Approach |
| Our challenge is to sustain our harmonious work environment, as well as bridge skills and employment gaps, and maintain industrial peace. Specific risks include: <u>Communications Risk</u> Ineffective communication channels may result in messages and measures that are inconsistent with authorized responsibilities or established performance measures. <u>Performance Incentives Risk</u> Unrealistic, misunderstood, subjective or non-actionable performance measures may cause managers and employees to act in a manner inconsistent with the organization's objectives, strategies and ethical standards, and with prudent business practice. | Harmonious industrial relations is a sustainability priority in Petron. The Company's three CBAs especially testify to the growing mutual trust and respect that both our management and rank-and-file employees have been nourishing throughout the years. This is largely attributed to the open communication lines and dialogues with the employees, who are provided freedom and autonomy in collective bargaining, as well as avenues for meeting of minds: <ul style="list-style-type: none"> • Labor & Management Meetings • Open communication approach between Management and Union • Active coordination and healthy working relationship with DOLE • Inter-department meetings and focused group discussions (FGDs) during trainings, events and other activities • Performance Management |
| What are the Opportunity/ies Identified? | Management Approach |
| <ul style="list-style-type: none"> • Effective communication with employees across all levels and locations. • Standard method of resolving and discussing disputes and complaints. | Petron exerts every effort to sustain industrial peace between management and rank-and-file employees. The company has always maintained open communication lines and dialogues with its employees, including: <ul style="list-style-type: none"> • Grievance Machinery • Improved turn-around time in processing administrative cases • Closer coordination with line. |

Diversity and Equal Opportunity

| Disclosure | Quantity | Units |
|---|----------|-------|
| % of female workers in the workforce | 27.3 | % |
| % of male workers in the workforce | 72.7 | % |
| Number of employees from indigenous communities and/or vulnerable sector* | 271 | # |

*Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or base of the pyramid (BOP; Class D and E).

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| <p>What is the impact and where does it occur? What is the organization’s involvement in the impact?</p> | <p>Management Approach</p> |
| <p>Petron sees a competitive edge in the heterogeneity of its workforce, who are hired from every region throughout the Philippines. Coming from diverse cultural backgrounds and experiences, these employees have and bring different skills and talents to the Company, translating into fresh ideas and innovations that benefit the organization. As such, Petron does not tolerate discrimination in any form race, ethnicity, sex, religion, conviction, disability, age, or sexual identity of employees.</p> | <p>Our employees are the heart of our business. We depend on their drive, passion, knowledge, and talents to make Petron a sustainable business entity. We place significant importance in creating working environments where our employees can flourish, where their well-being and skills are nurtured, and where teamwork can thrive. We also ensure that our workforce mirrors “The Petron Way” in the communities where we operate.</p> <p>Because our continuing leadership is built on the foundation of professionalism, integrity, and fairness, Petron continuously fosters a workplace that supports these values and protects the morale of our employees as they meet their responsibilities, enhance their performance, and grow with the Company.</p> <p>As part of the Company’s policy spelled out in Petron’s Personnel Policies and Procedures Manual: <i>“In order to promote national interest, unity and progress and foster rapport with our brothers in the cultural minorities, the Company employs members of cultural minorities which complies with usual requirements and procedures pertinent to recruitment and hiring.”</i></p> <p>Petron also continuously meets with the SMC Labor Relations Council for development and alignment. The Company respects and ensures adherence to governing labor laws, department orders, and policies. In the Refinery, we submit a monthly Key Performance Monitoring report to our Management System group. Further, our HR Representatives were deployed to different areas to touch-base with employees under their accounts (divisions and departments) and receive, process, and address concerns/requests/inquiries from employees. We conduct discussions with line supervisors and managers to ensure that policies are properly implemented.</p> |
| <p>What are the Risk/s Identified?</p> | <p>Management Approach</p> |
| <ul style="list-style-type: none"> • Males account for some 2/3 of our workforce, while the remaining 1/3 is composed of females. Being a highly technical organization (i.e., Refinery and Operations require engineering graduates, who are usually males) means that the job requirements in Petron fit males more than females. We view this as a challenge in enhancing diversity in our workplace. | <p>Petron continuously seeks to be the employer of choice in the local oil industry, and to always foster a safe, ideal workplace that upholds and complies with local and international labor practices and standards.</p> <ul style="list-style-type: none"> • We continue to uphold the principle of gender diversity in Petron. PBR has remained open to |

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| <ul style="list-style-type: none"> • Another challenge is managing the costs of healthcare benefits while addressing employee needs. | <p>employing qualified personnel regardless of gender. Despite having a male-dominated workforce, there are no recorded incidents or acts of discrimination in the Company. We do not tolerate any form of discrimination, whether in terms of gender, religion, political beliefs, and other kinds of affiliations, and employees are provided with protective mechanisms and a labor-management council, both of which facilitate filing of grievances and discrimination cases, supported by an open-door management approach.</p> <ul style="list-style-type: none"> • Over the years, the number of female engineers employed in the Refinery has significantly increased. The Company has also been assigning more female employees to key positions (e.g., Shift Supervisors, Chief Engineers, or Managers) in the Refinery. • Petron will continue to strive for gender balance in our workplace. • We continue to undertake regular monitoring of employee health and welfare through annual health examination and regular consultations. |
| <p>What are the Opportunity/ies Identified?</p> | <p>Management Approach</p> |
| <p>Despite the predominance of males in the workforce due to the nature of our manufacturing business (i.e., labor demand in Refinery and operations is for engineering graduates who are historically made up of males), Petron has remained open to employing qualified personnel regardless of gender. And over the years, the Company has witnessed more women occupying senior management positions. In addition, there are now lady sales executives and more female engineers employed in the Refinery as well as in Terminal Operations.</p> | <p>We make sure to uphold the principle of gender diversity in Petron, and recruit and reward all employees based on merit.</p> <p>While there is no formal hiring policy on minority groups, we actively promote workforce diversity by giving members of nearby Aeta communities the opportunity to be employed in Petron through an apprenticeship program in our Refinery in Bataan province. In previous years, there were Aetas who successfully graduated as trainees and became gainfully employed. This in turn inspired other members of the indigenous group to apply for similar apprenticeships.</p> |

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

| Disclosure | Quantity | Units |
|-----------------------------------|------------|-----------|
| Safe Man-Hours* | 10,630,100 | Man-hours |
| No. of work-related injuries** | 37 | # |
| No. of work-related fatalities*** | 1 | # |
| No. of work-related ill-health | 0 | # |
| No. of safety drills**** | 348 | # |

Safe Man-Hours is from combined Petron Head Office Office (includes Sales Planning & Support, Controllers, Marketing, MISD, Procurement, Retail Sales, Corporate Affairs, CTSG, Treasurers, HRMD, Commercial Sales, Internal Audit, Legal, Retail Network Expansion, Executive Offices, Supply), Terminal Operations, and Refinery data covering regular and contracted personnel.

**Work related injuries consist of 12 incidents for Terminal Operations and 25 incidents for Refinery

***Work-related fatality is Third Party Service Provider of Terminal Operations.

****Total

| What is the impact and where does it occur? What is the organization’s involvement in the impact? | Management Approach |
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| <p>Successful occupational health and safety (OHS) practice requires the collaboration of both employers and workers in health and safety programs involving occupational medicine, industrial hygiene, toxicology, education, engineering safety, ergonomics, psychology, etc.</p> <p>A proactive approach to health and safety management not only provides occupational health services but also tries to nurture a positive culture around health as the safety policy-making buddy of Petron.</p> | <p>Petron Health, Safety and Environment Policy</p> <p>We at Petron Corporation are committed to protecting and preserving the natural environment, and to promoting the health, safety and security of our people, our customers, suppliers, contractors and the general public. This commitment is key to the long-term sustainability of our business and governs the way we operate.</p> <p>Consistent with this core commitment,</p> <ul style="list-style-type: none"> • we will strive to comply with all government regulations relevant to the promotion of health and safety and the preservation of the environment. • we will adopt operational procedures, provide the necessary resources and management support, striving to involve all our stakeholders each step of the way. <p>To ensure that we live up to these commitments,</p> <ul style="list-style-type: none"> • we will follow stringent goals and targets against which we will measure our performance. • we will implement and develop strategies that will allow and encourage us to improve the ways we conduct our business. <p>Petron’s Sustainability Priorities</p> <ul style="list-style-type: none"> • <u>Health and Safety</u> We commit to fully abiding by laws and regulations that ensure the health and safety of personnel, contractors, and surrounding communities, with the ultimate aim of going beyond compliance. <p>Specific to the risks posed by Covid-19, our Human Resources group was at the forefront of pandemic-related employee activities, allocating dedicated personnel to closely monitor cases and assist concerns of employees company-wide.</p> <p>Access to vaccines for employees, as well as their extended household members and dependents, were given the highest priority to ensure their safety and resilience against the virus. These included providing and scheduling free shuttle services for its critical workforce, providing</p> |

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| | <p>supplies of masks and alcohol especially during the onset when these were in limited amounts, overseeing regular disinfection of the Petron main offices.</p> <p>Petron likewise facilitated the regular RT-PCR testing for some 1,900 employees, as well as Third Party Service Providers based in NCR. This is in collaboration with San Miguel Foundation, Inc.</p> <p>Complementing the Covid testing, Petron coordinated with its mother company SMC for vaccine-related programs, including tie-ups with LGUs, among others. Petron's Corporate Affairs Department, led by Petron Foundation, joined the San Miguel Corporation LIGTAS LAHAT Core Team handling the coordination with external partners of the vaccination of Petron employees. Petron acted as the lead for the SMC Bataan Vaccination Site. By end 2021, this resulted in more than 5,000 SMC employees (including Petron), third party service personnel, and endorsed individuals, as well as Limay residents, receive vaccines against Covid-19.</p> <p>Petron vaccinated 99.7% of its workforce and third-party service personnel. Only four (4) employees and 17 TPSPs did not avail for personal convictions.</p> <p>These are on top of the immediate and purposeful safety and preventive measures we put in place at the onset of the pandemic in early 2020 in line with national health mandates. Risk assessments were carried out to ensure business continuity and various adjustments were made including remote working conditions, safe social distancing, respiratory hygiene and frequent disinfection. Personnel awareness continued to be prioritized by constant conduct of related trainings and regular information dissemination. Medical assistance not only limited to physical health but also including mental health support were provided.</p> <p>Specific Covid health protocols instituted in 2020 and remained throughout 2021:</p> <ul style="list-style-type: none">• Employees provided with protective equipment (<i>face masks and shields and alcohol</i>)• Thermal scanners, hand wash stations, floor markings and social distancing guides installed in Petron offices• Shuttle service provided to reporting employees in lieu of taking public transportation• HR account representatives were likewise assigned to different Petron divisions to |
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| | better assist employees on concerns and requirements related to Covid-19. |
| What are the Risk/s Identified? | Management Approach |
| <p>Human factors referring to environmental, organizational and job factors as well as human characteristics which influence behavior at work.</p> <p>In 2021, we saw the continued challenge presented by the COVID-19 pandemic to public health and the way we conduct our operations.” With the rise of new variants of the virus, constant risk assessments were carried out to ensure business continuity and various adjustments were made including remote working conditions, safe social distancing, respiratory hygiene and frequent disinfection. Personnel and Third Party Service Provider vaccination was advocated and regular surveillance testing was administered. Personnel awareness was prioritized with the constant conduct of related trainings and regular information dissemination. Medical assistance included not only concern for physical health but also support for mental wellness.</p> | <p>Petron commits to a safe and healthy workplace that fosters professional development and promotes professional and personal wellbeing. This commitment is deeply ingrained in our business practices because Petron’s value proposition rests on our solid track record in safety performance. Our Occupational Health and Safety Policy uses a standardized system to effectively monitor the progress of safety programs, and conducts company-wide campaigns and activities on fire protection, disaster response and mitigation, among others. We always strive to protect employees, contractors, and the immediate community in all areas of operations.</p> |
| What are the Opportunity/ies Identified? | Management Approach |
| <p>Safety Awareness for all Petron employees is ensured through constant trainings including the Occupational Health and Safety as mandated by Republic Act 11058 “An Act Strengthening Compliance with Occupational Health and Safety Standards” and Its IRR (D.O. 198-19).</p> <p>Terminal Operations Division of the Company implemented the Loss Prevention System (“LPS”) which is a comprehensive management system designed to help organizations prevent all types of losses (personnel safety, process safety, reliability, product quality, government fines, etc.) and progressively improve ALL aspects of the business. LPS prevents or reduces 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 and eventually adapt the same system throughout the organization.</p> <p>CTSG Safety utilizes Petron’s internal website Exchange Administration to provide all employees with regular Health and Safety Advisories. In 2021, 70 advisories were released containing updates on different safety and health issues.</p> <p>Petron’s Bataan Refinery continues to implement Behavioral Based Safety (BBS), a process that informs management and employees of the overall safety of the workplace through safety observations. BBS is intended to focus workers' attention on their own and their peers' daily safety behavior.</p> | <p>Petron commits to a safe and healthy workplace that fosters professional development and promotes professional and personal wellbeing. This commitment is deeply ingrained in our business practices because Petron’s value proposition rests on our solid track record in safety performance. Our Occupational Health and Safety Policy uses a standardized system to effectively monitor the progress of safety programs and conducts company-wide campaigns and activities on fire protection, disaster response and mitigation, among others.</p> <p>We always strive to protect employees, contractors, and the immediate community in all areas of operations.</p> <p>Petron’s Corporate Safety group advocates safety culture through its programs while ensuring the participation of all stakeholders and other divisions in the Safety Council.</p> <p>The response to the COVID-19 pandemic continues to be a high priority- safety and health protocols were consistently updated and strictly implemented. Safety proficiency of Petron personnel as well as third party service providers and customers in all Petron facilities is strengthened through the basic and advanced safety trainings Corporate Safety provides in partnership with other accredited Safety Training Organizations. To continuously ensure compliance</p> |

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| | <p>with regulations and company policies, Corporate Safety conducts facility assessments through virtual/onsite approach and provides technical assistance to various groups.</p> <p>With the implementation of Loss Prevention System and Behavioral Based Safety this shows Management commitment and support to ensure a safe and healthful workplace.</p> |
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Labor Laws and Human Rights

| Disclosure | Quantity | Units |
|---|----------|-------|
| No. of legal actions or employee grievances involving forced or child labor | 0 | # |

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

| Topic | Y/N | If Yes, cite reference in the company policy |
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| Forced labor | N | While there is no specific reference to the term “forced labor,” the Code of Conduct and Ethical Business Policy of the Company expressly states that “[t]he Petron Group respects the human rights of its directors, officers and employees and treats them with dignity and respect |
| Child labor | Y | While there is no specific reference to the term “child labor,” the Corporate Policy Manual of the Company sets a general limitation on hiring of new personnel at least 18 years old. Further, the Policies Manual of the Company’s parent company, San Miguel Corporation, which are made expressly applicable to subsidiaries in the San Miguel Group, also expressly provide that the minimum age requirement for applicants is 18 years old, the age of majority under Philippine law and at which age a person can legally contract for himself/herself. |
| Human Rights | Y | The Code of Conduct and Ethical Business Policy of the Company expressly states that “[t]he Petron Group respects the human rights of its directors, officers and employees and treats them with dignity and respect.” The same policy also expressly states that “[t]he Petron Group provides safe work conditions and promotes the development and best use of employee talent (including through the conduct of outside and in-house trainings) and equal opportunity employment.” |

| What is the impact and where does it occur? What is the organization’s involvement in the impact? | Management Approach |
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| As a company with nationwide operations, Petron aims to build a reputation based on trust and respect and strives to conduct business responsibly and ethically. These include initiatives that address the ways by which we manage our impact in our communities in | The Code of Conduct and Ethical Business Policy of the Company expressly states that “[t]he Petron Group respects the human rights of its directors, officers and employees and treats them with dignity and respect” and that “[t]he Petron |

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| <p>every aspect of our business by every member of the organization. We believe that the connections we have with our communities pave the way in ensuring the sustainability of our business.</p> <p>Integral to this belief is the respect for the rule of law in the conduct of our business and upholding the human rights and basic freedoms of and by our employees and the people we deal with. The company shapes business processes and strategies that adhere to universally accepted principles on the areas of human rights, labor standards, environmental protection, and anti-corruption. We likewise prioritize industrial peace and harmonious relations as contributory factors to a decent workplace. We respect the rights of employees to organize and express their grievances through collective bargaining agreements. We conduct our business responsibly. To build a reputation based on trust and respect, we adhere to international human rights principles, as well as comply with Philippine labor laws. We believe in inclusivity and nondiscrimination, and Petron has a policy on the employment of cultural minorities and indigenous peoples. Various manuals capture clearly defined policies on labor-related matters and on discipline, conflicts of interest, working hours and rest period, procedures for reporting irregularities, and sexual harassment among other things.</p> <p>The Company also only hires applicants 18 years old and above. There have also been no reports on forced labor, child labor, and violation of human rights.</p> | <p>Group provides safe work conditions and promotes the development and best use of employee talent (including through the conduct of outside and in-house trainings) and equal opportunity employment.”</p> <p>Enforcement of HRMD's "Talk-2-Us" channel to address employee concerns and Whistle-blowing policy. Our employee policies are clearly spelled out in our Corporate Policy and Personnel Policies and Procedures Manuals. A structured 'Grievance Machinery' is contained and detailed in our current Collective Bargaining Agreement. We also conduct regular Labor Management Meetings participated in by Management Representatives and Union Officers. We also conduct CSATs through various platforms (e.g., online, paper and pencil surveys, etc.). Recently, HR-PBR devised and rolled out a scheme wherein HR Representatives were deployed to different areas to touch-base with employees under their accounts (divisions and departments) and receive, process, and address concerns/requests/inquiries from employees.</p> |
| <p>What are the Risk/s Identified?</p> | <p>Management Approach</p> |
| <p>Risks include potential legal actions, damage to corporate reputation, and loss of investor confidence, among others. Additionally, risks include human and individual characteristics which influence behavior at work. As a consequence, this may affect the upholding of human rights of employees.</p> | <p>Petron has built a reputation based on trust and respect. We aim to always conduct our business responsibly and ethically. We respect international human rights principles aimed at promoting and protecting human rights, including the United Nations Declaration of Human Rights and the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work.</p> <p>By embracing these international principles as well as complying with Philippine labor laws, Petron is committed to policies and practices that enrich the workplace. As a result, the Company has not had incidents related to human rights abuses, labor discrimination, child labor, and forced labor. Thus, Petron has not seen the need to conduct training programs related to handling human rights violations and other cases.</p> |
| <p>What are the Opportunity/ies Identified?</p> | <p>Management Approach</p> |
| <p>This is an opportunity for the Company to increase awareness on the importance of human rights and in the</p> | <p>While the Company has no specific policy on forced labor and child labor, this aspect is</p> |

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| <p>process, institutionalize a standalone training program on human rights to deepen its appreciation among the workforce, as well as for Petron’s business partners, to ensure that this value is shared throughout the entire supply chain. This is also an opportunity to even further our commitment to good governance and create long-term value for our shareholders. Our responsibility is to continue to grow our business in a manner that also creates healthier and safer communities, and a cleaner environment. We will succeed over the long term by managing our operations in adherence to the highest standards of good corporate governance and environmental and social sustainability. This entails compliance with national laws and regulations, as well as our own guidelines and protocols.</p> | <p>addressed during our seminars and trainings, as well as during employee orientations. Furthermore, the Company does not hire applicants below 18 years old.</p> |
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Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:

Petron’s accreditation process also looks at the triple bottom line of our vendors:

Economic sustainability - We look at the suppliers’ financial condition, investments, profile of technical personnel, technology, systems, and plant or site of operation to evaluate how they can support our short-term and long-term projects.

Environmental sustainability - vendors who manufacture and supply chemicals, and contractors who are engaged in a project with environmental impact, are required to submit applicable environmental licenses such as DENR permits, required environmental compliance certificates (ECC), or other environmental licenses before delivery of materials or services. Plant visits also give insights on how safety practices are being implemented and validate if these green and safety requirements are actually observed.

Social sustainability – contractor applicants are required to submit mandatory legal documents that show that the vendor observes and protects the right of workers to just compensation and benefits. There are safety requirements that need to be complied with, depending on the nature or risk involved, such as company safety management systems, Occupational Safety & Health Standards (OSHS) registration certified by DOLE, and OSHS certificate of its Safety Officer or consultants to show that the vendor safeguards its worker’s social and economic well-being as well as physical safety and health.

All potential suppliers of the Company are required to accomplish the “Vendor Assessment Social Accountability” form or statement that the vendor has to sign/accomplish.

Do you consider the following sustainability topics when accrediting suppliers?

| Topic | Y/N | If Yes, cite reference in the supplier policy |
|---------------------------|------------|---|
| Environmental performance | Y | PETRON CORPORATION VENDOR ASSESSMENT – ENVIRONMENTAL MANAGEMENT Management System 1) Does the organization have an environmental policy? 2) Do you have a group or an individual responsible for managing environmental aspects and impacts of your organization? |

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| | | <p>3) Do you have a system/program to manage emissions, discharges, and wastes generated by your organization?</p> <p>4) Are you implementing an Environmental Management System (e.g. ISO 14001)?</p> <p>Compliance</p> <p>1) The organization neither has a pending case on pollution (e.g. <i>Pollution Adjudication Board case</i>) nor received Notice of Violation/Notice of Adverse Findings from environmental regulatory agencies within the last three (3) years?</p> <p>2) The organization has secured applicable permits relating to environmental laws and regulations imposed in the local and national level? (e.g. <i>ECC, Discharge Permit</i>)</p> <p>3) The organization has a system/procedure to monitor compliance to environmental regulations?</p> <p>4) The organization has a procedure/system to address non-compliance with environmental regulations?</p> <p>5) Is the top management of your organization regularly briefed on environmental issues relating to your operation?</p> <p>Environmental Risks</p> <p>1) Has your organization identified environmental aspects that could have significant impact to the environment?</p> <p>2) Do you implement programs to manage identified significant impacts?</p> <p>Environmental Programs</p> <p>3) Are you implementing programs to reduce resource consumption (<i>water, fuel, and other raw materials</i>)?</p> <p>4) Have you set targets to reduce resource consumption?</p> <p>Supply Chain</p> <p>1) Do you assess the environmental risks and performance of your suppliers, service providers, and contractors?</p> |
| Forced labor | Y | <p>PETRON CORPORATION VENDOR ASSESSMENT – SOCIAL ACCOUNTABILITY</p> <ul style="list-style-type: none"> Do you have standing company policy on involuntary servitude or forced labor? |
| Child labor | Y | <p>PETRON CORPORATION VENDOR ASSESSMENT – SOCIAL ACCOUNTABILITY</p> |

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| | | <ul style="list-style-type: none"> • Do you have ready files/documents to verify your actual manpower count/report (including age, gender, position, place of assignment)? • Are you complying with the Child Labor Law (employable age, work permit, working hours, non-hazardous work)? |
| Human rights | Y | <p>PETRON CORPORATION VENDOR ASSESSMENT – SOCIAL ACCOUNTABILITY</p> <ul style="list-style-type: none"> • Do you have a company policy against any forms of discrimination (based on gender, age, religion) • Are persons belonging to ethnic or religious minorities given fair chance for employment? • Do you practice equal opportunity employment (for pregnant employees, single mothers, person with disabilities)? • Do you have standing company policy on involuntary servitude or forced labor? • Do you practice normal working hours for all employees? • Are benefits provided for services rendered beyond the required 8-hours of work per day and also for night shift duties? • Are employees paid with 13th month pay? • Are there clear guidelines for rest days and holidays? • Are the government-mandated leaves being observed (maternity, paternity, solo parent, sick & vacation, special leave for women)? • Does your company pay/remit the statutory contributions to BIR, SSS, Philhealth and HDMF? How about proper records management of the said payments/remittances? • Do you practice safe and conducive working environment (safe work areas, proper lighting & ventilation, easily recognizable fire/emergency exits, adequate passageways)? • Do you have designated persons/officers for medical and dental needs, safety concerns, security issues, buildings & facilities? • Are employees allowed to join and become active members of employee organizations and trade unions? • Are employees or their designated representatives consulted for important company decisions/plans? |
| Bribery and corruption | Y | <p>PETRON CORPORATION VENDOR ASSESSMENT – SOCIAL ACCOUNTABILITY</p> |

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| | | <ul style="list-style-type: none"> • Do you have a company code of conduct and guidelines for conflict of interest (among employees and towards suppliers/contractors/ business interests)? |
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| What is the impact and where does it occur? What is the organization’s involvement in the impact? | Management Approach |
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| <p>Petron is unique since it operates in an ecosystem that includes a diverse group of supply chain stakeholders, from large foreign and local contractors to Philippine society’s most basic units, the household and the <i>barangay</i>. While the potential for inclusive development is great, the challenge for alignment is enormous. We seek to leverage on our size and scale to extend the sustainability agenda throughout our sphere of influence.</p> <p>In order to maintain the widest reach and deepest market penetration among industry players, the company operates the biggest number of storage facilities nationwide, delivering products to and from its terminals strategically located in major locations to its service stations and customer accounts, using a large fleet of marine vessels, tank trucks and bridgers, and various other means of product transport.</p> | <p>Petron Vision, Mission, and Values</p> <p><u>Vision</u> “To be the Leading Provider of Total Customer Solutions in the Energy Sector and its Derivative Businesses.”</p> <p><u>Mission</u> We will achieve this by:</p> <ul style="list-style-type: none"> • Being an integral part of our customers’ lives, delivering a consistent customer experience through innovative products and services; • Developing strategic partnerships in pursuit of growth and opportunity; • Leveraging our refining assets to achieve competitive advantage; • Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence; • Caring for our community and environment; • Conducting ourselves with professionalism, integrity, and fairness; • Promoting the best interest of all our stakeholders. <p>Petron’s Sustainability Priorities</p> <ul style="list-style-type: none"> • <u>Environmental Stewardship</u> We commit to business practices that help protect the environment knowing that this accordingly safeguards the interests of our company and its stakeholders over the long term. • <u>Operational Efficiency</u> We commit to the continuous improvement of our operations and in our supply chain, guided by global efficiency standards. • <u>Strategic Partnerships</u> We commit to building on shared strengths with business partners and other stakeholders in our quest to serve customers better while creating more value for our investors. <p>We believe that maintaining market leadership and ensuring long-term dominance in this highly</p> |

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| | <p>complex and dynamic industry demand a sustainable supply chain structure. The market is continually changing and gravitating towards companies that integrate profitability with social and environmental care in doing business. Our Supply Chain Management Committee ensures the ability to manage our operations safely, and that all Divisions are aligned in meeting customer needs, at the least possible cost, fit-for purpose and with utmost care for the environment and the society.</p> |
| <p>What are the Risk/s Identified?</p> | <p>Management Approach</p> |
| <p>The main risks identified are product stock-outs at customers' facilities in case of supply disruptions attributable to adverse weather conditions and other calamities, the inability of contractors to complete product deliveries on time, the occasional volatility of demand such as surges in sales, and health, safety, security and regulatory concerns that may restrict movement of product transport vehicles and their operators, among others.</p> <p>In the course of moving products along the supply chain, risks include those that relate to product quality and handling safety, compliance with government regulations, ensuring environmental protection and the health and safety of the company's personnel, its contractors, customers and communities where the company operates and delivers its products.</p> | <p>The Supply Chain Management Committee oversees and coordinates the overall program to ensure that the company's customers are always supplied with the right product, with the right quality and quantity, at the right time and at least cost, to the customer's satisfaction and delight. The various divisions and departments that are part of the SCM Committee adopt a "Crude-to-Customer" approach in ensuring a demand-driven supply chain that considers changing requirements, that raw materials are available for processing and finished products are available for lifting from the company's refinery and various terminals, that marine vessels, tank trucks and other modes of product transport are available and comply with all pertinent industry standards and government regulations, and that delivery schedules are well-coordinated to ensure products arrive at customer facilities on time and in a safe, secure and environment-friendly manner.</p> <p>The company incorporates various Business Continuity Plan options in its supply chain, so that it can source and deliver products to customers from alternate supply points via various modes of delivery in case of disruptions in the regular product delivery chain. The company maintains synergies and strategic supply arrangements with industry players to further ensure availability of products from alternate sources.</p> <p>Regularly discussed within the Supply Chain Management Committee are new government laws and regulations that affect product quality, handling, storage and delivery, and the costs that customers may incur from these changes, as well as the pertinent engagement of government agencies that craft and implement such laws and regulations. Changes and competitive moves within the industry are likewise regularly taken up.</p> <p>The different member departments of the Committee also ensure that contractors and suppliers of the supply chain perform in accordance with company and industry standards,</p> |

| | <p>comply with government regulations, have properly-trained personnel and sufficient capability, equipment and expertise, and are aligned with the company's programs and thrusts in relation to the supply chain. Performance of these contractors and suppliers are appraised regularly as part of the continuance of their services and in contract renewals.</p> |
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| What are the Opportunity/ies Identified? | Management Approach |
| <p>Petron continually faces the challenge of being in a resource-intensive industry that is both a contributor to and a recipient of the effects of climate change. Thus, we adopt strategies to improve our environmental performance to be at par or better than other players in the energy industry.</p> <p>Recognizing that our environmental footprint extends to our supply chain, we also extend training on environmental programs to suppliers, contractors, and service providers.</p> <p>We adopt best practices and harness compliance tools and systems to ensure superior performance amid a complex business environment. Documentation, automation, and standardization of quality processes, behaviors, and systems ensure quality results while still acknowledging the uniqueness that differentiate Petron's performance, products and services from our competitors.</p> <p>PROCUREMENT IMPROVEMENT PROGRAM This initiative enhances efficiencies to maintain competitive advantage and promote savings. Streamlining the process, the program underwent a study that sought to identify opportunities for improvement and establish a strategic sourcing program that allows us to benchmark against world-class standards and industry best practices in procurement. The Procurement Improvement Program aims to benefit vendors, contractors, and service providers by:</p> <ol style="list-style-type: none"> 1) integrating strategic procurement closer with the business units to fosters improved transparency in the supplier selection process, focuses more "spend" with the best suppliers, and create partnership opportunities between the business unit and the suppliers. 2) Focusing on optimizing existing I.T. infrastructure and investment to facilitate the work of the strategic procurement organization by activating the eProcurement facility for both materials and services, specifically through a <i>Vendor Portal</i> that serves as a centralized, web-based repository of information on vendors that accepts accreditation application. This will also facilitate | <p>Petron endeavors to grow and integrate sustainability principles throughout its supply chain. This starts from the refinery, on to its network of terminals, all the way to its consumers through approximately 2,000 service stations nationwide.</p> <p>Only a sustainable supply chain structure can fortify the Company's goals of maintaining market leadership over the long-term.</p> <p>We have a Supply Chain Management Committee that monitors and promotes programs with the aim of improved customer service, increased revenues, and reduced costs. The Committee defines business processes, formulates the guidelines and procedures, and establishes key performance indicators that are applicable to its integrated Supply Chain Management Plan, including greening of the supply chain.</p> <p>The company's Logistics Master Plan that aims to improve the company's facilities, supply chain and operations incorporates sustainability principles, ensuring the reliability of product supply and improving on the company's costs to maintain market leadership. Concepts that are part of the program include shortening the distances between the company's supply points and its customers, maintaining optimal product inventory levels, optimizing the movement of product transport vehicles, ensuring communities are engaged in the company's operations and enhancing safety and environmental protection in all parts of the supply chain.</p> |

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| the regular or annual performance review or appraisal of vendors. | |
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Relationship with Community

Significant Impacts on Local Communities

| Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations) | Location | Vulnerable groups (if applicable)* | Does the particular operation have impacts on indigenous people (Y/N)? | Collective or individual rights that have been identified that or particular concern for the community | Mitigating measures (if negative) or enhancement measures (if positive) |
|---|-----------------|---|---|---|--|
| Refinery operations | Limay, Bataan | N/A | N | N/A | <ul style="list-style-type: none"> •Expansion programs in the Refinery generates economic activities and jobs creation. •Preference for qualified local residents for job vacancies •Engagement of local contractors for maintenance, expansion projects and environmental programs •Contractors buying materials and supplies locally |
| | Limay, Bataan | N/A | N | N/A | <ul style="list-style-type: none"> • IMS Certification • Installation of Environmental Protection Facilities • Compliance to products environmental standards • Use of low sulfur fuel gas for |

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| | | | | | <p>furnaces and boilers</p> <ul style="list-style-type: none"> • Measuring, Managing and Minimizing PBR's environment footprint • Odor Management • Waste Segregation Performance Index (WSPI) for PBR and its contractors |
| Terminal Operations | Nationwide | N/A | N/A | N/A | <p>Various programs implemented in response to COVID-19 include: Entry and Exit Safety Protocols, Health Declaration, Personnel Protection, Daily and Weekly Disinfection activities, Health Advisory, Signages and reminders, COVID-19 KamOSHtahan sa Terminal, No Contact Ship – Shore Interface Guidelines, Project CREST (Communication Report Exchanges of Ship and Terminal)</p> |
| | Nationwide | N/A | N/A | N/A | <p>Petron regularly conducts Safety Trainings For Customers and Haulers/ Drivers :</p> <ul style="list-style-type: none"> • <i>Trainings for customers to supplement knowledge on safe and proper service station operation, and bulk fuel receiving procedures.</i> • <i>Defensive driving and safe product unloading seminars for company</i> |

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| | | | | | <i>contracted tank truck.</i> |
| | Nationwide | N/A | N | N/A | Refinery and Terminal personnel, all contractual workers, and tank truck drivers are required to attend safety seminars, toolbox meetings, regular drills, and refresher courses to guarantee they are exercising correct safety procedures and behavior. |
| | Nationwide | N/A | N | N/A | Groups for teams from the Terminals and the Refinery regularly conduct Fire Fighting Olympics organized by Petron's Operations HSE and Corporate Safety with LGU representatives in attendance. Petron also extends its Basic Fire Fighting and Emergency Preparedness Trainings to its communities. |
| | Nationwide | N/A | N | N/A | Availability of Petron firefighting and rescue equipment to support fenceline communities in case of emergencies |
| | Nationwide | N/A | N | N/A | Petron has a HazMat Brigade especially trained to handle emergencies involving hazardous materials, and an Oil Spill Control Brigade, also trained and equipped with oil skimmers and spill booms, sorbents and |

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| | | | | | dispersals, speed boat and tugboat. |
| | Nationwide | N/A | N | N/A | To help diminish the risk and environmental damage of potential spills, all Terminals that handle heavy grade petroleum products are equipped with spill containment and recovery equipment. Petron is also a member of Oil Spill Response Limited (OSRL), the world's largest international oil spill response organization. |
| | Nationwide | N/A | N | N/A | Regardless of the facility, Petron conducts site assessment to gather baseline data on various aspects of communities where it is present. It studies all possible impacts of its presence and operations, including health and safety issues and infrastructure construction. It also documents and establishes the socio- economic profile and the general health condition of the community. This includes: <ul style="list-style-type: none"> • <i>Hazard Identification Risk</i> • <i>Assessment and Control;</i> • <i>Environmental Site Assessment;</i> • <i>Annual Work</i> |

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| | | | | | <ul style="list-style-type: none"> • <i>Environmental Measurement to establish noise levels, air quality, and soil quality;</i> • <i>Hazard Operability Studies and fire scenario heat models per project.</i> |
| | Nationwide | N/A | N | N/A | <p>Petron’s Terminal EcoWatch build on and greatly enhances the Industrial EcoWatch Rating System or IERS, an initiative under DENR AO 2003-36 that promotes self-regulation among industries for improved environmental compliance and performance through a rating system. The EcoWatch assesses environmental performances in terms of maturity of environmental management.</p> <p>In its 8th year of implementation, the Ecowatch program for terminals achieved an 86% increase in environmental management and compliance rating compared to baseline rating in 2014.</p> |
| Corporate Technical Services Group | Nationwide | N/A | N | N/A | <p>Project TRACIE (Tracking and Recognizing All COVID-19 Infection in the workplace Environment) utilized QR code scanning technology to minimize physical contact of using manual forms, pens</p> |

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| | | | | | and long queues and shortens the processing time of accomplishing the form. Aside from serving as an effective tool for contact tracing, this ensures the immediate assessment and response of our medical personnel should the need arise. This program is in coordination with HRMD, HOC Admin and MISD, and implemented in the Petron Head Office and in all Terminals. |
| | Nationwide | N/A | N | N/A | Corporate Safety advocates safety culture by ensuring the participation of all stakeholders and other divisions in the Safety Council. In response to the Covid-19 pandemic, safety guidelines were issued to ensure strict enforcement of social distancing and strengthen awareness of Petron personnel as well as third party service providers in all Petron Facilities. To continuously ensure compliance with regulations and company policies, Corporate Safety conducts facility assessments through virtual/ onsite approach and provides relevant safety and technical trainings. |

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| | Nationwide | N | N | N/A | <p>Conducted training/seminars for employees, contractors and customers as prescribed by government agencies (i.e. DOLE, BFP) and/or required as defined by the policies of the company. These include advanced safety courses for the development of technical skills of safety personnel, such as Mandatory 8-hr OSH Seminar among Petron employees in compliances with R.A. 11058.</p> |
| | Nationwide | N | N | N/A | <p>Through Petron's Contractor Safety Management (CSM) Manual, the Company provides a practical and relevant system for the contract administrator/ site management overseeing the work of our contractors, to integrate health and safety requirements into contractor management and to fulfill the company's health and safety obligations to its contractors.</p> <p>In coordination with Petron's Procurement group, CTSG Safety conducted six (6) sessions of Contractor Safety Orientations in 2021 attended by a total</p> |

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| | | | | | <p>of 677 contractors. This is one of the requirements for the Contractor Safety Management System and Procurement accreditation.</p> <p>CTSG Safety also conducted the Safety Evaluation of 13 Third Party Service Providers (TPSP) for Contractor Accreditation in coordination with Procurement.</p> |
| Retail Operations | Nationwide | N/A | N | N/A | <p>Petron introduced a number of industry firsts for environment-friendly products, beginning with the early rollout of unleaded gasoline and low-sulfur diesel in the 90s. It also pioneered in meeting the highly stringent European fuel quality standards with Blaze 100 EURO 6, the country's first premium plus gasoline that meets both Philippines and European standards.</p> |
| | Nationwide | N/A | N | N/A | <p>All operating facilities of Petron are required to have Pollution Control Officers (PCO). CTESG-Environment assists in complying with this requirement. This group renewed its recognition as a Training Organization for Category A Pollution Control Officers until October 22, 2022. This will allow the continued</p> |

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| | | | | | conduct of 40-hour PCO Trainings and 8-hour Managing Head Training for service station dealers and qualified terminals for PCO accreditation. |
| | Nationwide | N/A | N | N/A | The Petron Research and Testing Center (PRTC) tests EURO IV fuels for sulfur, biodiesel, LPG and environmental samples. It also always examines raw materials before these are processed, as well as finished products before delivery to industrial clients or its service stations. |
| Project TODA | NCR | Yes (tricycle drivers and operators) | N | N/A | Petron's R&D group successfully conducted its first run of Project TODA, a hybrid online training to tricycle drivers and operators to promote our Petron Sprint 4T products. R&D conducted the training on maintenance tips of motorcycles for TODA group at Mandaluyong. The program was also streamed live via Sprint 4T FB page. |

**Vulnerable sector includes children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E)*

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: N/A

| Certificates | Quantity | Units |
|----------------------------------|----------|-------|
| FPIC process is still undergoing | N/A | # |
| CP secured | N/A | # |

| What are the Risk/s Identified? | Management Approach |
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| <p>As Petron widens its coverage in the country, however, we come face to face with the socio-economic challenges that afflict majority of the Filipinos such as lack of education, poor infrastructure, and health and sanitation issues. These challenges impact on our business in terms of difficulty in finding skilled workers, low productivity and absenteeism among others, so that Petron’s responsibility extends to helping our communities work better.</p> <p>Ultimately, we believe the condition of our surrounding communities poses costs and risks on our business. Efforts at self-sufficiency and productivity were integral to our road map to alleviating poverty, promoting safety in our host communities, and contributing to the economic performance of Petron.</p> | <p>Our contract with society is anchored on the belief that we have an equal stake in and responsibility to ensuring the well-being of those whose lives are touched by our business. Simply put: as we grow, so do our communities. Our company’s Vision, Mission, and Values serve as our guidepost in “caring for the community and environment.”</p> <p>Petron Vision, Mission, and Values</p> <p><u>Vision</u> “To be the Leading Provider of Total Customer Solutions in the Energy Sector and its Derivative Businesses.”</p> <p><u>Mission</u> We will achieve this by:</p> <ul style="list-style-type: none"> • Being an integral part of our customers’ lives, delivering a consistent customer experience through innovative products and services; • Developing strategic partnerships in pursuit of growth and opportunity; • Leveraging our refining assets to achieve competitive advantage; • Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence; • Caring for our community and environment; • Conducting ourselves with professionalism, integrity, and fairness; • Promoting the best interest of all our stakeholders. <p>Petron’s Sustainability Priorities</p> <ul style="list-style-type: none"> • <u>Strategic Partnerships</u> We commit to building on shared strengths with business partners and other stakeholders in our quest to serve customers better while creating more value for our investors. • <u>Advocacy and Social Responsibility</u> We commit to ensuring our company’s positive contribution to the economic and social needs of our surrounding communities through education, entrepreneurship, health, and livelihood programs. We likewise commit to support the UN Sustainable Development Goals (SDG) and the national government’s poverty alleviation agenda. |

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| | <p>Our values, focus, and commitments -- including the programs that we conduct, the products we develop, and the plans we make—are ultimately guided by what is best for our stakeholders. Regular engagement with our stakeholders, therefore, is crucial to the success of our sustainability efforts. We have in place systems that enable us to best address the needs of our customers, our business partners, and the communities where we are present.</p> |
| <p>What are the Opportunity/ies Identified?</p> | <p>Management Approach</p> |
| <p>Every day, the actions taken by Petron, our employees, and our partners touch millions of lives. Whether we are purchasing materials from our suppliers, producing fuel oil, serving consumers, or supporting the communities where we operate, we strive to fuel lasting and positive change. We believe our business success would not have been possible if not for those who shared our passion, commitment, and responsibility as agents of change. We have demonstrated that, beyond getting feedback, engaging our stakeholders can effectively help enhance our company’s economic, environmental, and social performance.</p> <p>Opportunities include being able to engage our partners in our sustainability agenda, as well as magnify our environmental contributions by harnessing champions in local communities. The conduct of Pollution Control Officer (PCO) Training Courses allow us to equip our service station dealers, Petron employees, and other partners with knowledge on environmental management practices and policies.</p> <p>Stakeholder engagement activities also occur in virtually every aspect of Petron’s operations and business transactions. Our Marketing Department invests in market research surveys, not only to gauge how Petron is perceived by the public, but also to get feedback before and after it launches products and initiatives that may impact consumers and the industry.</p> | <p>Human capital development is crucial to Petron’s long-term goals. We identify two types of human capital that we consider as our network: permanent communities and mobile communities.</p> <p>Our permanent communities are our employees, our fenceline areas, and our direct business partners while our mobile communities are the general public who patronize our products. We consider them the driving force behind our business and work closely with them in the mutual aspiration of national development that filters to all levels of society. We believe that the connections we have with our communities pave the way in ensuring the sustainability of our business.</p> <p>Petron adopts a results-oriented, stakeholder-centric approach that allows the business to connect more meaningfully with various communities and introduce a trajectory of inclusionary growth. We are able to achieve this by including corporate social responsibility (CSR) in our business planning guidelines and positioning it as a primary strategy for optimizing business value. We conduct a site assessment to gather baseline data on various aspects of communities where we are present. We study all possible impacts of our presence and operations, including health and safety issues and infrastructure construction. We document and establish the socioeconomic profile and the general health condition of the community. Some of our activities include Hazard Identification Risk Assessment and Control; Environmental Site Assessment; an Annual Work Environmental Measurement to establish noise levels, air quality, and soil quality; and a Hazard Operability Studies and fire scenario heat models per project. Program monitoring is likewise a vital component of all CSR programs. Results of our monitoring and documentation guide the programs on education, livelihood development and micro-financing, community health and social services, and the environment.</p> |

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| | <p>Programs are also measured against national and global development goals and principles. Regular stakeholder engagements are conducted to make sure that programs are able to achieve their objectives and to address any shortfalls immediately. Training and awareness cover topics that ensure the health and safety of the site and the community such as oil spill seminars, Pollution Control Officers training, annual audits and inspections, emergency response and rescue, and firefighting, some of which are open to the community to build their capacity to properly respond to emergencies. We fulfill requirements such as environmental compliance certificates, barangay clearance, zoning clearance, and certificates of non-coverage.</p> |
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Customer Management

Customer Satisfaction

| Disclosure | Score | Did a third party conduct the customer satisfaction study (Y/N)? |
|-----------------------|-------|--|
| Customer satisfaction | 93% | Y |

| What is the impact and where does it occur? What is the organization’s involvement in the impact? | Management Approach |
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| <p>Our Contact Centers are there to support us in a market that is both dynamic and unpredictable especially in a deregulated industry such as the petroleum industry. The Contact Centers are a one-stop channel that caters to both business partners and consumers for order creation, inquiry handling, feedback management, lead processing and promo campaign execution. Gathered insights are shared internally to gain customers’ point of view for continuous internal process improvement.</p> | <p>We use a consumer-centric approach to achieve continual improvement.</p> <p>At the basic level, we receive feedback nationwide from customers via the following platforms: the Petron website (www.petron.com), the Petron Customer Interaction Center (PCIC) and Petron Talk2Us channels where various customer concerns, inquiries, and complaints on orders, facilities and prices are attended to, and the feedback program at the service stations where signages are strategically placed that indicate the Talk2Us contact number, email and SMS where customers can relay feedback at their preferred channel most convenient to them 24x7 on a daily basis. Same contact details for Talk2Us are also found in the footer portion of POS receipts as added info.</p> <p>Feedback are also received from Petron official social networking sites managed by our Corporate Affairs Department (CAD) on Facebook, Instagram and Twitter. Other customers prefer the use of SNS sites for their convenience and accessibility. CAD coordinates closely with the</p> |

| | <p>Customer Relations Group (CRG) in the monitoring of customer feedback – inquiries, complaints, suggestions – for their proper and prompt disposition.</p> <p>All concerns are recorded in a CRM software and these concerns are farmed out to respective resolving parties such as service station dealers thru our Areas Sales Executives and other internal Petron parties. Once settled, resolving parties inform feedback handlers who in turn confirm customer satisfaction by conducting actual callouts to customers and document results of callouts either for closure or non-closure.</p> |
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| What are the Risk/s Identified? | Management Approach |
| <p>In a highly competitive industry, Petron needs to constantly be aware of how our brand measures up to the expectations of our consumers, our shareholders, and our stakeholders. There is a need to regularly assess customer loyalty and satisfaction, measure Petron’s brand health versus competition, and understand the demands of the industry/market. With the rise of social media platforms that allow access to and sharing of information in real-time, there is a major risk to the brand for inquiries, complaints and other concerns that are not readily attended to.</p> <p>On the corporate side, failure to appreciate the pulse of the public impacts on:</p> <ul style="list-style-type: none"> ▪ Corporate reputation - Our public image/perception and trustworthiness strongly influences stakeholder (<i>government, business partners, potential investors, etc.</i>) support and buy-in for our plans and programs and is essential to consumer preference. Reputation drives sales and sustainability. Reputation accounts for about 65 % of an average company’s market value and can account for up to 95 % of market capital for companies that are primarily brand driven. ▪ Stakeholder Management - managing expectations by our various publics through sustained good relations with opinion-makers and influencers. ▪ Information Management – our ability to keep abreast with pertinent developments (<i>public attitudes, sensitivities, expectations, concerns and needs</i>) related to Petron’s business and make informed and strategic decisions accordingly CAD is. It not only packages and sends out information to appropriate parties, it also counsels upper management on. ▪ Crisis Management – our ability to help Petron respond quickly and properly to crisis situations by anticipating potential reputational hazards and | <p>We value our customers. We commit to being an integral part of their lives by consistently delivering innovative products and services. This commitment binds us to conducting business with excellence, as underscored by our own Corporate Quality Policy that states,</p> <p><i>“We, at Petron, are guided by the basic philosophy of quality in all our business undertakings while taking responsible care of the environment and maintaining our competitiveness. Achieving this, we believe, is the true measure of corporate success.”</i></p> <p>We are unceasing in our commitment to ensure that all aspects of our operations practice the highest standards of safety and responsibility, and that the products and services we provide meet not only most stringent quality mandate of both local and international standards, but are also shaped by the needs of our consumers.</p> <p>We have our Corporate Affairs Department (CAD) which maintains a favorable corporate image and environment that allows Petron to effectively pursue its vision and business objectives through the effective use of communications, management of issues, and nurturing of relationships with stakeholders.</p> <p>To ensure the continued protection of the consumer rights of our customers, our Marketing Division ensures that all our advertising campaigns and communications programs subscribe to the standards set by governing bodies such as the Advertising Board of the Philippines Ad Standards Council, and the Philippine Association of National Advertisers. These groups harness the various sectors of the industry to achieve professional excellence through effective self-regulation; and promulgate self-regulatory rules, standards, and procedures of the advertising industry such as a Code of Ethics. These bodies also establish,</p> |

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| <p>recommending appropriate courses of action to avert full-blown crises that will erode corporate reputation.</p> <p>Despite challenges on current limitations of the system, we continue to do follow-ups until resolution of complaints from resolving parties. In line with this, we also evaluate handling and assessing of work efficiencies from all parties involved in the resolution process.</p> | <p>maintain, and implement programs aimed at maximizing the growth potential of the advertising industry and promote public responsibility among advertising practitioners thereby protecting the interest of the customers.</p> |
| <p>What are the Opportunity/ies Identified?</p> | <p>Management Approach</p> |
| <ul style="list-style-type: none"> • Results of our consumer market research initiatives allow us to determine the strength of our brands among our customers. • Our social media sites (website, Facebook, Twitter, and Instagram) managed by CAD provide platforms for instant communication and engagement with our customers and the public in general. This allows us to immediately act on their concerns and inquiries and gauge their preferences. These also give us multiple venues to post announcements, promos, and other relevant information about the Company, our products and events. <p>Internal challenges will always be there but the group see these as opportunities to further elevate the overall customer experience. These include periodic review of service level agreements (SLA) for more efficient handling and resolution of complaints as well as enhancing collaboration among resolving groups. This is to map out activities should be there be extra hours needed to be invested to handle the current situation</p> | <p>Regularly, Petron conducts market research studies that identify our strengths as well as areas for improvement, engaging customers from all economic and social backgrounds, from rural areas to urban centers nationwide. Various mechanisms are in place to assess customer satisfaction. Internal and external customer feedback studies profile the users of Petron products, specifically their perception, usage, habits, and satisfaction levels among others.</p> <p>Results of these surveys are integrated into our Marketing programs so that the Petron brand remains top of mind.</p> <p>From April to May 2021, Petron engaged 3rd party group SCMI (Strategic Consumer and Media Incites Inc.), an independent full-service market research and professional consulting firm offering Technology-based Media Monitoring, Qualitative and Quantitative Market Research, Data Analysis, and Marketing Consulting Services. Their 2021 Fuel UAI study aimed to measure the brand health of Petron’s fuel brands vs. competition, assess customer loyalty and satisfaction, and identify critical factors to help Petron respond to customer needs or wants. Results showed 93% satisfaction among those who have tried Petron.</p> <p>The company also implemented a Customer Satisfaction program starting November 2021 through its Customer Relations Group (CRG). This is an in-house (Petron initiated) initiative which was piloted in 37 sites and will be expanded to more Petron service stations in 2022. The program allowed our customers to conveniently scan via their smartphones QR Code that are made available thru posters/signages located in strategic locations within the service station premises such as cashier’s booth, rest rooms, shops and lube bays. In this way, they can easily fill out the survey forms to share their Petron experience at the said retail outlet. This forms part of enhancing the current talk2us program by</p> |

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| | adding new channels on top of current traditional channels such calls, emails and SMS. |
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Health and Safety

| Disclosure | Quantity | Units |
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| No. of substantiated complaints on product or service health and safety* | 0 | # |
| No. of complaints addressed | 0 | # |

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management Approach |
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| <p>Petron's customers demand high quality products that they have come to expect from our brand. Thus, it is the satisfaction of our stakeholders that fuels the innovation of product and service at Petron. Increasingly, the challenge for Petron is to meet the needs of customers in different market segments, ensuring that our products deliver consistent and reliable performance at the best possible value. At the same time, we have a responsibility to government and industry regulatory bodies.</p> | <p>Meeting stringent regulatory requirements and going beyond compliance, we shape the petroleum industry. Environment protection is at the core of our strict adherence to the Clean Air Act, Biofuels Law, and RA 6969 for the control of toxic substances and hazardous waste.</p> <p>Petron complies with laws and regulations governing our industry. We use a consumer-centric approach to achieve continual improvement.</p> |
| What are the Risk/s Identified? | Management Approach |
| <p>Petron operates in the context of a broader value cycle. We work with others to source materials; package, transport and sell our products; recover and reprocess blend components; collect and recycle the water we use. With our complex business cycle, managing sustainability in our daily operations poses great challenge.</p> <p>By collaborating closely with our business partners, communities, and consumers, we aim to ensure environmental and social responsibility in every product that bears our name. We are constantly working to close the loop associated with our products – from product innovation during the research and development stage, to efficient use of energy and materials during production and transport, to responsible product marketing and promotion.</p> | <p>Petron Health, Safety and Environment Policy</p> <p>We at Petron Corporation are committed to protecting and preserving the natural environment, and to promoting the health, safety and security of our people, our customers, suppliers, contractors and the general public. This commitment is key to the long-term sustainability of our business and governs the way we operate.</p> <p>Consistent with this core commitment,</p> <ul style="list-style-type: none"> • we will strive to comply with all government regulations relevant to the promotion of health and safety and the preservation of the environment. • we will adopt operational procedures, provide the necessary resources and management support, striving to involve all our stakeholders each step of the way. <p>To ensure that we live up to these commitments,</p> |

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| | <ul style="list-style-type: none"> • we will follow stringent goals and targets against which we will measure our performance. • we will implement and develop strategies that will allow and encourage us to improve the ways we conduct our business. <p>Petron’s Sustainability Priorities</p> <p><u>Health and Safety</u> We commit to fully abiding by laws and regulations that ensure the health and safety of personnel, contractors, and surrounding communities, with the ultimate aim of going beyond compliance.</p> |
| <p>What are the Opportunity/ies Identified?</p> | <p>Management Approach</p> |
| <p>We make sure that throughout all the stages of the life cycle of our products—from introduction to growth and maturity to “decline”—the health and safety impacts on users and consumers, as well as the environment are considered. During its maturity stage for instance, fuel products are subjected to reformulations and enhancements necessary to ensure that they comply with the latest local and international standards. The decline of a product, when it is no longer marketable, is considered an opportunity for innovation. Product development at this stage is driven by updates in the market as well as changes in fuels technology.</p> <p>Providing for venues to feedback on health and safety concerns of our business on the other hand gives us the opportunity to properly and promptly address issues that we may have been remiss in or have not thoroughly considered. As we aspire for continual improvement, we welcome feedback from our stakeholders on how we can make our services better and safer to provide the full Petron experience.</p> <p>Again, the rise of social media platforms that allow access to and sharing of information in real-time causes a major risk to the Petron brand for inquiries, complaints and other concerns that are not readily attended to.</p> <p>On the corporate side, failure to receive and act on safety and health concerns by the public regarding our operations, products and/or services impact on our ability to:</p> <ul style="list-style-type: none"> ▪ maintain a favorable corporate image and environment that allows Petron to effectively pursue its corporate vision and business objectives. ▪ manage the expectations by our various publics. | <p>Petron Health, Safety and Environment Policy</p> <p>We at Petron Corporation are committed to protecting and preserving the natural environment, and to promoting the health, safety and security of our people, our customers, suppliers, contractors and the general public. This commitment is key to the long-term sustainability of our business and governs the way we operate.</p> <p>Consistent with this core commitment,</p> <ul style="list-style-type: none"> • we will strive to comply with all government regulations relevant to the promotion of health and safety and the preservation of the environment. • we will adopt operational procedures, provide the necessary resources and management support, striving to involve all our stakeholders each step of the way. <p>To ensure that we live up to these commitments,</p> <ul style="list-style-type: none"> • we will follow stringent goals and targets against which we will measure our performance. • we will implement and develop strategies that will allow and encourage us to improve the ways we conduct our business. <p>Petron’s Sustainability Priorities</p> <p><u>Health and Safety</u> We commit to fully abiding by laws and regulations that ensure the health and safety of personnel, contractors, and surrounding communities, with the ultimate aim of going beyond compliance.</p> |

Marketing and labelling

| Disclosure | Quantity | Units |
|---|----------|-------|
| No. of substantiated complaints on marketing and labelling* | 25,116 | # |
| No. of complaints addressed** | 23,569 | # |

*Substantiated complaints include complaints from customers that went through the organization’s formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies. Additionally, Petron received and addressed 89,123 inquiries

**Complaints addressed (23,569) represent complaints properly closed by the Petron Customer Interaction Center (PCIC), i.e. this means, PCIC was able to coordinate with the customer and secure customer satisfaction. Of the complaints addressed, 68% and 14% were completed in 2021 and 2022, respectively. The balance (1,547) accounts for open, in progress and resolved complaints. “Resolved complaints” can only be closed once customer satisfaction is confirmed.

| What is the impact and where does it occur? What is the organization’s involvement in the impact? | Management Approach |
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| <p>Because of the nature of our products, adherence to correct labeling protocols is inseparable from product responsibility. This responsibility begins from the time each product rolls out from our Refinery until it lands in the hands of our customers.</p> <p>All Petron service stations display the octane number of fuels to help our customers make better choices. Likewise, Petron service stations that conform to the guidelines of the Department of Energy on proper labeling of fuels. All Petron lubricant products and greases are also properly labeled and come with material safety data sheets (MSDS). Petron’s product quality claims for lubricants adhere to the American Petroleum Institute (API), the Society of Automotive Engineers, and International Standardization Organization-Viscosity Grade for the service level and viscosity grades applicable to the specific type and make of engine/equipment/vehicle. For greases, Petron adheres to the quality specifications of the National Lubricating Grease Institute.</p> <p>The Philippines is among the Asia-Pacific Economic Cooperation (APEC) countries that have signed a commitment to implement the Globally Harmonized System of Classification and Labeling of Chemicals (GHS). All Petron operations concerning the manufacturing, marketing, and distribution of petroleum/petrochemical products, as well as the importation of chemical substances for operational needs will be subject to GHS labeling. Benzene, which is one of the petrochemical products of our Benzene-Toluene-Xylene (BTX) plant, is currently included in the Priority Chemical List (PCL) of the Department of Environment and Natural Resources (DENR). As such, we are required to secure a PCL Compliance Certificate from the DENR’s Environmental Management Bureau aside from submitting an annual</p> | <p>Overall responsibility for the delivery of safe, quality and reliable products and services to all our customers, both local and international, rests on the entire organization. Our Marketing Department oversees efforts to sustain the integrity of our corporate brand through responsible product labeling and advertising. Our Corporate Affairs Department ensures that we communicate to the general public our role in driving economic activity, fueling societal well-being and caring for the environment.</p> <p>All our products carry appropriate information and proper labeling on matters which are considered important disclosures so that consumers will be adequately informed of their environmental, health, and social impacts. All our products have Material Safety Data Sheets (MDS). An important component of our product stewardship and workplace safety, the MDS provides our personnel with procedures for handling or working with the materials we use, and all our products. The MSDS contains information such as physical data, toxicity, health effects, first aid, reactivity, storage, disposal, and spill-handling procedures.</p> |

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| <p>report, MSDS, and a chemical management plan. The additives manufactured by Petron must also comply with pre-manufacturing and pre-importation (PMPIN) requirements that include submitting information to DENR on the chemical substances to be manufactured.</p> <p>GHS-compliant MSDS are being prepared for petrochemical feed stocks produced at the refinery and for additives, fuels, lubricants, and other petroleum-based products. This is to meet DENR requirements and existing PMPIN requirements. We will also convert existing labels into GHS-compliant labels, rendering Petron products suitable for international markets should there be an opportunity to export. Employees involved in purchasing, forwarding, customs clearing, warehousing, emergency response, and the use of chemical substances in operations have undergone GHS training.</p> | |
| <p>What are the Risk/s Identified?</p> | <p>Management Approach</p> |
| <p>As part of our commitment to the environment, Petron strives to develop products that meet customer’s demands for performance without adverse impact on the environment. We know that, given the chance, our customers want to make the right choices—not just in terms of getting the most for their peso, but in ensuring they make responsible choices that do not compromise their health or environmental quality.</p> | <p>We seek to give our customers the information they need to make the right decisions about the products they use. Whether in our packaging labels, or in our service stations, Petron strives to provide product and service information as required by procedure. We empower our customers to make the right choices through the accurate, reliable, and trustworthy information we provide in the packaging of our products and provide our customers with packaging that they can be sure is environmentally friendly—particularly with our “green” product line.</p> |
| <p>What are the Opportunity/ies Identified?</p> | <p>Management Approach</p> |
| <p><u>Empowering customer choice.</u> By letting our customers know what quality standards we follow, we again empower them to make better-informed decisions on what product to buy.</p> <p><u>Deepening customer loyalty and building new business</u> The technical support that our Research and Development group continuously provide helps strengthen customer loyalty and continue to build business for the company. One of these activities is the conduct of technical training programs aimed at informing these customers of the products that the company offers, as well as assist them in optimizing the use of these products in their chosen applications. These training programs are provided free to all our product users.</p> <p>We also take every opportunity to reach out to different LGUs and end-users to conduct information and education campaigns in support of environment-related programs. Part of these information campaigns are product knowledge seminars and demos</p> | <p>Petron takes seriously its commitment to market responsibly by adhering to the highest standards of product advertising and advocacy.</p> <p>Our Marketing Division also takes the lead in producing communications materials to promote responsible driving and road safety.</p> <p>All materials that promote Petron’s products and services in mass media are subjected to review and approval by governing bodies such as the Advertising Board of the Philippines, Ad Standards Council, and the Philippine Association of National Advertisers to ensure that consumer rights are protected.</p> |

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| <p>conducted for tricycle and jeepney operators and drivers on the appropriate use of motorcycle oils, diesel engine oils, engine decarbonizer, among others, to comply with emission limits.</p> <p>Another venue is our pioneering Lakbay Alalay program which started in 1986 to assist motorists trekking to the countryside during the Lenten break. <i>Lakbay Alalay</i> remains as the country's longest-running program that looks after the needs of travelers during high-traffic seasons. The activity provides opportunities to promote Petron's class-leading fuel and oil products and services in our service stations, as well as assistance to motorists such as free car safety check-up, basic automotive repairs, telecommunications support, and medical aid.</p> <p>Internally, Petron Ambassador's #BibilibatBibili sets employee's brand loyalty to a higher level by molding each member of the company's workforce to become a brand ambassador, not only supporting the products but also marketing Petron through positive word of mouth to friends and relatives. Through this program, Petron's reach and presence in various social media widens as more are sharing Petron's advertisements. The program is a collaborative effort of Petron's Research & Development, HR, Marketing and Corporate Affairs.</p> <p><u>Aftermarket support</u> Petron's after-sales support is also unparalleled in the local petroleum industry. We provide aftersales customer visits to our industrial and commercial clients and offer varied technical services to address technical difficulties, operational concerns, compliance to environmental regulations, efficiency enhancements, among others.</p> | |
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Customer privacy

| Disclosure | Quantity | Units |
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| No. of substantiated complaints on customer privacy* | 0 | # |
| No. of complaints addressed | 0 | # |
| No. of customers, users and account holders whose information is used for secondary purposes | 0 | # |

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management Approach |
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| Every day, the actions taken by Petron, our employees, and our partners touch millions of lives. Stakeholder engagement activities occur in virtually every aspect of Petron's operations and business transactions. Our Marketing Department invests in market research | Petron is committed to keeping customer information private and utilize them only in accordance with the reason why it was asked for. This is explicitly stated in the Privacy Statement placed in our website www.petron.com and needs |

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| <p>surveys, not only to gauge how Petron is perceived by the public, but also to get feedback before and after it launches products and initiatives that may impact consumers and the industry.</p> <p>As such, we keep an open line with our customers and stakeholders through various communication platforms. In the process of addressing customer concerns and providing timely feedback, we require specific personal information that we deem vital in being able to best deliver the specific solutions or answers they require. Our Customer Relations Group, along with our Corporate Affairs Department, are on the frontlines of the company’s efforts to receive and manage and resolve customer concerns, serving as a personal information generated from our customers.</p> | <p>to be agreed upon by the viewer prior to accessing the website.</p> <p>“Petron Corporation and its subsidiaries (“PETRON,” “We,” “us” or “our”) respect your privacy and will keep secure and confidential all personal and sensitive information that you may provide to PETRON, and/or those that PETRON may collect from you (“Personal Data”).</p> <p>This privacy statement (“Statement”) provides for the Personal Data we obtain, or which you may provide through this website, www.petron.com (“Website”), and the standards we observe in using, processing, keeping, securing, and disclosing said Personal Data.</p> <p>“By accessing the Website and submitting your Concerns (defined below), or Personal Data through it, you expressly acknowledge that you have read, understood and hereby agree to all of the terms of this Statement and that you provide consent for us to:</p> <ul style="list-style-type: none"> ▪ Process your Personal Data, as provided under applicable laws, regulations, and our policies, for our subsidiaries and affiliates, contractors, service providers, and other authorized third parties’ legitimate purpose/s; ▪ Make your Personal Data available for our subsidiaries and affiliates, contractors, service providers, and other third parties. <p>As such, we have not received any complaints regarding breaches of customer privacy and that there were no incidences of non-compliance with regulations and voluntary codes concerning this topic, which would have resulted in significant fines or penalties.</p> |
| <p>What are the Risk/s Identified?</p> | <p>Management Approach</p> |
| <p>Specific to the Petron website, some content or applications, including advertisements, on the Website are served by third parties, including advertisers, advertising networks and servers, content providers, and application providers. These third parties may use cookies (alone or in conjunction with web beacons or other tracking technologies) to collect information about you when you use our Website. The information they collect may be associated with customers’ Personal Data or they may collect information, including Personal Data, about their online activities over time and across different websites and other online services. They may use this information to provide our customers with interest-based (behavioral) advertising or other targeted content.</p> <p>Petron does not control these third parties’ tracking technologies or how they may be used. In any</p> | <p>Petron’s Data Privacy Policy (approved in May 2017 by the Board of Directors) sets out the principle that the Company will observe transparency, legitimate use and proportionality in the processing of personal data. In compliance with applicable law and regulation, the Company has appointed a Data Privacy Officer.</p> |

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| concerns about an advertisement or other targeted content, Petron directs the customers to the responsible provider. | |
| What are the Opportunity/ies Identified? | Management Approach |
| Customer feedback collected are incorporated in qualitative and quantitative research initiatives which seek to capture the overall service station experience; and customer feedback studies, which seek to profile product users and determine consumer perception of our brands. This information helps us measure our performance as compared to other brands, and gauge if our products and brands are able to meet our consumers' needs. | Petron established a Personal Data Privacy Policy of the Company in May 2017 setting out its principles to observe transparency, legitimate use and proportionality in the processing of personal data. In compliance with applicable law and regulation, the Company has appointed a Data Privacy Officer. |

Data Security

| Disclosure | Quantity | Units |
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| No. of data breaches, including leaks, thefts and losses of data | 0 | # |

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| What is the impact and where does it occur? What is the organization's involvement in the impact? | Management Approach |
| <p>The Company owns, uses or is in the possession of information assets (such as financial information, intellectual property, and employee details), that can be in electronic systems, business applications, networks, and information processing facilities.</p> <p>Employees and officers, depending on the nature of their functions, also have access to various information assets of the Company.</p> <p>As information is one of the most critical assets of Petron, maintaining data security in the company provides protection to this asset. Maintaining the confidentiality, integrity and availability of information enables the company to continuously operate and provide services to our clients.</p> | <ul style="list-style-type: none"> • The Company established its Information Security Steering Committee ("ISSC") comprised of representatives from the Management Information Systems Department, Legal Department, Human Resources Management and Development Department, and Internal Audit Department. The ISSC is tasked to provide oversight on the company's information security programs by enforcing and continually improving information security controls, including the review of the information security management system. • In addition, Petron's Board of Directors approved the Personal Data Privacy Policy of the Company in May 2017 .The policy sets out principles that the Company will adhere to when handling personal data. In compliance with applicable law and regulation, the Company has appointed a Data Privacy Officer. • Petron has also undertaken different initiatives in relation to data security. Foremost among these is the establishment of an Information Security Management System (ISMS), which contains policies, guidelines, standards, and procedures with the objective of maintaining confidentiality, integrity, and availability of |

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| | <p>information and information systems throughout different IT processes. Petron’s ISMS framework is aligned with ISO 27001 and National Institute of Science and Technology (NIST) frameworks, which are international standards on managing information security.</p> |
| <p>What are the Risk/s Identified?</p> | <p>Management Approach</p> |
| <p>A lack of or an insufficient information security management system will expose to risk the confidentiality, integrity, and availability of information assets of the Company and their respective information processing facilities, information processing systems, and associated information assets and/or an accidental or unlawful destruction, loss, or alteration of personal data, including its unauthorized disclosure.</p> | <p>The Company performs risk assessment and risk treatment in planning and implementing activities to meet its information security objectives.</p> <ul style="list-style-type: none"> • Every two years, Petron commissions an Information Security Maturity Assessment (ISMA) to measure the Company’s current information security maturity level. The result of the assessment is used as a baseline to launch a roadmap to further improve the information security posture of the Company. • From time to time, Petron contracts third-party IT security audits to assess the adequacy and effectiveness of general and application controls of specific systems in our infrastructure. The main objective is to provide IT and the business with important insights on internal control gaps and enhancement areas. • Petron embedded an information security training course within the New Employee Orientation facilitated by the Human Resources Department to increase information security awareness for new employees. On a weekly basis, Petron releases information security bulletins and advisories to sustain employee vigilance on IT security. <p>Petron also continuously checks and remediates gaps in its technical controls by conducting periodic vulnerability assessments to internal systems and public-facing websites.</p> |
| <p>What are the Opportunity/ies Identified?</p> | <p>Management Approach</p> |
| <p>Petron can continue to explore cloud-based storage options for its data to ensure data availability in case the primary data storage is compromised. In addition, Petron is exploring the use of new software and tools to further enhance the way it manages access. Lastly, there are opportunities to leverage data analytics and dashboarding capabilities in monitoring security-related events and logs.</p> | <p>As part of the Information Security function, there is a roadmap that is maintained by the Company to continuously enhancing data security. This roadmap is periodically reviewed with the ISSC to ensure that Petron keeps up with the cybersecurity risks and threats that it faces.</p> <p>With the technology environment becoming more complex, Petron is focused on further strengthening visibility and improving timeliness over user and system activities, especially those which pertain to sensitive information. An example of this is our in-flight data classification initiative to catalog and classify information so that</p> |

the Company can apply safeguards based on the sensitivity of the data.

Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

| Key Products and Services | Societal Value / Contribution to UN SDGs | Potential Negative Impact of Contribution | Management Approach to Negative Impact |
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| <ul style="list-style-type: none"> TULONG ARAL NG PETRON | <p>GOAL 1: No Poverty (End Poverty in all its Forms Everywhere)</p> <ul style="list-style-type: none"> Petron’s scholarship programs (Tulong Aral ng Petron and Refinery scholarships) are sending poor but deserving children to school to equip them to become employable. Some 187 Petron scholars are now part of the Petron workforce. Parents of TAP scholars in Rosario, Cavite were also trained in sewing and dressmaking and provided with sewing machines as a means to augment their livelihood. | We do not see a negative impact of this initiative | N/A |
| <ul style="list-style-type: none"> TULONG ARAL NG PETRON | <p>GOAL 2: Zero Hunger End hunger, achieve food security and improved nutrition and promote sustainable agriculture</p> <ul style="list-style-type: none"> Tulong Aral ng Petron’s feeding program has benefitted over 10,000 scholars since 2016. | We do not see a negative impact of this initiative | N/A |
| <ul style="list-style-type: none"> PETRON CLINICS | <p>Goal 3: Good Health and Well-being Ensure healthy lives and promote well-being for all at all ages</p> <ul style="list-style-type: none"> At least 16,107 residents have availed of specialized health services (free medical, laboratory, x- | We do not see a negative impact of this initiative | N/A |

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| <ul style="list-style-type: none"> • LAKBAY ALALAY | <p><i>ray/ultrasound services and medicines) provided by Petron Clinics for its fenceline communities in Pandacan, Manila, Limay, Bataan, and Rosario, Cavite. Beginning in March 2020, however, Petron temporarily suspended clinic operations for the community as part of its Covid-19 safety protocols. These will remain closed until determined – with guidance from the Department of Health -- that they can safely resume operations for the community.</i></p> <ul style="list-style-type: none"> • Petron Corporation’s Lakbay Alalay, the Philippines’ longest-running road assistance project advocates safety on the road and reduce travel-related injuries while providing motorists with a memorable travel experience. | | |
| <ul style="list-style-type: none"> • TULONG ARAL NG PETRON • REFINERY SCHOLARSHIP PROGRAMS | <p>GOAL 4: Quality Education Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.</p> <ul style="list-style-type: none"> • Tulong Aral ng Petron (TAP) has given scholarships from elementary to college to over 17,000 children and youth from its host communities all around the country, with over 8,600 graduates as a result. Four of TAP’s college graduates have been employed in Petron. • PBR college scholarships support the Petron Bataan Refinery’s manpower requirements. This has produced 283 graduates, with 193 hired | <p>We do not see a negative impact of this initiative</p> | <p>N/A</p> |

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| <ul style="list-style-type: none"> • PETRON SCHOOL • BRIGADA ESKWELA | <p>in various positions at the Refinery. Of this number, 86 continue to be employed in Petron.</p> <ul style="list-style-type: none"> • Since 2002, a total of 108 Petron Schools equivalent to 258 classrooms have been built. • Volunteer employees and stakeholders from Petron facilities nationwide have repaired/ refurbished at least 1,600 classrooms since 2007 to benefit over 100,000 students as part of DepEd's <i>Brigada Eskwela</i> National Schools Maintenance Week. | | |
| <ul style="list-style-type: none"> • Project CODy at the Petron Refinery in Limay, Bataan | <p>GOAL 6: Clean Water and Sanitation</p> <ul style="list-style-type: none"> • This is a water footprint initiative for water reduction and reuse while minimizing wastewater treatment expenses. | <p>We do not see a negative impact of this initiative</p> | <p>N/A</p> |
| <ul style="list-style-type: none"> • Support to San Miguel Corporation's "Water For All Program" | <p>GOAL 6: Clean Water and Sanitation</p> <ul style="list-style-type: none"> • Petron aligns its program on water use with San Miguel Corporation's "Water For All Program" that aims to reduce scarce water consumption. • In 2021, Petron attained 13.78% reduction in scarce water consumption versus 2016 baseline data. This is 24.8% higher than the reduction achieved in 2020. A total of 15,294,473.54 m³ of scarce water was saved from its water conservation programs since 2016. The volume saved is equivalent to monthly consumption of 509,816 households. • Petron has further intensified its program on | <p>We do not see a negative impact of this initiative</p> | <p>N/A</p> |

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| | rainwater harvesting. It was able to collect and utilize 13,260 m3 of rainwater in 2021, 82.8% higher than the volume reported in 2020. | | |
| <ul style="list-style-type: none"> • Petron’s 140-MW Refinery Solid Fuel-Fired Boiler (RSFFB) in Limay, Bataan | <p>GOAL 7: Affordable and Clean Energy</p> <ul style="list-style-type: none"> • allows the grid to maximize its supply of power to the energy requirements of the region. It also produces surplus energy – approximately 10 MW – to contribute to the grid. • RSFFB is one of the first in the Philippines to use clean coal technology such as the Circulating Fluidized Bed, which reduces emissions by roughly 95% compared to normal coal plants. | Continued reliance on coal as energy source | <p>Petron’s health, safety, and environment policy commits to protect and preserve the natural environment, and to promoting the health, safety, and security of our people, customers, contractors, and the general public.</p> <p>Petron has invested in the use of the more efficient Circulating Fluidized Bed Technology for its power and steam generation that has contributed in the reduction of air pollutant emissions.</p> |
| | <p>GOAL 9: Industry, Innovation and Infrastructure</p> <ul style="list-style-type: none"> • Generates electrical and steam energy sufficient to sustain the full operations of the Petron Bataan Refinery without taking from the Luzon grid, allowing the grid to maximize its supply of power to the energy requirements of the Philippines’ Central Luzon Region. • Also produces surplus energy (approximately 10 MW) to contribute to the grid. • The RSFFB also utilizes petroleum coke, a by-product of RMP-2, as feedstock for the power plant. Equally important, | Continued reliance on coal as energy source | <p>Petron’s health, safety, and environment policy commits to protect and preserve the natural environment, and to promoting the health, safety, and security of our people, customers, contractors, and the general public.</p> <p>The company has invested in the use of the more efficient Circulating Fluidized Bed Technology for its power and steam generation that has contributed in the reduction of air pollutant emissions.</p> |

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| | <p>the power plant is one of the first in the Philippines to use clean coal technology such as the Circulating Fluidized Bed, which reduces emissions by roughly 95% versus normal coal plants.</p> | | |
| <p>Petron Refinery Master Plan 2 (RMP-2) in Limay, Bataan</p> | <p>GOAL 9: Industry, Innovation and Infrastructure</p> <ul style="list-style-type: none"> RMP 2's increased production capabilities improves the country's supply security and lessen our dependence on higher-costing fuel products. It also increases our capacity to produce more stringent and environment-friendly fuels to help improve the country's air quality. | <p>Increase in water and air emission and waste generation</p> | <p>Implementation of waste prevention, minimization, recycling/reuse programs, where possible, and waste treatment technologies from design stage until operational stage, as well as continuous monitoring of environmental indicators (Materials, Energy, Water, Emissions, Transport, Biodiversity, Products & Services, and Compliance).</p> |
| <p>Petron Environment Summit 2021</p> | <p>GOAL 13: Climate Action</p> <p>Organized and conducted the FIRST ENVIRONMENT SUMMIT of Petron Corporation. The online summit was conducted to coincide with four key environmental celebrations observed in November (Clean Air Month, National Climate Change Consciousness Week, Environmental Awareness Month, and National Day for Youth in Climate Action).</p> <p>The summit had 250 participants from select San Miguel Corporation (SMC) and Petron management executives, managing head and pollution control officers from PBR and terminals, and employees from other units.</p> | <p>We do not see a negative impact of this initiative</p> | <p>N/A</p> |

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| | <p>Major resource persons included Department of Science and Technology Undersecretary and Philippine Institute of Vulcanology and Seismology (Phivolcs) Director Renato Solidum, which highlighted the potential physical impacts of climate change and how to prepare and mitigate its impacts as well as Department of Environment and Natural Resources-Environmental Management Bureau (DENR-EMB) Assistant Director Vizminda Osorio who discussed updates on thrust and directions of EMB on implementation of environment regulations.</p> <p>The whole day session also discussed best practices on environmental management implemented by Petron Malaysia, Petron Bataan Refinery, Operations, REND, and Industrial Trade, together with those of San Miguel Corporation, with focus on its WATER FOR ALL program.</p> | | |
| <p>Petron Terminal EcoWatch program</p> | <p>GOAL 13: Climate Action</p> <ul style="list-style-type: none"> • Builds on and greatly enhances the Industrial EcoWatch Rating System or IERS, an initiative under DENR Administrative Order 2003-36. • Promotes self-regulation among industries for improved environmental compliance and performance through a rating system. • Petron’s Terminal EcoWatch assesses environmental performances in terms of maturity of environmental | <p>We do not see a negative impact of this initiative</p> | <p>N/A</p> |

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| | <p>management, providing higher score for environmental programs that lead to improved key indicators, and even more points for continual improvement.</p> <ul style="list-style-type: none"> • In Year 8 of implementation (2021). The Petron Ecowatch program has matured and has achieved 84.6% increase in environmental management and compliance rating among all Petron terminals nationwide vs. 2014 baseline rating. | | |
| <p>Project Legacy</p> | <p>GOAL 13: Climate Action</p> <p>Through Petron’s Corporate and Technical Services Group (CTSG)-Environment, the company developed the Manual on Philippine Environmental Regulations, a handy but substantial reference for environment laws and policies critical to the oil industry. Intended as a legacy project, this Manual contains six modules that compiled relevant regulatory requirements and customized procedures/ guidelines to address specific regulatory requirements. Each module covers major regulations: Clean Water Act, Clean Air Act, Solid Waste Management Act, Hazardous Waste Management Act, Environmental Impact Assessment, and General Laws.</p> <p>The modules will serve as guide to Petron employees, especially those involved in environmental management and project management.</p> | <p>We do not see a negative impact of this initiative</p> | <p>N/A</p> |

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| | <p>This will help Management arrive at informed decisions with regards to regulatory compliance requirements on environmental management.</p> <p>In 2021, 14 videos were prepared to supplement the Project Legacy Manuals launched in 2020. The videos are self-help instructional material to assist Managing Heads and Pollution Control Officers in preparation of reports and permit applications, and in addressing issues (e.g. <i>Notice of Violations, Land Use Plan</i>). Four sessions were conducted with Operations to cascade the videos.</p> | | |
| Project ACCESS | <p>GOAL 13: Climate Action</p> <p>Initiated and jointly conceptualized with Retail Expansion and Network Development (REND), this aims to establish the compliance level of Petron service stations with environmental regulations and establish a reference database.</p> <p>Two training sessions were conducted by CTSG-Environment to train REND Engineers on regulatory requirements to be monitored. By end 2021, 995 out of 2,593 stations were already assessed on environmental compliance.</p> | We do not see a negative impact of this initiative | N/A |
| Pollution Control Officers (PCO) Training | <p>GOAL 13: Climate Action</p> <ul style="list-style-type: none"> • All operating facilities of Petron are required to have Pollution Control Officers (PCO). • To assist service stations in complying with this requirement, CTESG-Environment conducts a | Conflict with other DENR-recognized PCO Training organizations. | Petron is committed to the continued improvement of its environmental practices across its operations. We see the PCO Training Course as a pivotal environmental management training program that enables |

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| | <p>customized PCO training exclusive for appointed PCOs of Petron Service Stations.</p> <ul style="list-style-type: none"> • In 2021, CTSG-Environment conducted six (6) batches of 40-hr Online Pollution Control Officer Training as a pre-requisite for Pollution Control Officer accreditation. A total of 471 participants from service stations, terminals, and Petron Bataan Refinery were trained. Since the program was launched in 2010, a total of 3,479 participants were already trained. | | <p>us to share our passion for environment preservation and shape the minds of our service station dealers.</p> <p>Through this program, we are able to promote awareness of various environmental laws and local and global environmental issues among stakeholders, among them service station dealers or their representatives, contractors, Petron employees, and local government units.</p> <p>In addition to compliance with environmental regulations, the course was organized to eventually accredit Service Station Managers as certified Pollution Control Officers (PCO) who will be in-charge of monitoring site activities with regard to environmental performance. Through this program, we are able to share our operating and technical experience with our supply chain and external stakeholders.</p> <p>At the same time, we will continue to work with the relevant government agencies to secure their approval to continue conducting the PCO training.</p> |
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| <p>Outstanding Pollution Control Officer and Environmental Initiative Award</p> | <p>GOAL 13: Climate Action</p> <ul style="list-style-type: none"> • This recognition program aims to highlight the role of the Pollution Control Officers (PCOs) in the implementation of Petron’s initiatives on pollution prevention, resource efficiency, compliance with legal requirements, social development program and similar environmental management practices as key approaches for business sustainability for the Company’s competitive advantage. • The program has two parts – a national award for most outstanding PCO and a national award for environmental initiative. The Petron Environment council reviews all nominations for the Outstanding Pollution Control Officer award and all applications for the Environmental Initiative Award. • The program takes into consideration the following: <ul style="list-style-type: none"> • All accredited Pollution Control Officers of Petron Corporation in its Operations Terminals and Refinery • All Pollution Control Officers accredited by DENR-EMB Regional Offices and/or LLDA • Personnel assigned as PCO in the establishment represented for at | <p>We do not see a negative impact of this initiative</p> | <p>N/A</p> |
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| | least one (1) year by January 1, 2022 | | |
| Petron Home Gardening Program-Sow Green | <p>GOAL 13: Climate Action</p> <ul style="list-style-type: none"> • This advocacy initiative aims to spread awareness among Petron employees of sustainable gardening and producing eco-friendly practices at home throughout the duration of the Covid-19 lockdowns. • Home gardening tips are shared twice a week through Petron’s internal web platform (Exchange Admin) and a dedicated Viber Group. • Employees are encouraged to adopt these practices and share ideas and experiences with home gardening during the pandemic to Increase awareness on sustainable gardening and eco-friendly methods on how to grow produce at home | We do not see a negative impact of this initiative | N/A |
| Support to Pawikan Festival as part of the Bataan Integrated Coastal Management (ICM) Program | <p>GOAL 14: Life Below Water</p> <p>Petron continued to support the implementation of the Bataan Integrated Coastal Management Program in 2021. Specifically, we sustained our partnership with the Provincial Government of Bataan in the hosting of the annual Pawikan Festival.</p> <p>Support to the annual Pawikan Festival is centered on the Pawikan Conservation Center in the town of Morong in Bataan, which has long been a site for the nesting of pawikans (<i>Olive Ridleys</i>). Considered as endangered species, these marine turtles have been making Morong a</p> | Potential health risk due to exposure of participants to Covid-19. | This year’s event was again conducted virtually given the continued concerns of Covid. Despite this, our Environmental Forum reached an online audience of at least 2,700 public school students and teachers and DepEd officials from Bataan, who listened to talks given by environmental professionals. |

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| | <p>nesting site. Their presence attests to a healthy environment, as the pawikans thrive only in clean waters, and reflects Petron’s sustainable development efforts in Bataan through the Integrated Coastal Management Program.</p> | | |
| <ul style="list-style-type: none"> • PUNO NG BUHAY • Support to NATIONAL GREENING PROGRAM | <p>GOAL 15: Life on Land</p> <p>Petron is actively pursuing programs aimed at protecting the environment:</p> <ul style="list-style-type: none"> • Through Puno ng Buhay, Petron has adopted a total of 85 hectares for mangroves and bamboo plantation. It has already successfully captured a total of 1,089 tons of carbon from a combined 30 hectares of reforestation sites in Leyte and Roxas provinces. • National Greening Program supports the goal of the National Government to restore the country’s forest cover. Since 2000, volunteers from Petron’s Bataan refinery and Terminal operations nationwide have collectively planted over one million mangrove and tree seedlings. | <p>We do not see a negative impact of this initiative</p> | <p>N/A</p> |
| | <p>GOAL 17: Partnerships to achieve the Goal</p> <p>Strengthen the means of implementation and revitalize the global partnership for sustainable development.</p> <ul style="list-style-type: none"> • Petron is an active member of a number of like-minded organizations such as the Philippine | <p>We do not see a negative impact of this initiative</p> | <p>N/A</p> |

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| | <p>Business for Social Progress (PBSP) and is a founding member of the Philippine Business for the Environment (now the Business for Sustainable Development).</p> <ul style="list-style-type: none"> • Petron Foundation is also active member of the Association of Foundations and the Philippine Council for NGO Certification (PCNC). • Petron has sustained partnership in multi-stakeholder initiatives with various national government agencies such as DOE, DENR DepEd, DSWD, PNP, DOTr, TESDA, etc. | | |
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** None/Not Applicable is not an acceptable answer. For holding companies, the services and products of its subsidiaries may be disclosed.*