BUILT FOR THE FUTURE

The 2021 Annual Report

About the Cover

As the largest oil company in the Philippines, Petron emerges from the global pandemic stronger than ever. The Petron Bataan Refinery stands proud as the country's only remaining refinery, producing fuels that cook our food, power industries, or fill up vehicles for the everyday journeys. We owe our recovery to our resilience and keen foresight, working through changing industry conditions and re-shaping our business for the long run to deliver a bright future for everyone.

This is our 2021 Annual Report.

Our Vision

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

Our Mission

We will achieve our vision by:

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

We are Petron

Petron Corporation is the largest oil company in the Philippines, operating the country's only remaining refinery. Also a leading player in the Malaysian market, we have a combined refining capacity of 268,000 barrels per day, producing a full range of world-class fuels and petrochemicals to fuel the lives of millions of Filipinos and Malaysians.

Here in the Philippines, we are capable of supplying around 40% of the country's total fuel requirements through the operation of our 180,000 barrel-per-day oil refinery in Bataan. Considered one of the most advanced facilities in the region, our refinery processes crude oil into various 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, and agribusiness, among others. Petron also supplies jet fuel at key airports to international and domestic carriers.

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

We source our fuel additives from our blending facility at the Subic Bay Freeport. This gives us the unique capability to formulate additives suited for Philippine driving conditions. Our product leadership also extends to our premium line of engine oils that meet or even exceed global standards. These are formulated, tested, and produced locally at our brand-new Lube Oil Blending Plant in Tondo, Manila, having twice the capacity of our former plant in Pandacan.

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

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

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

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

Message to Stockholders

Dear fellow stockholders,

Two years into the pandemic, the Philippine economy looks like it may be turning a corner, with vaccines having reduced the worst effects of the virus and restrictions having been eased. Demand, in general, has improved, allowing industries to rebound from the pandemic's impact and the consequent aftershocks. This, coupled with our strategy to stabilize the business and provide critical services at a time of difficulty for many, has paved the way for Petron's recovery.

A remarkable recovery

In 2021, we delivered outstanding financial results, coming from the worst year in recent history for the whole industry.

Petron registered consolidated sales volume of 82.24 million barrels, up 5% from the previous year's 78.58 million barrels following the easing of restrictions.

Meanwhile, consolidated revenues from our Philippine and Malaysian operations rose 53% to P437.74 billion from P286 billion a year ago driven by higher demand that pushed global prices to US$80 per barrel. From US$42 per barrel in 2020, Dubai crude averaged nearly US$70 per barrel in 2021, its highest annual average in the last three years.

This, along with OPEC's phased approach to increasing crude supply, allowed refining margins to improve during the year. We were able to take advantage of such market improvement, resuming refining operations in our Petron Bataan Refinery in the second semester of 2021.

Overall, improvements in the industry along with our rigorous financial discipline allowed Petron to realize a net income of P6.14 billion for the full year of 2021, a reversal of our P11.4 billion net loss in 2020.

Keeping the momentum going

The volume recovery that began in the latter part of 2020 continued well into 2021. We delivered significant growth in key market segments as we rolled out demand-generation programs, increased our presence in both traditional and non-traditional platforms, and strengthened our brand equity through relevant products, services, programs, and rewards.

In the Philippines, our retail segment grew 6.4% despite community lockdowns. The company's volumes from industrial accounts recorded a 2% increase as travel restrictions eased and the economy restarted.

Sales of our engine oils and other lubricants produced at our new Lube Oil Blending Plant exhibited the highest growth at 11%, reflecting increasing demand and their robust market performance.

The creation of new accounts and renewal of existing ones across our businesses were also key to our volume recovery. Strong ties with our core customers served us well, even as we tapped into new markets, leveraging the quality of our products and after-sales services.

Commitment at its finest

This year has been a year like no other, but time and again, Petron continues to demonstrate its commitment to the Filipino people.

When typhoon Odette struck parts of Visayas and Mindanao in December 2021, many of our service stations were damaged, yet we ensured sufficient fuel supply in the affected regions.

We built up our product inventory to support industries and government agencies critical in the recovery and clearing efforts. Within a few weeks after the typhoon's landfall, services were restored in virtually all damaged Petron stations. Our Petron Foundation was also there to extend assistance.

It takes a special kind of commitment to step up, adjust and respond to each new challenge, and I salute our employees for being the embodiment of *malasakit* and perseverance.

At the forefront of change

Our commitment to nation-building is reflected in our unyielding support for national laws and regulations that encourage economic growth and responsible industry practices.

Petron is among the staunchest supporters of the government's Fuel Marking Program. Since the program's launch in September 2019, we have consistently led the list of participating oil companies. For our efforts, we were awarded by the Bureau of Customs as one of the country's top taxpayers and importers for 2021.

We also actively supported the passing of the landmark LPG Law. Liquefied Petroleum Gas is a staple product in many Filipino homes and establishments, and we are proud to have played our role in putting in place safety standards to protect our consumers.

As an industry leader, Petron will continue to push for a level playing field in the industry to help boost much-needed government revenues and provide consumers quality products they deserve.

Pursuing growth and progress

Our success in 2021 was as much a result of our recent strategies as our past efforts to strengthen our competitiveness and prepare for the future.

As of this writing, construction on our new and more efficient 184-MW steam generating plant in Bataan is nearing completion. The new facility will do away with the use of fuel oil, allowing the conversion of this feedstock into higher-value fuels. We expect the plant will be operational by the second half of 2022 following testing, synchronization, and pre-commissioning activities.

With the significant improvement in prices of petrochemicals, we resumed operations of our polypropylene plant in early 2022 after a two-year shutdown. This will allow us to leverage on the projected increase in demand for resins brought about by an improving global economy, shift towards online deliveries, and high demand for personal protective equipment.

Despite uncertainties, sustaining the financial resilience of our company has helped ensure that we have the means and capacity to keep growing our business. Strategic investments in service station expansion, refinery enhancements, and supply chain management remain important parts of our roadmap for the future.

Built on solid foundations

As we transition to a post-pandemic era, we recognize that having the right vision, discipline, and resolve is what will bring us greater success. If 2021 was the year we recovered lost ground, the next years will be dedicated to expanding our bases for growth while holding ourselves to even higher standards.

Riding on the momentum we've built, we will continue to strengthen our market leadership, improve efficiencies, and take on projects that will ensure the sustainability of our business and operating model over the long term.

As the Philippines' largest oil company and its only remaining refiner, we believe that our future lies in upholding our commitment to our communities, and in serving our stakeholders efficiently, consistently, and conscientiously.

At Petron, we have many reasons to be grateful. Our operating framework secured our country's petroleum needs during this very difficult period. Profitability is on the upswing and we have recovered significant volumes in key market segments. All this was made possible through the dedication and resilience of our employees, and our desire to do well for our country.

We thank our shareholders, employees, partners, and stakeholders for their unwavering support. Our partnership with you is what fuels us to move forward with confidence and create more value for the people we serve and call our own.

Taos puso po ang pasasalamat namin sa inyong lahat.

Ramon S. Ang
President and Chief Executive Officer

Built for Success

Operational Highlights

Primed for greater growth

As we continued to be our customers' *Kasabay sa Lakbay*, we remained relevant in our approach, innovative with our strategies, and mindful of how we impact their everyday lives and journeys.

In 2021, we further expanded our retail network, opening 21 more service stations in underserved areas. A growing number of our new stations are now built using a modular and panelized construction system. Aside from giving our stations an industrial and minimalist exterior, this provides us with a more efficient and greener way to construct new stations. The new signages and framing design also promote safety by minimizing risks and damages to the station during typhoons and other calamities.

Contributing to our group-wide efforts to lower energy consumption, several of our stations were fitted with solar panels, partially supplying the stations' electricity requirements. We have likewise shifted to using LED lighting fixtures in more and more of our stations since 2014. Both programs are continuously expanding to make our around 2,000-strong service station network more environment friendly.

We worked on making our products even more accessible for added convenience. Our Lube products, bannered by our top-selling **Rev X**, **Blaze Racing**, and **Sprint 4T Motorcycle Oil**, maintained a strong presence in our service stations, non-traditional outlets, and on popular online platforms. This is further complemented by the establishment of more outlets of our automotive car care brand, **Car Care Center (CCC)** and its scaled-down version **Car Care Center Express (CCCE)**.

Our LPG business was highlighted by the launch of our new **Petron Gasul Elite Composite Cylinder**—a new type of container that is superior to regular steel cylinders. For many generations, Filipino homes have relied on Petron Gasul because of its safety, quality, and authenticity. The new Petron Gasul Elite sets the bar even higher by introducing the most significant enhancement in LPG packaging since the 1970's.

Creating more value for our customers was one area we worked on strengthening further. We launched our revitalized **Petron Value Card (PVC)** mobile app with enhanced features and functionalities so customers can enjoy the full benefits of the PVC loyalty program.

We also remained committed to helping our customers navigate the pandemic. In support of the government's COVID-19 vaccination drive, we rewarded vaccinated motorists with outright cash discounts on their fuel purchases through the *Panalo Bakunado* promo. A number of other promos for our fuel, lubes, and LPG trades were also created to promote a richer and more enticing experience for Petron users.

To further boost our non-fuel business, we added new **Treats** convenience stores and welcomed more restaurants, specialty shops, and service providers in our stations.

Partnerships with other leading brands also allowed us to tap into new markets and promote the superior qualities of our products. In 2021, Petron extended its more than two-decade long winning streak at the Readers Digest Trusted Brand Awards, once again winning Gold in the Petrol Station category. This distinction concretizes the high regard of Filipino consumers for Petron in terms of trustworthiness, credible image, quality, value, understanding of customer needs, and innovativeness.

The new Petron Gasul Elite Composite Cylinder, a new type of container that is superior to regular steel cylinders.

The all-new Petron Value Card (PVC) mobile app has enhanced features and functionalities.

Petron Bataan Refinery: Standing strong, surpassing all

The Petron Bataan Refinery braved a tough 2020. But 2021 was a different story. The country's only remaining refinery resumed operations and continued to undergo changes that will transform it into its most efficient and sustainable version yet.

As always, we focused on optimizing our refinery assets and reducing energy consumption in our process units. Since 2019, we started using Hydrotreated Heavy Coker Gas Oil (HHCGO) instead of the more expensive Low Sulfur Fuel Oil (LSFO) as our refinery fuel. We pursued our batchwise operation of our Spent Caustic Treater (SCT), which is used to remove sulfur and other compounds from crude oil, to allow for maximum utilization and therefore reduce gas and power consumption. Aside from lessening our energy consumption, both also yielded significant savings for the company.

Our crude diversification program, that aims to widen and diversify the types of crude oil processed in the refinery, continued. We evaluated several crudes to determine the mix that will yield the best margins, considering as well operational parameters with respect to the crude quality. This has provided us more options to optimize production and resulting margins.

The Refinery has mechanisms in place to keep its environmental impact as low as possible. Our Refinery Master Plan Phase-2 (RMP-2), still our biggest investment in the company to date, is equipped with the latest technology to reduce fresh and groundwater consumption as well as wastewater discharge.

Our desalination plant (pictured here), which directly sources salt water from the sea and processes this into consumable water, supplied 21% of the Refinery's water requirement in 2021 to prevent groundwater depletion and saltwater intrusion.

Furthermore, a portion of the water used by PBR comes from recycled water. In order to limit its use of ground or freshwater, the Refinery uses stripped sour water recovered from its operations at a certain quantity.

Our new steam generating plant, RSFFB Phase 3, will be completed in 2022. This involves additional state of the art Circulating Fluidized Bed (CFB) boilers which will allow us to more efficiently generate steam and power for the Refinery without taking from the Luzon grid.

Meeting the challenges with operational excellence

The strength and resilience of our logistical framework allowed us to reach new milestones and provide a steady supply of fuel amid barriers and restrictions.

Despite the extensive damage brought on by Typhoon Odette, we ensured sufficient fuel inventory in the affected regions while working double-time to repair and safely re-open a number of damaged service stations in hard-hit areas.

Full operations in all our import facilities and terminals in Visayas and Mindanao were restored immediately after the typhoon's onslaught. We served the fuel needs of key government agencies and critical installations like hospitals, power plants, water utilities and transport, and airports, among others.

Maintaining the integrity and reliability of our facilities, all of which are Integrated Management System-certified, is crucial to ensuring business continuity. For Petron, this includes repairing damaged tanks, inspecting receiving lines, keeping equipment in proper working condition, and rehabilitating our facilities to make sure that every aspect of our supply chain is in its best shape.

Petron was committed to serving government agencies that are crucial in recovery and clearing efforts in areas hit by Odette.

We achieved a 96.4% nationwide delivery fulfillment performance in 2021. Trainings for drivers and haulers were continuously conducted to properly equip them for safe and proper deliveries. These, coupled with competency build-up trainings, shows that we put importance on investing in our people and their safety.

To support the increase in demand, upgrades on our existing facilities and commissioning of new projects continued. In Davao, we completed the construction of an additional storage tank at the local airport. Some tanks in other areas were converted to increase storage capacity for high-demand products.

Improvements were made on LPG equipment like scales and filling machines at our terminals in Legazpi, Tagoloan, and Mandaue.

As a testament to our commitment to safety, Petron's Terminal Operations reached a milestone 103 million safe man-hours. Six of our terminals broke safety records, and 19 received Safety Seal Certificates for complying with the requirements of several national government agencies.

Terminal personnel undergoing safety training

Our terminal personnel undergo emergency response training to help protect not only our facilities but also our surrounding communities. Last year, our Roxas Terminal helped extinguish a fire in a nearby barangay, while our Zamboanga, Ormoc, and Tagoloan Terminals assisted in oil spill recovery operations. Our terminals in Poro, Tagoloan, and Iloilo were commended by the LGU for their support and assistance to the community.

Our Eco-Watch program, where Petron facilities undergo rigorous auditing and assessments for air quality, wastewater, and solid waste management, helped keep our value chain clean, efficient, and fully compliant with environmental regulations. On its 8th year of implementation, the program achieved an 84.6% increase in environmental management and compliance rating among all Petron terminals from their 2014 baseline rating.

Resourcefulness in the face of a pandemic

The pandemic has brought out a deeper desire in our terminals to contribute to Petron's environmental goals, coming up with projects that underline their resourcefulness and teamwork.

Our engineers in our Terminal in San Fernando, Pampanga built their own rainwater harvesting facility and designed a hydroponics greenhouse using resources within their reach.

"We do not have packaged products in drums to be used as rain harvesters. And our tank farm is constructed below natural ground level which makes it inaccessible. This challenged us to think of engineering solutions to optimize available rainwater," shared Terminal Engineer Mitchelle Hans Chavez.

A group of engineers in the facility came up with the idea to design a water sump or underground rain harvester made of concrete. Here, rainwater passes through the drainage canal where it is collected, and pumped out for irrigation and cylinder washing.

Meanwhile, movement restrictions inspired the terminal to start a vegetable garden through hydroponics, a method of growing plants without soil. From germinating its seedlings to creating a separate rainwater harvester, the terminal now grows its own tomatoes, lettuce, bell peppers, and other fresh and healthy ingredients. Engr. Chavez encourages his staff to take the lead in pursuing and continuing these kinds of projects, saying effective communication is key.

The City Government and Community Environment and Natural Resources Office recognized their efforts. The team was awarded as one of the city's two Most Sustainable and Eco-Friendly Establishments.

The Terminal plans to carry on with these initiatives and inspire other facilities to follow in their footsteps. Their story is a testament that no effort is too small when it comes to the bigger purpose of caring for the environment.

We operate an 88,000 barrel-per-day refinery in Port Dickson, Malaysia.

Growing stronger and better in Malaysia

Petron Malaysia's performance in 2021 was equally marked by growth and progress. We focused on completing key projects, increasing operational efficiencies, solidifying our brand, and expanding our distribution network in preparation for the future.

We continued to expand our presence in the country. 18 more service stations were added to our retail network to bring our total number to about 740 service stations nationwide.

Similar to the Philippines, the new service stations feature the new industrial design promoting natural lighting and ventilation. This incorporates a rainwater harvesting system which reduces consumption of treated water for non-potable use.

Ensuring that our products meet or even exceed standards, we rolled out our **Diesel Max Euro 5** to replace the previous Euro 2 standard diesel in keeping with the government's drive to improve air quality by lowering Sulphur content in diesel products.

Our two largest investments so far at Port Dickson Refinery were successfully completed—the new Diesel Hydrotreater and Marine Import Facility 2.

We collaborated with companies like Food Panda for Treats store items to be delivered to our customers' doorsteps. Our partnership with SOCAR, a car rental service in Malaysia, has added 60 Petron stations to its growing list of locations.

We showcased Malaysian-made items on our Treats shelves to provide an opportunity for rural entrepreneurs to grow and raise more awareness for their businesses. The company also teamed up with Tourism Malaysia to help promote local tourism with the resurgence of interstate travel.

Our two largest investments so far at Port Dickson Refinery (PDR) were successfully completed. With the new Diesel Hydrotreater (DHT), PDR can now process higher Sulphur crude and produce Euro 5 diesel fuel. The Marine Import Facility 2 (MIF2), which expanded our product storage capacity by half a million barrels, enables us to cater to higher demand and optimize freight costs.

The company's Lumut Palm Oil Methyl Ester Plant which provides Palm Methyl Esther for our biodiesel products completed its capacity expansion last January 2022. The plant was named National Runner-up in the Renewal Energy Award by the Ministry of Energy and Natural Resources, acknowledging our end-to-end approach in producing sustainable and environmental-friendly biodiesel products.

Our terminals in Port Dickson, Bagan Luar, Kuantan and Pasir Gudang also sustained their Integrated Management System certifications on environmental management, occupational health and safety management, and quality management.

Doing our best work through an inspired workforce

Our employees remained an essential part of our recovery journey. They epitomize our values—hard work, excellence, dedication, unity, and *malasakit*—and help us realize our goals in the company.

We continued to provide our teams with the support they need in order to thrive amid an ongoing pandemic. Petron employees as well as their dependents and extended household members were given priority access to COVID-19 vaccines with the help of San Miguel Corporation and partner LGUs. Nearly all or 99.7% of our employees have made it their personal mission to get vaccinated, bringing us a step closer to achieving herd immunity in the country.

Safety measures like our org-wide health monitoring system, thermal scanners, hand washing stations, free periodic testing, shuttle services, and face masks, face shields, and alcohol remained widely available to keep our employees protected from the virus in the workplace.

As we continued to adopt new ways of working and communicating, trainings were conducted online to improve the knowledge and skills of our employees on different topics. Our mentoring and coaching programs targeting high potential candidates remained part of our core initiatives.

More than ever, we are reminded that our people are our most cherished assets. Prioritizing their wellbeing, our employees can teleconsult with our in-house occupational doctor and mental health experts as part of their medical and health benefits.

2021 Social Performance

Labor

2,037
Number of employees (Philippines)

10.2%
attrition rate, lower than the industry's 15%

100%
of employees receive regular performance reviews

Human Rights

0 Incidence of child labor in any aspect of operations

0 Incidence of discrimination in any aspect of operations

0 Operations and Suppliers identified in which the right to exercise freedom of association and collective bargaining may be at risk

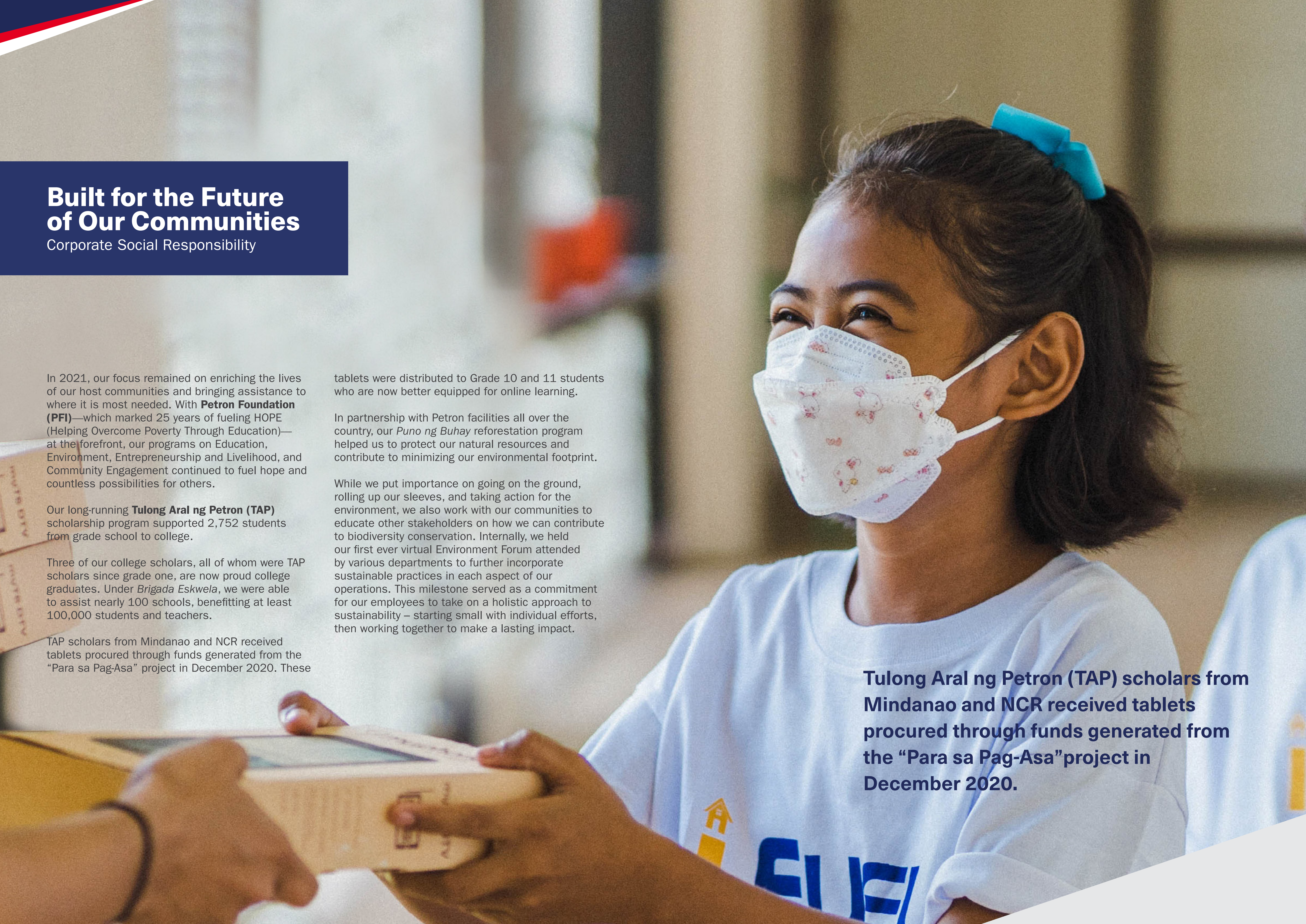
Health and Safety

2.5 million
Integrated safe man-hours for PBR

103 million
Accumulated safe man-hours for Operations

Product Responsibility

Over 28,000
Feedback and inquiries received and handled by Petron Customer Relations Group and Sales Support Services



Built for the Future of Our Communities

Corporate Social Responsibility

In 2021, our focus remained on enriching the lives of our host communities and bringing assistance to where it is most needed. With **Petron Foundation (PFI)**—which marked 25 years of fueling HOPE (Helping Overcome Poverty Through Education)—at the forefront, our programs on Education, Environment, Entrepreneurship and Livelihood, and Community Engagement continued to fuel hope and countless possibilities for others.

Our long-running **Tulong Aral ng Petron (TAP)** scholarship program supported 2,752 students from grade school to college.

Three of our college scholars, all of whom were TAP scholars since grade one, are now proud college graduates. Under *Brigada Eskwela*, we were able to assist nearly 100 schools, benefitting at least 100,000 students and teachers.

TAP scholars from Mindanao and NCR received tablets procured through funds generated from the “Para sa Pag-Asa” project in December 2020. These tablets were distributed to Grade 10 and 11 students who are now better equipped for online learning.

In partnership with Petron facilities all over the country, our *Puno ng Buhay* reforestation program helped us to protect our natural resources and contribute to minimizing our environmental footprint.

While we put importance on going on the ground, rolling up our sleeves, and taking action for the environment, we also work with our communities to educate other stakeholders on how we can contribute to biodiversity conservation. Internally, we held our first ever virtual Environment Forum attended by various departments to further incorporate sustainable practices in each aspect of our operations. This milestone served as a commitment for our employees to take on a holistic approach to sustainability – starting small with individual efforts, then working together to make a lasting impact.

Tulong Aral ng Petron (TAP) scholars from Mindanao and NCR received tablets procured through funds generated from the “Para sa Pag-Asa”project in December 2020.

In continuing to fuel the fight against COVID-19, the *Ligtas Lahat* Vaccination Site in Limay, Bataan was launched in partnership with San Miguel Corporation (SMC), the Provincial Government of Bataan, and the Local Government of Limay. Through the vaccination program, where Petron served as the project lead, more than 5,000 Bataan-based SMC and Petron employees and extended workforce, as well as Limay residents received life-saving vaccines.

The Petron Rosario Clinic, despite still being closed to the public, was opened for the LGU to perform elective surgery every weekend to free up space in the limited government health facilities in the municipality.

In the wake of Typhoon Odette, PFI was among those that helped our communities rise from the devastation. A total of 3,700 families—2,500 in Mandaue and 1,200 in Mactan in Cebu province—were provided food packs through the efforts of our Visayas Operations and San Miguel Foundation.

The pandemic has changed the way people travel. Continuing its more than three decades of service to Filipino motorists, we resumed with our Petron *Lakbay Alalay*—the country's longest running motorist assistance program—on-ground activities for the Undas or All Saints' Day weekend, with our stations serving as safe stopovers in high-traffic areas. Strategically located pit stops offered RT-PCR testing, free car safety checks, free medical assistance, clean rest rooms, and freebies from brand partners.

Our employees continued to fuel our mission through their active participation in the **Volunteers In Action (VIA)** program. They channeled their resources in kind to support victims of supertyphoon Odette, as well as the pandemic. Our **Petron Dealers Association (PETDA)** also launched their own fundraising drive for service station personnel affected by the typhoon, raising over 900 thousand pesos.

Volunteerism also remained thelifeblood of our CSR efforts in **Petron Malaysia**. With severe floods devastating Selangor and Pahang, our employees activated a donation drive to send relief efforts to the affected areas. Donations such as clothes, blankets, and towels, as well as cash came pouring in as soon as this was announced.

The Ligtas Lahat vaccination site in Bataan was established for employees and eligible residents

Working with the LGU helped us get a better sense of the situation in Odette-affected areas.

In a show of solidarity with our affected dealers, employee-volunteers, and other members of the Petron Malaysia family, initiated clean-up efforts in flooded areas to get our stations up and running again.

To help sectors struggling to survive the pandemic's impact, over 180 service station dealers organized community tables offering fresh ingredients and other basic items. Some dealers supported local farmers by sourcing fresh fruits and vegetables for donation. We launched a donation drive that allowed PMiles card members to donate points to B40 underprivileged families.

Some 1,100 families from Johor, Negeri Sembilan, Pahang, Perak, Kelantan, Penang, and Sabah received food boxes containing a one-month supply of rice, cooking oil, flour, sugar, canned food, and personal items. Meanwhile, more than 400 families in the Central, East Coast, and Northern Region and 120 business owners from Kubang Kerian, Kelantan received Petron Gasul LPG cylinders. Petron Malaysia also donated 576 bottles of Petron Rider 4T Motorcycle Oils to delivery riders.

Aside from helping those affected by the pandemic and disasters that struck the country, Petron Malaysia dedicated itself to upholding our other programs on education, environment, road safety, livelihood, among others, reflecting our shared commitment to empowering our fenceline communities.

As we celebrate the progress we've made, we commit to sharing our success with our communities by fueling their hopes and dreams. Our journey to recovery continues and we dedicate each step along the way to building a better future for all.

An agent for positive change

We often think about economic recovery and the resumption of basic pre-pandemic activities when we talk about overcoming the impacts of the previous year. As much as we value the business side of our operations, here at Petron, we work tirelessly not only for financial recovery but also for the well-being of our communities and the surrounding habitat.

We maintained 100% volunteer participation for all terminals for our Earth Month, Environment Month, and International Coastal Cleanup Day activities. Apart from caring for the members of our communities with consistent pandemic relief efforts, we have also been steady in enriching the environment they call home. These projects are held annually and persisted throughout lockdown periods with our volunteers following strict health and safety protocols.

Since 2000, Petron employees and our fenceline communities have planted over one million trees and mangroves. Adding to this effort, Petron has also adopted over thirty hectares of mangrove areas in Visayas under its *Puno ng Buhay* program.

For 2022, an additional six hectares of land for reforestation will be adopted and planted with some 15,000 mangrove propagules in various areas.

We also cultivated an internal circle of plant enthusiasts called **Sow Green Community** where employees share their knowledge on basic home and urban gardening to encourage a greener, more sustainable lifestyle.

For Petron, success is measured not only in terms of how well we do business and how well we serve our communities.

Success is also found in how fruitful our efforts are in making a lasting positive impact through numerous projects that benefit the environment.

We are agents for positive change and true to our mission, we will always use our abilities to be of service to our people and our planet.

Corporate Social Responsibility Highlights

EDUCATION

Over 17,000
TAP scholars (since Year 1)

Around 50,000
Public school students nationwide supported through Brigada Eskwela 2021

10,291
Teachers, school heads, and administrators benefitted from Teacher Training (since 2002)

2,752
Tulong Aral ng Petron (TAP) scholars (elementary to college) for SY 2020-2021

79
Public schools equivalent to 564 classrooms nationwide supported through Brigada Eskwela 2021

690
TAP graduates (elementary to college)

256
Petron Schools classrooms built (since 2002)

COMMUNITY

3,998
Beneficiaries of Petron's Livelihood Loan Assistance Program (since 2011)

196 Scholars hired by Petron, including BPSU (Bataan Peninsula State University) scholars hired as apprentices or cadets

100%
of Petron terminals undertaking social development and initiatives

84
Petron engineering scholars currently employed in the Petron Bataan Refinery for regular positions

ENVIRONMENT

Over 1 million
trees and mangroves planted since 2000

100%
volunteer participation in Earth Month, Environment Month, and International Coastal Clean Up Day

2,700 Public school students and teachers reached through the Petron-sponsored Environment Forum for Pawikan Festival 2021

1,089 tons
of Co2 captured

30 hectares
of adopted mangrove areas in the Visayas

COVID-19 RESPONSE

Nearly P600K
Employee contributions for Petron's extended workforce

3,700 Food Packs
for host communities in Odette-affected areas

More than 5,000
SMC employees, third party service personnel, and endorsed individuals, as well as Limay residents vaccinated at Ligtas Lahat Bataan Vaccination Site

282
Tablets for TAP scholars in NCR and Mindanao

Board of Directors

Ramon S. Ang
President and CEO

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 the Company.

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 the Company.

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 Company-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 the Company, SMC and Company-affiliate Top Frontier are also listed with the PSE.

Estelito P. Mendoza

Filipino, born 1930, served as a Director of the Company from 1974 to 1986; thereafter, since January 8, 2009. He is a member of the Corporate Governance Committee and the Audit Committee. He is likewise a member of the Board of Directors of SMC, and Philippine National Bank ("PNB"). He has now been engaged in the practice of law for more than 60 years, and presently under the firm name Estelito P. Mendoza and Associates. He has been consistently listed for several years as a "Leading Individual in Dispute Resolution" among lawyers in the Philippines in the following directories/journals: "The Asia Legal 500", "Chambers of Asia" and "Which Lawyer?" yearbooks. He 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 the Company, SMC and PNB 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 the Company, Company-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 the Company.

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 the Company.

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 7th place in the bar examinations.

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

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 the Company.

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, Company-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 the Company, 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 the Company, 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.

Built for the Future of the Company

Corporate Governance

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

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

Corporate Governance Manual

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

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

Petron is in material compliance with the Company Corporate Governance Manual.

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

Pursuant to the Company Corporate Governance Manual, in 2021, the Board of Directors appointed Atty. Joel Angelo C. Cruz, Vice President – Office of the General Counsel and Corporate Secretary ("OGCCS"), as the Compliance Officer tasked to monitor compliance with the Company Corporate Governance Manual and applicable laws, rules and regulations. Under the Company Corporate Governance Manual, the Compliance Officer directly reports to the Chairperson of the Board of Directors and has direct access to the Board of Directors.

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

Shareholders' Rights

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

Voting Rights of Common and Preferred Shares

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

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

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

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

Right to Information of Shareholders

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

In 2021, the notice, agenda, and the QR Code linked to the definitive information statement posted on the company website were published online and in print in the Philippine Daily Inquirer and The Philippine Star on April 16, and 17, 2021, with the second publication completed 32 days before the meeting. The rationale for each agenda item was explained in the definitive information statement.

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

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

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

Right to Dividends

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

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

As of December 31, 2021, the outstanding capital stock of the Company was comprised of 9,375,104,497 common shares; 13,403,000 Series 3A preferred shares; and 6,596,900 Series 3B preferred shares. The Series 2B preferred shares issued in 2014 were redeemed on November 3, 2021.

The dividends for the Series 2A and Series 2B preferred shares issued by the Company in 2014 were fixed at the rate of 6.30% per annum and 6.8583% per annum, respectively, calculated in reference to the offer price of P1,000 per share on a 30/360-day basis and were paid quarterly in arrears, whenever approved by the Board of Directors. From the listing of the Series 2 preferred shares in November 2014 until their complete redemption in November 2021, cash dividends were paid out in February, May, August and November. The Series 2A preferred shares and the Series 2B preferred shares were redeemed by the Company on November 4, 2019 (since the fifth anniversary of the listing date, November 3, 2019, fell on a non-business day) and November 3, 2021, respectively.

The Series 3 preferred shares were issued by the Company on June 25, 2019. The dividend on the Series 3A preferred shares is at the fixed rate of 6.8713% per annum and on the Series 3B preferred shares at the fixed rate of 7.1383% per annum, based on the offer price of P1,000.00 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Cash dividends have been paid out on the Series 3 preferred shares since their issuance and listing in June 2019.

Common Share Dividend Payments

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

On March 10, 2020, a cash dividend of P0.10 per common share was declared, which was paid out on April 8, 2020. The stockholders who had enrolled in the Cash Dividend Direct Credit Program of the Company received their cash dividends via direct deposit to their nominated bank account on the pay-out date. The rest of the stockholders who receive their cash dividends through checks received the checks as soon as courier delivery was available when business operations returned to normal and the government-declared enhanced community quarantine that restricted movement in Luzon was lifted.

Preferred Share Dividend Payments

The cash dividends declared in 2021 for the preferred shares are discussed below.

Series 2B Preferred Shares

Cash dividends of P17.14575 per Series 2B Preferred Share were declared by the Board of Directors for the following periods and with the following details, until the redemption of the Series 2B Preferred Shares on November 3, 2021: (i) on March 9, 2021, for the second quarter of 2021, with a record date of April 7, 2021 and a pay-out date of May 3, 2021; (ii) on May 4, 2021, for the third quarter of 2021, with a record date of July 8, 2021 and a pay-out date of August 3, 2021; and (iii) on August 3, 2021, fourth quarter of 2021, with a record date of October 7, 2021 and a pay-out date of November 3, 2021.

Series 3A Preferred Shares

Cash dividends of P17.17825 per Series 3A Preferred Share were declared by the Board of Directors for the following periods and with the following details: (i) on March 9, 2021, for the second quarter of 2021, with a record date of June 2, 2021 and a pay-out date of June 25, 2021; (ii) on May 4, 2021, 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); (iii) on August 3, 2021, 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; and (iv) on November 9, 2021, for the first and second quarters 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).

Series 3B Preferred Shares

Cash dividends of P17.84575 per Series 3B Preferred Share were declared by the Board of Directors for the following periods and with the following details: (i) on March 9, 2021, for the second quarter of 2021, with a record date of June 2, 2021 and a pay-out date of June 25, 2021; (ii) on May 4, 2021, 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); (iii) on August 3, 2021, 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); and (iv) on November 9, 2021, for the first and second quarters 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).

Appraisal Right

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

Rights of Minority Shareholders

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

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

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

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

Due to the government-mandated COVID-19 safety protocols, the Company did not hold a physical annual stockholders' meeting in 2021 and instead conducted the meeting through livestreaming. The procedure and further details for attending and voting the meeting through remote communication (including the requirements for the submission of ballots and proxies) were discussed in the definitive information statement released for the meeting.

All the other past physical meetings of the stockholders before 2020 were held in the principal place of business of the Company or any location within Metro Manila, Philippines as may be designated by the Board of Directors. The annual stockholders' meeting of the Company in 2019 was held at the Edsa Shangri-La Manila, Ortigas Centre, Mandaluyong City, Metro Manila and in 2018 at the Valle Verde Country Club in Pasig City, Metro Manila.

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

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

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

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

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

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

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

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

The stockholders are allowed to ask and raise to Management questions or concerns at the open forum during each annual meeting of the stockholders. In 2021, a dedicated email address was created by the Company to which the shareholders could send their questions and/or comments prior to or during the meeting. Questions and comments could have also been written in the space provided in the sample ballot/proxy form.

Board of Directors

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

Responsibility, Duties and Functions

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

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

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

Conflict of Interest and Abstention from Voting in Case of Conflict

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

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

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

Multiple Board Seats

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

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

Composition and Diversity of Background and Skills

The Board of Directors is composed of 15 members (with three (3) independent directors in 2020-2021) who are elected from the list of nominees short-listed by the Corporate Governance Committee. The Corporate Governance Committee determines whether the nominees have all the qualifications and none of the disqualifications, as well as the qualities that will enable the Board of Directors to fulfill its responsibilities and duties, including the pursuit of the Company's corporate strategies. The directors are elected annually at the stockholders' meeting and hold the position until their successors have been duly elected and qualified pursuant to the Company's by-laws.

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

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

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

The membership of the Board of Directors is a combination of executive and non-executive directors (who included the three (3) independent directors as of 2021) in order that no director or small group of directors can dominate the decision-making process. The non-executive directors possess such qualifications and stature that enable them to effectively participate in the deliberations of the Board of Directors. The diverse and varied skills, background and expertise of the directors ensure that matters that come before the Board of Directors are extensively discussed and evaluated.

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

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

Meetings and Seminars Attended

In 2021, the Board of Directors had six (6) meetings held on February 16, March 8, May 4, May 18, August 3, and November 9. Except for one director who attended five (5) out of the six (6) board meetings held in 2021(equal to 83% of the number of meetings held), all the other of directors attended all the board meetings held in 2021 during the year and, where applicable, their respective terms.

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

In keeping abreast of the latest best practices in corporate governance and complying with applicable legal requirements, including SEC Memorandum Circular No. 13 (Series of 2013), all the directors of the Company attended a corporate governance seminar in 2021 conducted by providers duly accredited by the SEC.

The attendance of the directors at the meetings and corporate governance seminar held in 2021 is 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
Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	✓	✓	✓	✓	✓
Estelito P. Mendoza	✓	✓	▼	✓	✓	✓	✓	✓
Jose P. de Jesus	✓	✓	✓	✓	✓	✓	✓	✓
Ron W. Haddock	✓	✓	✓	✓	✓	✓	✓	✓
Mirzan Mahathir	✓	✓	✓	✓	✓	✓	✓	✓
Aurora T. Calderon	✓	✓	✓	✓	✓	✓	✓	✓
Francis H. Jardeleza	✓	✓	✓	✓	✓	✓	✓	✓
Virgilio S. Jacinto	✓	✓	✓	✓	✓	✓	✓	✓
Nelly Favis Villafuerte	✓	✓	✓	✓	✓	✓	✓	✓
Horacio C. Ramos	✓	✓	✓	✓	✓	✓	✓	✓
John Paul L. Ang*	N/A	N/A	✓	✓	✓	✓	✓	✓
Artemio V. Pangilinan	✓	✓	✓	✓	✓	✓	✓	✓
Margarito B. Teves	✓	✓	✓	✓	✓	✓	✓	✓
Carlos Jericho L. Petilla	✓	✓	✓	✓	✓	✓	✓	✓

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

Independent Directors

In 2021, the Company had three (3) independent directors in its Board of Directors, namely, former Supreme Court Chief Justice Artemio V. Panganiban, Mr. Margarito B. Teves, and Mr. Carlos Jericho L. Petilla.

Mr. Teves served as the Lead Independent Director.

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

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

The Chairperson; the President and Chief Executive Officer

Mr. Ramon S. Ang, the President and CEO Chief Executive Officer of the Company, acted as the Chairman of the meetings of the Board of Directors in accordance with the by-laws of the Company.

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

Board Committees

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

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

Executive Committee

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

In 2021, the Executive Committee was chaired by Mr. Ramon S. Ang, with Ms. Aurora T. Calderon and Lubin B. Nepomuceno as members. Mr. John Paul Ang and Atty. Virgilio S. Jacinto were 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

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.

In 2021, the Audit Committee was chaired by Independent Directors Mr. Margarito B. Teves, with Independent Director former Chief Justice Artemio V. Panganiban and Carlos Jericho L. Petilla, Atty. Estelito P. Mendoza, and Ms. Aurora T. Calderon as members. Mr. Ferdinand K. Constantino acted as advisor to the committee.

The Audit Committee held four (4) meetings on March 9, May 4, August 3, and November 9, 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

Corporate Governance Committee

The Corporate Governance Committee is composed of at least three (3) independent directors as members. The Chairperson of the committee is an independent director.

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

Until May 18, 2021 (the date of the 2021 organizational board meeting), the Corporate Governance Committee was chaired by Independent Director Mr. Margarito B. Teves, with Independent Director former Chief Justice Artemio V. Panganiban, Atty. Estelito P. Mendoza, and Atty. Virgilio S. Jacinto as members. From May 18, 2021, the Corporate Governance Committee was 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 on March 9 and May 4, 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

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.

In 2021, the Risk Oversight Committee was chaired by Independent Director Mr. Carlos Jericho L Petilla, with Independent Director Mr. Margarito B. Teves and Ms. Aurora T. Calderon as members. The Risk Oversight Committee did not hold meetings in 2021.

Related Party Transaction Committee

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

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

Until May 18, 2021 (the date of the 2021 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, 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)	▾	Not yet 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

Annual Assessment of Board, Committee and Individual Directors Performance

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

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

All the 15 directors accomplished the annual self-assessment for 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.

External Audit

R.G. Manabat & Co./KPMG ("KPMG") was the independent auditor of the Company for year 2020-2021. KPMG was first appointed in 2010 and re-appointed yearly upon the review by the Audit Committee and recommendation by the Board of Directors. The partner of KPMG who led the audit of the Company for its 2020 financial statements was first appointed in 2015.

The Company Corporate Governance Manual requires the external auditor to observe and enable an environment of good corporate governance as reflected in the financial records and reports of the Company, undertake an independent audit, and provide objective assurance on the manner by which the financial statements are prepared and presented to the shareholders.
Duly authorized representatives of KPMG are expected to attend the Company's annual stockholders' meetings to respond to appropriate questions concerning the financial statements of the Company. KPMG auditors are also given the opportunity to make a representation or statement in case they decide to do so.

As in the previous years, representatives of KPMG attended the annual stockholders' meeting held on May 18, 2021.

Internal Audit

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

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

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

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

Disclosure System

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

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

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

Stakeholder Relations

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

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

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

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

Code of Conduct and Ethical Business Policy

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

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

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

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

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

Anti-Bribery and Anti-Corruption

The Company Corporate Governance Manual embodies the company policy against corrupt practices and the company commitment to do business with integrity by avoiding corruption and bribery of all kinds and by observing all applicable anti-bribery and anti-corruption laws in every jurisdiction in which it does business. The Code of Conduct and Ethical Business Policy also specifically prohibits bribery and any solicitation, receipt, offer or making of any illegal payments, favors, donations or comparable gifts which are intended to obtain business or uncompetitive favors. The said acts are also punished under Company Rules and Regulations on Discipline with penalties ranging from light suspension to dismissal.

Conflict of Interest

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

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

Whistle-blowing and Non-Retaliation Policy

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

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

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

Policy on Securities Dealing

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

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

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

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

In 2021, the OGCCS, headed by Atty. Cruz, the Compliance Officer of the Company, periodically releases memoranda relating to the corporate governance policies of the Company, updates to corporate governance practices, filing obligations in respect of dealings in shares of the Company, and applicable blackout periods.

Personal Data Privacy Policy

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

Policy on Related Party Transactions

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

On 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.

Financial Highlights

Amounts in Million Pesos, except earnings (loss) per share and sales volume data

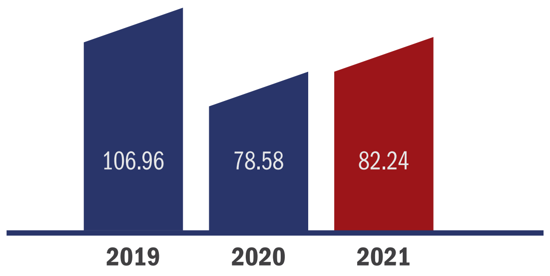
Financial Highlights	2021	2020	2019
Sales	438,057	286,033	514,362
Gross Profit	30,499	8,713	30,507
Operating Income (Loss)	17,215	(4,629)	16,199
Net Income (Loss)	6,136	(11,413)	2,303
EBITDA	27,198	4,308	29,902
Total Assets	407,420	349,725	394,935
Total Equity	110,913	86,195	92,430
Earnings (Loss) per share	0.05	(1.58)	(0.17)
Sales Volume (in thousand barrels)	82,241	78,582	106,959
Return on Assets	1.62%	-3.07%	0.61%
Return on Equity	6.23%	-12.78%	2.58%

On the road to recovery

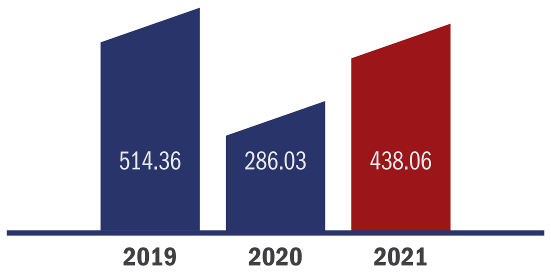
Despite the lingering impact of the COVID-19 pandemic, the Company managed to bounce back from its unprecedented loss in 2020. As economies and industries re-opened and restrictions were relaxed, global demand recovered amidst controlled supply. Prices of crude and finished petroleum products began to recover with Dubai crude averaging $69/bbl in 2021 from $42/bbl in 2020. With the rebound in regional prices, refining margins also improved.

Consolidated Sales volume grew by 5% to 82.24 million barrels. Philippine retail volume grew by 6.4% despite the granular lockdowns owing to the volume-generating programs of the Company. Likewise, its industrial and lubes sales improved compared to the 2020 performance. Petrochemical sales and PSTPL trading volume also increased. However, the Company's jet fuel sales continued to be affected by the slowdown in the aviation sector.

Sales Volume, in Million Barrels



Sales, in Billion Pesos



Strong Financial Position

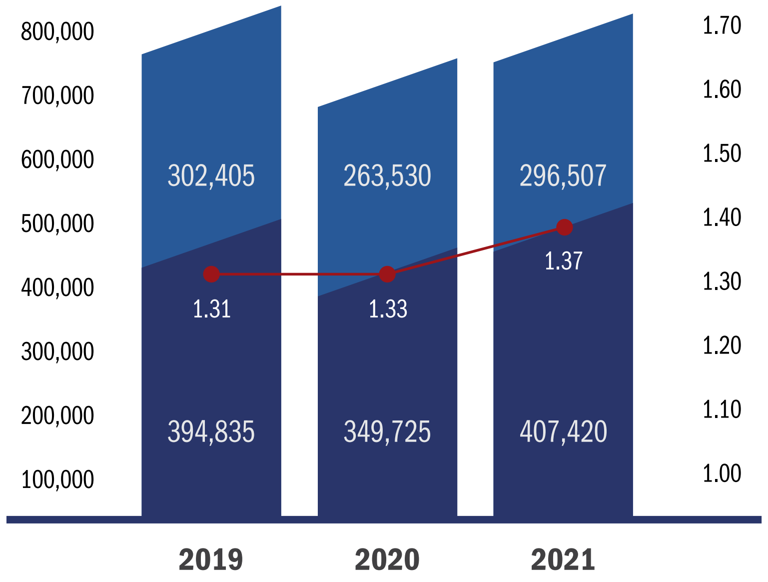
The Company closed 2021 with consolidated assets at P407.42 billion, 16% higher than 2020 level. Total liabilities went up by 13% to P296.51 billion. These increases were mainly due to higher prices of crude oil and finished products which led to elevated levels of trade receivables, inventories, short-term loans, and suppliers' credit.

Meanwhile, long-term debt (including current portion) declined to P102.65 billion from end-2020 balance of P119.45 billion due to prepayment and amortization of various loans partly offset by the issuance of P18 billion retail bonds.

Total equity rose by 29% to P110.91 billion primarily due to additional capital coming from the issuance of $550 million (P26.2 billion) senior perpetual capital securities and partly negated by the redemption of preferred shares series 2B of P2.88 billion.

Return on assets and equity were at 1.62% and 6.23%, respectively.

Assets vs Liabilities



Higher Cash Balance

in Million Pesos	2021	2020	2019
Beginning Cash Balance	27,053	34,218	17,405
Operating Inflows (Outflows)	(10,668)	2,533	25,362
Investing Cash Flow	(9,759)	(8,437)	(20,467)
Financing Cash Flow	28,098	318	13,116
Effects of Exchange Rate Changes	1,682	(1,579)	(1,198)
Ending Cash Balance	36,406	27,053	34,218

Cash balance increased by 35% to P36.41 billion from the previous year's balance of P27.05 billion.

Cash generated from operations were used up for working capital requirements during the year. While funds sourced from the issuance of senior perpetual capital securities and P18 billion retail bonds were partially used to fund several capital projects at the refinery, service stations, and terminals totaling P9.80 billion. Furthermore, the funds were also utilized for payment of interest amortizations and matured loans, series 2B preferred shares redemptions, and dividends and distributions to stakeholders.

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

Built for the Future

Financial Statements

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.

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

EMMANUEL E. ERAÑA
Senior Vice President and Chief Finance Officer

Signed this 8th day of March 2022

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

SUBSCRIBED AND SWORN TO before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 0 8 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	Passport No. P2247867B	22 May 2019/ DFA Manila
Emmanuel E. Eraña	Passport No. P0502156B	01 Feb 2019/ DFA NCR East

Doc. No. 367;
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

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

3 1 1 7 1

COMPANY NAME

P E T R O N   C O R P O R A T I O N   A N D
S U B S I D I A R I E S

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

S M C   H e a d   O f f i c e   C o m p l e x
4 0   S a n   M i g u e l   A v e n u e
M a n d a l u y o n g   C i t y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		Certificates of Permit to Offer Securities for Sale dated 1994, 1995, 2010, 2014 and 2019

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
contactus@petron.com	8-884-9200	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
144,753 (as of December 31, 2021)	May 17, 2022	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
MYRNA C. GERONIMO	mcgeronimo@petron.com	8-884-9200 loc 49189	

CONTACT PERSON's ADDRESS

SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City

***Note 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

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

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.

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.

KPMG

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.

KPMG

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.

KPMG

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.

KPMG

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)

	Note	December 31 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

	Note	December 31 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)

	Note	**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)

	Note	**2021**	2020	2019
NET INCOME (LOSS)		**P6,136**	(P11,413)	P2,303
OTHER COMPREHENSIVE LOSS				
Item that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*31*	**(597)**	(631)	(2,531)
Income tax benefit (expense)	*28*	**(213)**	191	751
		(810)	(440)	(1,780)
Items that may be reclassified to profit or loss				
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)

		Equity Attributable to Equity Holders of the Parent Company										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of December 31, 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										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of December 31, 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

	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings: Appro-priated	Retained Earnings: Unappro-priated	Equity Reserves: Reserve for Retirement Plan	Equity Reserves: Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company										
As of December 31, 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)

	Note	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

	Note	**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:

Items	Measurement Bases
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Investments in debt instruments at fair value through other comprehensive income (FVOCI)	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information presented in Philippine peso is rounded off to the nearest million (P000,000), except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. These subsidiaries are:

Name of Subsidiary	Percentage of Ownership 2021	Percentage of Ownership 2020	Country of Incorporation
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.

<u>Adoption of New or Revised Standards, Amended to Standards and Interpretations</u>
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.

<u>Standards Issued But Not Yet Adopted</u>
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.

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

<u>Financial Instruments</u>
Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

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

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

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

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money 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.

<u>Financial Liabilities</u>
The Group determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in 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.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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.

<u>Impairment of Financial Assets</u>
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.

<u>Business Combinations under Common Control</u>
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.

<u>Non-controlling Interests</u>
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.

<u>Investments in Shares of Stock of Associates and Joint Ventures</u>
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.

<u>Cost and Expense Recognition</u>
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.

<u>Borrowing Costs</u>
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.

<u>Research and Development Costs</u>
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.

<u>Employee Benefits</u>
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.

<u>Foreign Currency</u>

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
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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:

	Note	**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:

	Note	**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:

	Note	**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
	14, 35, 36	**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
	14, 35, 36	**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
	14, 35, 36	**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
	35, 36	**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:

	Note	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:

	Note	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:

	Note	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:

	Note	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:

	Note	**2021**	2020
Unsecured Peso-Denominated (net of debt issue costs)			
Term loan of 5.4583% due until 2022	*(a)*	**P1,000**	P1,998
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	*(b)*	**6,979**	19,944
Term loan of 5.5276% due quarterly until 2024	*(d)*	**5,878**	8,008
Term loan of 5.7584% due until 2022	*(e)*	**2,497**	4,990
Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025	*(f)*	**19,867**	19,832
Fixed retail bond of 3.4408% due until 2025 and 4.3368% due until 2027	*(k)*	**17,779**	-
Term loan of 4.5900% due until 2025	*(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	*(c)*	**P7,219**	P13,530
Floating rate dollar loan - US$800 million due until 2024	*(g)*	**22,992**	32,334
Floating rate yen loan - JP¥15 billion due until 2025	*(h)*	**6,556**	6,845
Floating rate dollar loan - US$150 million due until 2023	*(j)*	**7,522**	7,003
	34, 35, 36	**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:

	Note	**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:

	Note	**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:

	Note	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:

	Note	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:

	Note	**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:

	Note	**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:

	Note	**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:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	*8, 31, a*	**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	*b, e, f, h, 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	*14, b, c, d, h, i, j, k*	**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	*l*	**2021**	**-**	**159**	**283**	**101**	On demand;	Unsecured;
		2020	-	-	-	-	non-interest	no impairment
		2019	-	-	-	-	bearing	
Joint Ventures	*c, g, h, 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		

a. 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).

b. Sales relate to the Parent Company's supply agreements with the Intermediate Parent, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.

c. Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.

d. The Parent Company entered into 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. The Parent Company has existing lease agreements with SMC covering certain parcel of lands where service stations are located.

f. 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:

	Defined Benefit Liabilities	
2021	**1 Percent Increase**	**1 Percent Decrease**
Discount rate	**(P99)**	**P138**
Salary increase rate	**324**	**(288)**

	Defined Benefit Liabilities	
2020	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: Effect on Income before Income Tax	Effect on Equity	P1 Increase in the US Dollar Exchange Rate: 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: Effect on Income before Income Tax	Effect on Equity	P1 Increase in the US Dollar Exchange Rate: 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**				
JP¥ 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			
JP¥ 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					
	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	**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					
	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	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:

		2021		2020	
	Note	**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

		2021		2020	
	Note	**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).

	Maturity			
December 31, 2021	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
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%**	**-**

	Maturity			
December 31, 2020	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
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 Ineffectiveness**	**Hedging Reserve**	**Cost of 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 Ineffectiveness	Hedging Reserve	Cost of 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 Assets	Carrying Amount Liabilities	Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in OCI	Cost of Hedging Recognized in OCI	Amount Reclassified from Hedging Reserve to Profit or Loss	Amount Reclassified from Cost of Hedging Reserve to Profit or Loss	Line Item in the Consolidated Statement of Income Affected by the Reclassification
Foreign Currency Risk									
Call spread swaps	**US$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 Assets	Carrying Amount Liabilities	Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in OCI	Cost of Hedging Recognized in OCI	Amount Reclassified from Hedging Reserve to Profit or Loss	Amount Reclassified from Cost of Hedging Reserve to Profit or Loss	Line Item in the Consolidated Statement of Income Affected by the Reclassification
Foreign Currency Risk									
Call spread swaps	US$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:

	Note	**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”

<u>Geographical Segments</u>
The following table presents segment assets of the Group as of December 31, 2021and 2020.

	2021	2020
Local	**P311,567**	P282,871
International	**93,681**	64,664
	P405,248	P347,535

<u>Disaggregation of Revenue</u>
The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group’s business segments for the years ended December 31, 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.

Terminals and Airport Installations

LUZON

BATANGAS
Bo. Mainaga,
Mabini, Batangas

LIMAY
Limay,
Bataan

NAVOTAS
PFDA CMPD.,
Navotas,
Metro Manila

PALAWAN
Parola,
Brgy. Maunlad,
Puerto Princesa City

PORO
Poro Pt.,
San Fernando,
La Union

ROSARIO
General Trias,
Rosario,
Cavite

VISAYAS

BACOLOD
Bo. San Patricio,
Bacolod City

ILOILO
Lapuz,
Iloilo City

ISABEL
LIDE,
Isabel,
Leyte

MANDAUE
Looc,
Mandaue City

ORMOC
Bo. Linao,
Ormoc City

ROXAS
Arnaldo Blvd.,
Culasi

TACLOBAN
Anibong,
Tacloban City

MINDANAO

DAVAO
Km. 9,
Bo. Pampanga,
Davao City

BAWING
Purok Cabu,
Bawing,
General Santos City

ILIGAN
Bo. Tuminobo,
Iligan City

JIMENEZ
Jimenez,
Misamis Occidental

NASIPIT
Talisay,
Nasipit,
Agusan del Norte

TAGOLOAN
Tagoloan,
Misamis Oriental

ZAMBOANGA
Brgy. Campo Islam,
Lower Calarian,
Zamboanga City

AIRPORT INSTALLATIONS

DAVAO
Davao Airport

LAGUINDINGAN
Misamis Oriental

MACTAN
MEPZ, Lapu-Lapu City

LAOAG
Laoag Airport

NAIA JOCASP
Compound, NAIA, Pasay City

LPG OPERATIONS

PASIG
Bo. Ugong,
Pasig,
Metro Manila

LEGASPI
Lakandula Drive,
Brgy. Bonot,
Legaspi City

SAN FERNANDO
San Fernando,
Pampanga

Product List

FUELS

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

Industrial Fuels
Petron Fuel Oil

Aviation Fuels
Aviation Gasoline
Jet A-1

Household Fuels
Gasul
Fiesta
Gaas

AUTOMOTIVE LUBRICATING OILS

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

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

Petron MO
Motorcycle Oils
Petron Sprint 4T Fully Synthetic HTP
Petron Sprint 4T Fully Synthetic
Petron Sprint 4T Premium Multi-grade
Petron Sprint 4T Synthetic Blend
Petron Sprint 4T Multi-grade
Petron Sprint 4T Mono-grade
Petron Sprint 4T Scooter Oil
Fully Synthetic
Petron Sprint 4T Scooter Oil
Synthetic Blend
Petron Sprint 4T Scooter Oil
Premium Multi-grade
2T Powerburn
2T Premium
2T Autolube

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

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

Other Automotive Oils
STM

INDUSTRIAL LUBRICATING OILS

Turbine, Hydraulic and Circulating Oils
Hydrotur AW 22 / 32 / 46 / 68 / 100
Hydrotur AWX 32 / 68 / 100
Hydrotur AW GT 32
Hydrotur EP 46
Hydrotur N 100
Hydrotur R 32 / 46 / 68 / 100 / 150 / 185 / 220 / 320
Hydrotur SX 68
Hydrotur T 32 / 46 /68
Hydrotur TEP 68 / 77
Industrial Gear Oils
Hydrotur SX 220
Hypex EP 68 / 100 / 150 / 220 / 320 / 460 / 570 / 680 / 1000 / 4000 / 25k (Oil-Based)
Hypex EP 2K / 4K (Asphalt-Based)
Milrol 5K
Gearfluid 2K / 5K / 8K
Gearkote 3K / 22K / 68K
Petrocyl S 390 / 700
Petrocyl 680
Cutting Oils
Turnol 40
Petrokut 10 / 27
Refrigeration Oils
Zerflo 68
Zerflo P68

Transformer Oil
Voltran 60

Slideway Oil
Hydrotur SW 68
Hydrotur SW 220

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

MARINE LUBRICATING OILS

Crosshead Engine Cylinder Oils
Petromar DCL 7050
Petromar DCL 4000 Series

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

Marine outboard 2-stroke oil
Petron Regatta

GREASES

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

Water Resistant Grease
Petrogrease XX

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

High Temperature Greases
Petrogrease HT

Complex Greases
Petron Grease HTP Lithium Complex
Petron Premium Lithium Complex

ASPHALTS

Penetration Asphalt
Petropen

Cutback Asphalt
Petropen CB

Emulsified Asphalt
Petromul SS-1
Petromul CSS -1

Blown Asphalts
Asphaltseal
Asphalt Joint Sealer

Polymer Modified Bitumen
Petron Polymer Modified Bitumen

SPECIAL PRODUCTS

Process Oils
Stemol 68
Petrosine 68
Process Oil series

Heat Transfer Oil
Petrotherm 32

Cleaning Agent
Greaseaway
Greasolve

Protective Coatings
Petrokote 392
Marinekote
Autokote
Cablekote 70

AFTERMARKET SPECIALTIES

PetroMate Oil Saver
PetroMate Diesel Power Booster
PetroMate Engine Flush
PetroMate Super Coolant
PetroMate Penetrating Oil
PetroMate Greaseaway
PetroMate Brake and Clutch Fluid
Petron Brake Fluid HTP DOT 4

PERFORMANCE ADDITIVES & CHEMICALS

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

Investor Information

Information Assistance

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Shareholder Service and Assistance

For questions and comments regarding dividend payments,change of address, account status, loss or damaged stock certificates, please get in touch with:

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40 San Miguel Avenue 1550 Mandaluyong City
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