PETRON

A Stronger Today

2022 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.

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About the Cover

On the Cover: The Petron Bataan Refinery

Over the past few years, Petron has weathered many storms, among them a global pandemic that will go down in history as the greatest crisis of our time. Today, we find ourselves in a position of renewed strength and confidence. Our strategy to stabilize the business while ensuring a reliable fuel supply paved the way for our recovery. From where we stand, we are emerging from the challenges of the past years stronger, but also changed for good. We are ready and willing to meet the demands of the changing times and fuel a brighter and stronger future for all.

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 and diesel to motorists and the public transport sector. Our wide range of world-class fuels includes 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 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, the Lumut PME Plant, 10 terminals including four affiliates, and a retail network of more than 750 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.*"

Ramon S. Ang
President and
Chief Executive Officer

MESSAGE TO SHAREHOLDERS

‘Our wide reach enabled us to ride the economic resurgence and strengthen volume recovery’

Fellow Shareholders,

For the past three years, we have worked hard to further strengthen our company and increase its capacity to withstand headwinds. 2022 remained a challenging year, as we’ve had to contend with volatile prices, economic uncertainties, and the lingering impacts of the pandemic.

However, the past year also marked a turning point in our recovery story. If 2020 was a year of resilience and 2021 a time of recovery, 2022 saw us intensifying our momentum to reinforce our financial stability, enhance our efficiencies, and make new room for growth now that the bigger threat of COVID-19 has abated.

Growth amid uncertainty

The further easing of restrictions, reopening of more sectors, and return of international travel accelerated fuel demand. For the second straight year, sales volume from our local and international operations grew, registering a 37% improvement to 112.8 million barrels from the previous year’s 82.2 million barrels.

Despite the challenging industry environment, we achieved an operating income of ₱19.2 billion, surpassing last year’s ₱17.2 billion by 12%. Operating costs were well contained during the period even as we optimized our refining assets. We ramped up production at the Petron Bataan Refinery in order to maximize the favorable refining margins in the region. Operations at our Polypropylene Plant also resumed after a two-year hiatus.

We ended the year with a net income of ₱6.7 billion, 9% better than 2021’s ₱6.1 billion—a result of our commitment to pursue our goals and secure our business’ long-term growth and viability.

From strength to strength

Our wide reach enabled us to ride the economic resurgence and strengthen volume recovery. 2022 was a breakthrough year for our LPG business in the Philippines as we regained our number one position in the market. Our LPG products—**Petron Gasul** and **Fiesta Gas**—remained in high demand with domestic sales rising by about 17%.

The recovery of more sectors strengthened our industrial volumes, particularly our jet fuel sales in the Philippines which rose by twice as much as last year. As 2022 saw a strong rebound in tourism spending, we capitalized on the demand growth by entering new supply agreements and renewing ties with major airlines and flag carriers.

Mobility improvements in tandem with our strategic volume-generating programs resulted in a 26% increase in our consolidated retail volumes. We continued to enhance our presence in this highly competitive market, delivered quality products and services, and engaged both new and core followers with targeted and value-adding marketing initiatives. Our non-fuels business, with the continuous improvement in and opening of new **Treats** stores as well as the addition of more food and lifestyle locators, also drove traffic into our stations and helped generate volumes.

Our ability to adjust and respond to difficulties has enabled us to come this far. The steady rise in our sales, while aided by improvements in the market, points to our product and service quality as well as our drive to provide consumers and industries their needed petroleum products. We are grateful for the support of our customers—fellow brand leaders, public and private corporations, and generations of motorists who put their utmost trust in our company. This fuels us to persevere in our efforts and deliver products, services, promos, and rewards that make for a more enriching *Petron Best Day* experience.

Stability through sustainability

Every aspect of our supply chain—from our refinery to our terminals and stations—contributes not only to our commercial success, but also to the advancement of our sustainability agenda. We are a step closer to building and operating our own coco-methyl ester (CME) plant, which will allow us to produce CME—a requirement in the production of diesel products under the Biofuels Law. With the construction of our own CME plant, we will be sourcing raw material from our coconut farmers to boost local economy while enjoying higher margins for diesel.

Many of our service stations are already fitted with rainwater-harvesting facilities, allowing as much as 1,600 liters of rainwater per station to be reused. A growing number of Petron stations are shifting towards more efficient lighting sources and installing solar panels to reduce energy consumption. Petron terminals are equally key to our overall sustainability plan, implementing projects that help reduce our water and carbon footprint and add to our operational efficiency. As the industry leader, we want to continue raising the standards on sustainability while setting best practices along the way.

Awards and recognitions

Our operational excellence, sustainability commitment, and dedication to our Corporate Social Responsibility were acknowledged here and abroad. In recognition of our role as a nation builder, we were awarded by the Department of Finance (DOF) as the Philippines' top importer based on payment of duties and taxes to the Bureau of Customs (BOC) in 2022. A number of our facilities were likewise cited by their host communities for being top tax contributors. Our environmental projects, support to LGUs, and Occupational Safety and Health (OSH) practices were also bestowed with numerous awards and citations.

Our excellence in key corporate governance areas did not go unnoticed as Petron was recognized at the Institute of Corporate Directors' ASEAN Corporate Governance Scorecard (ACGS) Arrow Awards. The company has also remained a profitable investment option, with our US$550 million Senior Perpetual Capital Securities being awarded as Best Corporate Bond Issuance by The Asset Triple A Sustainable Capital Markets Country and Regional Awards, an honor given only to some of the best asset deals in the country.

Indeed, the oil industry is fast evolving, and competition gets heavier with each passing day. Even as we are humbled by our many achievements, our company remains committed to upholding the highest standards of excellence across all areas of our business.

"As the industry leader, we want to continue raising the standards on sustainability while setting best practices along the way.

Full steam ahead

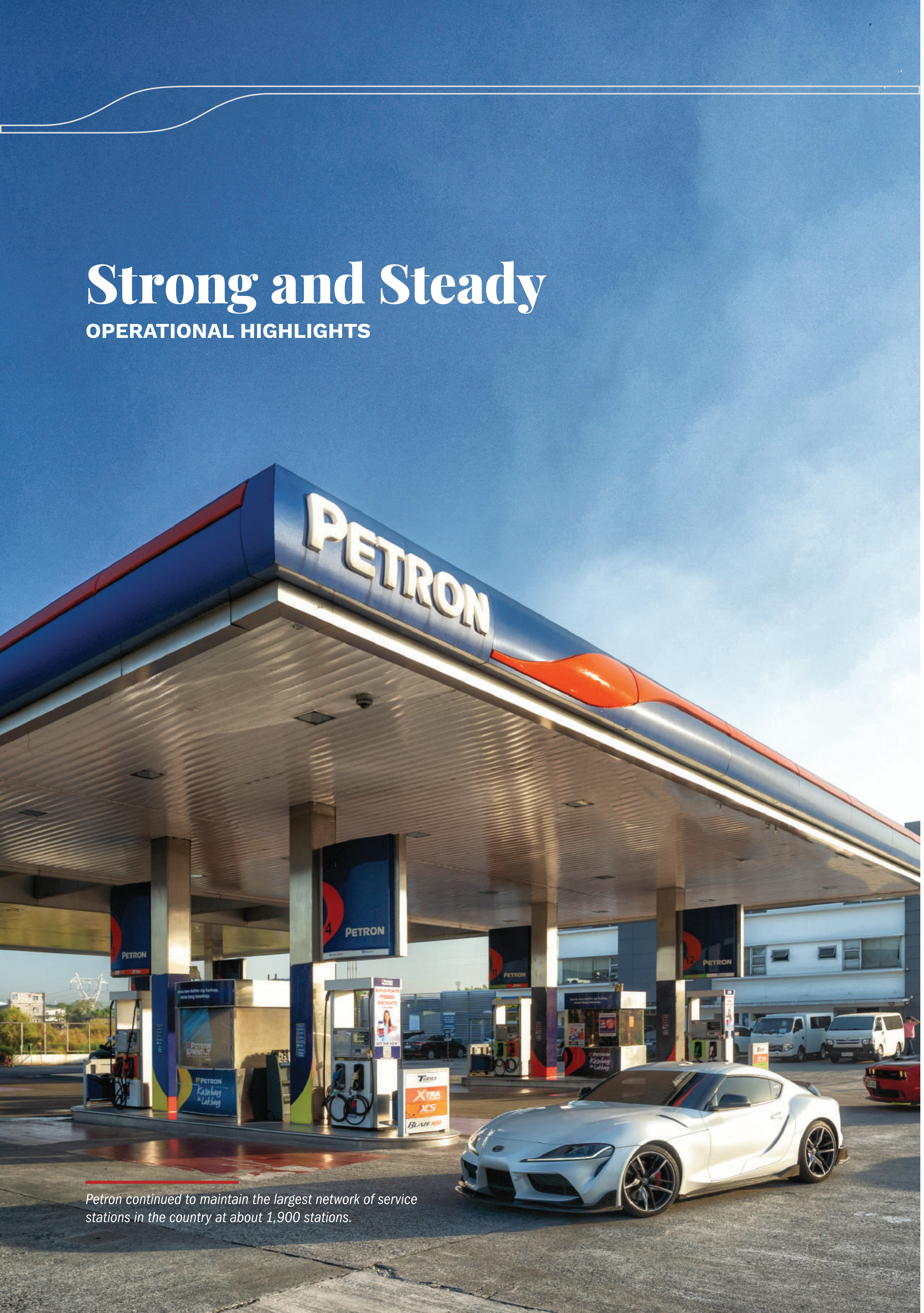
While our journey has not been easy, we are emerging from this period stronger and more determined to take on our bigger goals and aspirations. The projects we have lined up are envisioned to secure our market leadership and thrust us forward into the future. We will pursue strategies that will make us a more resilient and sustainable oil company. We are determined to continue delivering to our customers the best products and services that fulfill their needs and, in the process, drive national development.

You have been with us every step of the way. We thank you, our shareholders, employees, and other stakeholders for inspiring us to surpass our efforts year after year. This 2023, we are celebrating nine decades of fueling and changing lives for the better.

Nananatili pong matatag ang ating kompanya dahil sa inyong walang sawang tiwala at suporta.

Maraming salamat po.

Ramon S. Ang
President and
Chief Executive Officer



Strong and Steady

OPERATIONAL HIGHLIGHTS

Petron continued to maintain the largest network of service stations in the country at about 1,900 stations.

As the largest oil company and currently the only remaining refiner in the Philippines, Petron has withstood the test of time and proven its steadfast commitment to Filipinos. Throughout nine decades and counting, we have been an integral part of the local fabric—fueling economic growth, serving millions of lives, and contributing to our nation's progress.

Our campaign *Sa Petron, Panalo ang Pilipino*, featuring Olympic champion Hidilyn Diaz, fittingly captures our unmatched dedication to being the country's partner in success. Launched in the first quarter, the campaign paid tribute to the courage and resilience of our countrymen during the pandemic, and showed how Petron rose to the occasion to meet our fuel needs.

We released a new campaign for our **95-RON Petron XCS**, dubbed *Fuel That Knows You*. Based on the results of a third-party consumer study, Petron XCS is the most widely used gasoline in the Philippines. To fortify its dominance, we came up with new materials to highlight its benefits in terms of enhancing power, promoting optimum fuel efficiency, and providing excellent engine protection.

Reaching out to our core customers, we rolled out exciting and personalized rewards experiences for our **Petron Value Card (PVC)** users. We enhanced the PVC mobile app with new features and functionalities. Our **Petron Fleet Card (PFC)** program, with its wide network coverage of over 1,300 affiliate stations nationwide, is the preferred choice of clients from both public and private sectors who want to manage their fleets better.

As the industry leader, we strengthened our support for the biggest expos, exhibits, and motorsports events. Petron co-presented and sponsored the Manila International Auto Show (MIAS), the largest auto show in the country. We were also the official fuel and engine oil sponsor of the Philippine Overland Expedition, Vios Cup, Kalayaan and Makabayan Cup, Tour de Cebu, and Philippine Motorcycle Championship, among other notable events.

We responded to the strong and increasing demand for our products with the aggressive pursuit of new customers side by side with our strategic retail expansion. In 2022, Petron opened new service stations in underserved areas even as we maintained the largest network in the industry. A growing number of our stations are now designed and built to be more resilient and sustainable. We began revitalizing our **TREATS** stores and introduced new offerings to serve our customers better and make trips to our stations more enjoyable.

For LPG, a total of 220 new stores were activated. We appointed and activated 26 new Gasul and Fiesta Gas dealers to further widen our reach and serve the LPG requirements of more Filipino households. Maximizing every opportunity to reach more customers, we penetrated over 740 more non-traditional Lubes outlets while firming up our presence in popular online platforms.

We continued to expand our portfolio in the LPG category as we launched our **Fiesta Gas 170-gram** in refillable cylinders. This is a product that is engineered to be safe and explosion-proof, and is a much safer alternative to butane canisters illegally refilled with LPG which are proliferating in the market. We also introduced our gas stove brand, **Reyna Classic** and its premium version, **Reyna Gold**.

As the Filipinos' *Kasabay sa Lakbay*, we aim to always give customers our best in terms of product quality, safe and sustainable facilities, exciting rewards, and reliable service with a personal touch.

Petron powered the first Philippine Overland Expedition, proving that our products can meet the exacting demands of the off-roading community.

Ahead of the Game

MARKET PERFORMANCE IN THE PHILIPPINES

NO. 1
OVERALL MARKET SHARE

NO. 1
IN THE LPG MARKET

UP 27%
TOTAL VOLUMES SOLD

UP 5%
SERVICE STATION VOLUMES

UP 41%
INDUSTRIAL SALES

UP 17%
LPG SALES

Growing Further

Petron sustains its overall market leadership backed by its continuous retail network expansion.

1,900+
The largest network of service stations in the country

220
New LPG stores (over 1,500 stores in total)

65
New locators (407 locators in total)

2
New Treats stores (78 stores in total)

741
Newly penetrated Lubes accounts (over 21,000 outlets in total)

47
Petron Car Care Centers

THE LATEST FROM PETRON

In 2022, we launched the **Fiesta Gas** 170-gram in refillable cylinders, a product engineered to be safe and explosion-proof due to its seamless aluminum alloy packaging. We also introduced our gas stove brand, **Reyna Classic** and its premium version, **Reyna Gold**.

Our highly skilled engineers thoroughly oversee the operations of each process unit at the Refinery.

Committed to Provide a Reliable and Secure Fuel Supply

We unlocked greater potential at the Petron Bataan Refinery (PBR) with the continued optimization of our refining assets. With the overall rise in fuel demand, we increased our average crude run by nearly 50% to ensure that Filipinos' fuel needs are met.

Increasing our crude run also allowed us to take advantage of the healthy refining margins contributing to the company's improved profitability. We also resumed operations at our Polypropylene Plant in Mariveles, Bataan to capture the requirement for polypropylene products here and abroad.

Through the Refinery Master Plan Phase 2 (RMP-2), Petron has been at the forefront of enhancing the country's fuel supply security. RMP-2 enabled PBR to convert its fuel oil production into higher-value white products like LPG, gasoline, and diesel. At the same time, it significantly increased our petrochemical production while giving the company greater flexibility to process less expensive crude oil types from a variety of sources.

Part of our optimization plan for RMP-2 is the reconfiguration and improvement of diverse process units to enhance operational efficiency and generate substantial improvements in resource utilization. Our crude diversification program, where we identify and evaluate more economical crude alternatives for our crude basket, likewise continued. This allows us to utilize our conversion units better and increase our refining margins.

Part of optimizing our assets entails seeking opportunities to reduce energy consumption in our process units while generating savings for the company. To further cut down our environmental footprint, we intensified our efforts towards more effective waste management, energy conservation, and water conservation. Various programs and trainings to ensure and maintain health and safety at the Refinery were also implemented year-round for employees and third-party personnel.

With fuel demand on the uptrend, PBR is primed to meet the requirements for quality fuel products, generate employment and economic opportunities in Bataan and beyond, and remain at the forefront of protecting fuel security in the country.

Operations at our Polypropylene Plant resumed after a two-year hiatus to capture the requirement for polypropylene products here and abroad.

We maintained the good condition of our storage and distribution facilities including loading bays at our terminals.

A Stronger and More Streamlined Supply Chain

We remained focused on taking the right and necessary steps to ensure a full recovery for our business. As part of our growth and sustainability plans, our storage and distribution network underwent enhancements for the safe and reliable storage and transport of the additional volumes that we handle and distribute within and out of the country.

We continued to upgrade and maintain the good condition of our tanks, receiving lines, and pier and loading equipment in our facilities and aviation sites. The ongoing automation and integration of our business processes allowed for smooth and seamless transactions with customers from different trades and sectors.

We aimed for customer service excellence, and achieved an over 98% nationwide delivery fulfillment performance for company-served retail accounts in 2022. Particularly for our new clients, routes and delivery sites were inspected to avoid delays. Trainings on safe and efficient product delivery were also conducted for our customers and haulers. Our Lube Oil Blending Plant, which has a filling capacity of 90 million liters per year per shift, adequately served the requirements of our local and international customers including Petron Malaysia.

Our strict compliance with safety protocols and industry standards made it possible for us to lock in 111 million man-hours without lost time incidents in our terminal operations. Five of our terminals surpassed their previous records and reached new safety milestones.

All 30 Petron terminals have been certified under the new ISO 9001:2015 (QMS), while 29 terminals received certification for ISO 14001:2015 (EMS), and ISO 45001:2018 (Occupational Health and Safety Management System) standards. Furthermore, all 15 Petron pier facilities are compliant with the International Ship and Port Facility Security Code (ISPS Code) and certified by the Office of the Transport Security under the Department of Transportation (DOTR).

The Department of Labor and Employment (DOLE) presented each of our terminals with a Safety Seal Certification for complying with the Department's public health standards. The Bureau of Fire Protection (BFP) likewise awarded 27 Petron facilities with a Kaisa Certificate, recognizing their contributions to BFP's fire safety awareness campaign.

Our readiness to respond to calamities and emergencies was heavily tested these past few years. Again, in 2022, our terminals were able to provide emergency response to our fenceline communities. Our terminals in Palawan, Tagoloan, and Mandaue assisted the BFP and local firefighting volunteers in extinguishing residential fires in their respective areas. The Petron Tagoloan and Jimenez terminal, on the other hand, provided relief assistance to typhoon victims.

Our Logistics Network

4 Third Party / Import Facilities
SLHBTC, SL PanAsia, SL PHIVIDEC, Subic

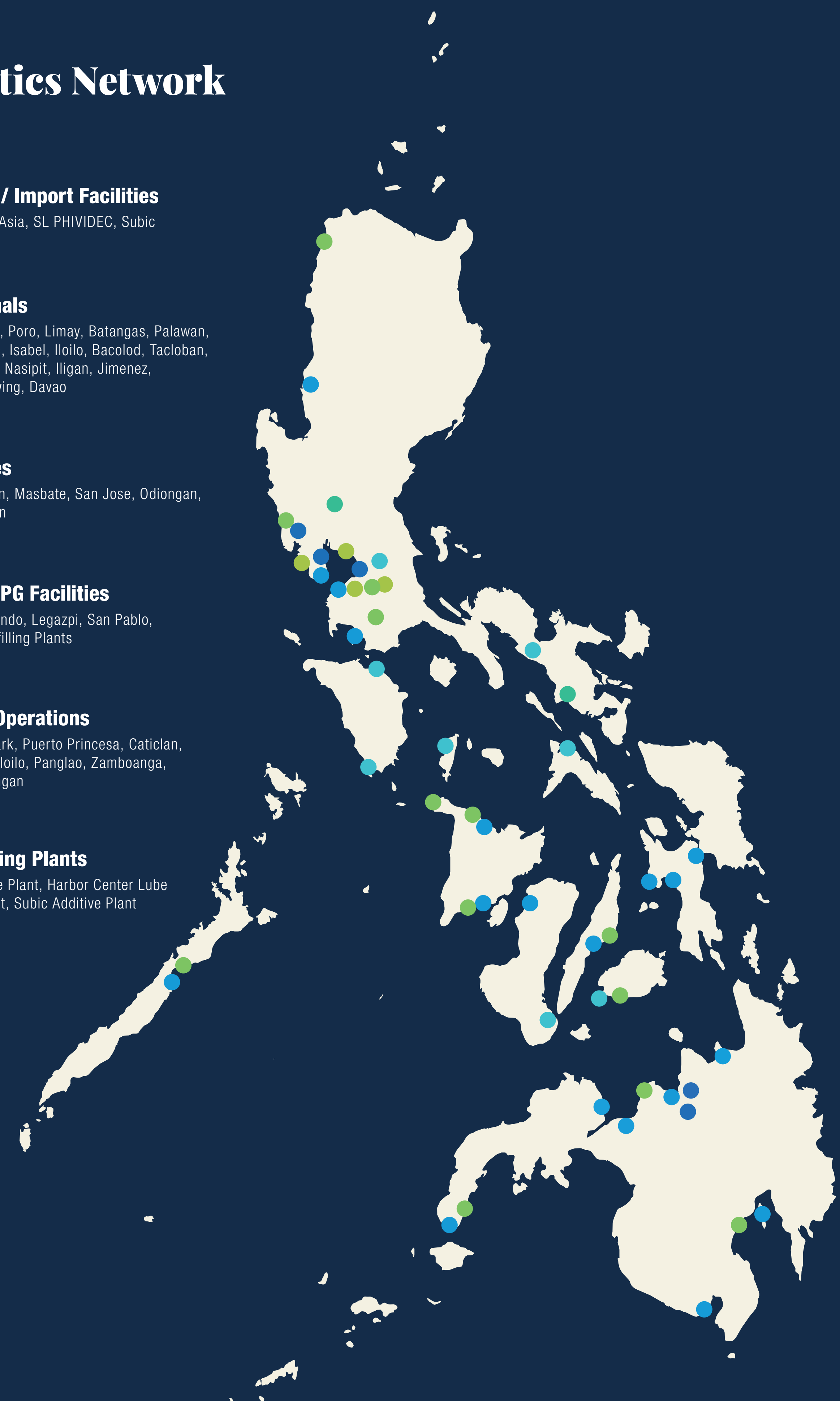
20 Bulk Terminals
Navotas, Rosario, Poro, Limay, Batangas, Palawan, Mandaue, Ormoc, Isabel, Iloilo, Bacolod, Tacloban, Roxas, Tagoloan, Nasipit, Iligan, Jimenez, Zamboanga, Bawing, Davao

7 Sales Offices
Pasacao, Calapan, Masbate, San Jose, Odiongan, Amlan, Tagbilaran

4 Dedicated LPG Facilities
Pasig, San Fernando, Legazpi, San Pablo, and 12 Allied Refilling Plants

12 Into-Plane Operations
Laoag, NAIA, Clark, Puerto Princesa, Caticlan, Kalibo, Mactan, Iloilo, Panglao, Zamboanga, Davao, Laguindingan

3 Manufacturing Plants
Pandacan Grease Plant, Harbor Center Lube Oil Blending Plant, Subic Additive Plant



Rooted in Our Virtues

Our people have been unshakable pillars of the company's growth and resilience, especially during the past three years. In 2022, we focused on empowering our workforce and supporting their needs through our people-first approach.

Even with the decreasing number of COVID-19 cases, we ensured that safety measures and protocols remained widely in place side by side with the surveillance antigen testing we continued to conduct on a regular basis.

In promoting our people's overall health and wellbeing, we partnered with mental health providers and professionals for webinars on relevant topics, while our in-house doctors were available for those who wished to teleconsult. Notably, our Group Health Plan was updated to offer our employees greater security during medical emergencies. Financial assistance was likewise given to employees affected by calamities.

We paid even closer attention to skills development and growth. We invested in more training and development programs such as online learning platforms, and further increased the number of training hours per employee. To sustain a culture of continuous learning, we also focused on the advancement of our future leaders through regular Succession Development discussions, Coaching and Mentoring Programs, and implementation of Individual Development Plans for our high potential candidates.

Emergency response drills and trainings were conducted year-round to inculcate the value of safety and readiness especially in our engineers and maintenance personnel. Our haulers, drivers, dealers, third-party personnel, and even customers were similarly exposed to our safety culture.

With the lifting of COVID-19 restrictions, we slowly eased back into some of our face-to-face activities such as team building, Christmas parties, and Service and Recognition Awards, while still observing safety protocols. Our employees were hands on when it came to our Corporate Social Responsibility (CSR) activities, volunteering their time and energy while embodying the values—teamwork, volunteerism, and *malasakit*—that the company stands for.

2022 Social Performance Highlights

LABOR

2,171
Number of employees (Philippines)

10%
Attrition rate, lower than the industry's 15%

100%
Percentage of employees who receive regular performance reviews

HEALTH AND SAFETY

10M
Accumulated safe man-hours for all Petron facilities and offices

10,344
Safety training hours for Petron employees, third party personnel, and industrial accounts

HUMAN RIGHTS

Zero
Incidence of child labor in any aspect of operations

Zero
Incidence of discrimination in any aspect of operations

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

PRODUCT RESPONSIBILITY

Over 53,000
Feedback and inquiries received and handled by Petron Customer Relations Group and Sales Support Services

Key to our growth in Malaysia is our 600-strong workforce and vast network of business partners who are as committed to the company's vision and core values.

A Decade of Fueling Happiness in Malaysia

Petron Malaysia celebrated its tenth anniversary on April 2, 2022, marking a decade of fueling happiness. Our Malaysian operations started in 2012 with the rebranding of former Esso and Mobil stations to Petron, followed by the opening of our first Petron station in MRR2 Selayang, Kuala Lumpur in 2014. Today, there are over 750 Petron service stations all over Malaysia.

Over the past decade, we have upgraded our refinery and expanded our terminal and distribution facilities, integrating sustainable practices while delivering greater value to our stakeholders. We've also introduced a number of industry firsts in line with our vision to *Fuel Happy*—a phrase coined to refer to our desire to share great moments with our customers. As a result, Petron Malaysia has earned a reputation for being one of the most reliable and trusted oil majors in the country with a clear vision for success and sustainability.

Key to our growth is our 600-strong workforce and vast network of business partners who are as committed to the company's vision and core values of Excellence, Customer Focus, Innovation, Teamwork, Ethics, and Safety (EXCITES). With its current trajectory, Petron Malaysia is set to reach many more milestones as it grows and fuels happiness in the years to come.

A Journey of Fueling Happiness

PETRON MALAYSIA MILESTONES

2012

Birth of Petron Malaysia

Petron started operations in Malaysia *after its successful acquisition of ExxonMobil's downstream businesses in Malaysia on* ***April 2, 2012.***

2014

Presidential visit to first new build Petron Station in Malaysia

Former President of the Philippines, His Excellency Benigno S. Aquino III, *officiated the first "new build" Petron Malaysia service station in MRR2 Selayang.*

2014

The new PMiles Loyalty Card

Petron Malaysia *launched the* ***PMiles Loyalty Program*** *leading the industry in rewards points and redemption value for fuel purchased, as well as in promotions with partners like supermarket chains, airlines, and film producers.*

2015

Fuel Happy Campaign Launch

Petron launched its ***"Fuel Happy"*** *Campaign which stands for its commitment to offer a unique and rewarding Petron experience.*

2016

Launch of Blaze 100 Euro 4M

Petron was the first fuel retailer in Malaysia to produce and offer ***100 RON premium fuel.***

2017

Petron Turbo Diesel Euro 5

Petron followed through with the launch of ***Turbo Diesel Euro 5****, a technologically advanced diesel formulated to improve engine performance for superior acceleration, better fuel economy, and reduced harmful exhaust emission.*

2018

Gasul "Cash and Carry" LPG

Another first in the market, Petron offered ***"cash and carry" LPG*** *at service stations to fuel convenience.*

2019

First modular filling station in Malaysia

Our first ***Modular Filling Station*** *was constructed in Nilai, Negeri Sembilan. The station features an industrial design and was built using a modular construction system.*

2019

Lumut PME Plant acquisition

Petron was the first downstream company to acquire a ***Palm Oil Methyl Ester plant.*** *The plant is located in Lumut, Perak.*

2020

New service station look

Petron Aman Putri *in Selangor was the first big station to adopt the new minimalist design and modern Treats store.*

2021

Diesel Hydrotreater (DHT) and Marine Import Facility (MIF2)

Our two largest investments so far at Port Dickson Refinery (PDR) were completed. The ***Diesel Hydrotreater Unit (DHT)*** *was commissioned in April 2021, while the* ***Marine Import Facility 2 (MIF2)*** *was commissioned in September of the same year.*

2022

TENtu Happy Celebration

Petron celebrated its ***10th anniversary*** *with* ***TENtu Happy Carnivals*** *throughout the year.*

Fueling Happy In Malaysia

The year 2022 was also one of growth and sustainability for Petron Malaysia. Our strong sense of resilience and commitment to our goals have led us to become one of Malaysia's leading oil companies, and it was through the same that we continued to reap new triumphs in the year that passed.

Despite heightened market volatility and geopolitical tensions, our business continued to grow in 2022. As we stayed on course, we expanded our retail network and opened 13 new service stations. While growing our reach, we also deepened our sustainability agenda, with our new service station design contributing to this end. Use of LED lighting and a rainwater harvesting system are part of the new industrial design to lessen our environmental footprint.

Guided by our *Fuel Happy* vision, we launched our Petron Miles Mobile App aimed at providing better services, rewards, and a more seamless customer experience. Following our successful collaboration with Food Panda in 2021, we teamed up with Shopee Food to increase availability of our Treats offerings. Ensuring customer convenience inspired us to promote cashless payment via Shopee Pay for our LPG home delivery. We also added more stations offering our Gasul Cash and Carry service.

Our major investments at Port Dickson Refinery continued to deliver benefits to the company. The new Marine Import Facility 2 (MIF2) along with two new 250,000-barrel product tanks contribute to lowering our freight and demurrage costs. The new Diesel Hydrotreater facility, on the other hand, enables us to process higher sulphur crude oil with better yield, making us less dependent on sweeter and lighter crudes while meeting more stringent Euro-5 standards (10 ppm sulphur specifications) for diesel products.

Our Lumut Palm Oil Methyl Ester Plant (LPP) had its scheduled turnaround in 2022 with zero Lost Time Incidents (LTI) recorded. With the completion of its 30% plant capacity expansion, the LPP can now produce over 76,000 metric tons of PME per year. The refurbishment of its wastewater treatment plant was also completed and successfully commissioned. These investments echo our commitment to grow, improve, and consolidate our operations, ensuring that the coming years for Petron Malaysia will be as fruitful as the decade that passed.

In a year of growth and recovery, Petron Malaysia actively pursued its retail network expansion.

Fueling a Better Tomorrow

CORPORATE SOCIAL RESPONSIBILITY

Tulong Aral ng Petron or TAP *is Petron's flagship education program implemented in partnership with the Department of Social Welfare and Development (DSWD) and the Department of Education (DepEd).*

At Petron, the true measure of success lies not in the hard numbers but in how our strengths as a company are able to transform lives and spur positive change. In 2022, we capped off another year of honoring this commitment through our different Education, Environment, Livelihood, Health, Community Engagement, and Road Safety programs led by our Corporate Social Responsibility (CSR) arm, **Petron Foundation, Inc. (PFI)**. We continued to invest in the health, wellbeing, and empowerment of our communities, while being consistent with our efforts to lessen our environmental footprint.

Education

Our flagship education program **Tulong Aral ng Petron (TAP)**, which we implement in partnership with the Department of Social Welfare and Development (DSWD) and the Department of Education (DepEd), fueled hope for over 2,500 scholars from elementary to college in partner schools around the country. Two of our 16 new college graduates were hired by the company, joining other former TAP scholars who are now part of the Petron family. A number of past and recent graduates under the Petron Engineering Scholarship Program, which specifically caters to students based in Bataan, were also employed by PBR and Petron Limay Terminal. This brings the number of our Bataan scholars who have worked at PBR to 206. Our Petron Engineering Scholarships produced 21 graduates in 2022: 10 of Mechanical, 5 of Electrical, and 6 of Chemical Engineering. We extended support to Brigada Eskwela activities of 102 public schools in our fenceline communities, benefitting nearly 69,000 students and teachers.

FROM SCHOLARS TO EMPLOYEES

Rome and Christine are among a growing list of Tulong Aral scholars turned Petron employees.

The **Tulong Aral ng Petron (TAP)** scholarship program has given many young Filipinos hope for a better future. But for some of our scholars, their journey with Petron doesn't end at graduation.

Rome Grajo (L) and **Christine Gaugano** (R) are two recent TAP graduates who have come full circle after joining the company as full-fledged Petron employees.

Rome, a BS Management Accounting graduate, was a TAP scholar since he was in grade one. "Petron really helped me big time… From the school supplies and uniforms that I used during my elementary and high school days, up to the allowances that helped me and my family get through the expenses in college."

Christine, who graduated Magna Cum Laude with a degree in BS Accountancy, shares a similar experience. She describes being a TAP Scholar as a "fulfilling, delightful, and a life-changing experience."

"…because of the opportunity to be a TAP Scholar, I was able to continue my education without worrying about the financial aspect and allowing me to focus more on learning and growing as an individual and as a student," she says.

For Rome and Christine, Petron has always felt like family and the warm welcome they received from their new colleagues only made their transition into the workforce so much easier.

"It is a great feeling to be part of the organization because I get to meet [and interact] with these amazing people. So far, I am enjoying my stay here because my workmates are kind and helpful to me," Rome states.

"Finally working in the company that helped me throughout my education is very fulfilling as I got to experience what it truly feels like to work with my ates and kuyas in Petron. Working here proves that learning never ends," Christine adds.

Petron plants seeds for a better tomorrow through its many sustainability programs.

Lakbay Alalay, the country's longest running roadside assistance program, ensures that holiday travels are safe and hassle-free.

Environment

Our environmental programs are centered on increasing our carbon capture. For 2022, we planted more than 2,500 trees in Bawing and Tagoloan as part of our *Puno ng Buhay* Program. Since 2000, over a million trees and mangroves have been planted under this program with the help of Petron employees and fenceline communities. Our terminals participated in activities commemorating Environment Month, Earth Month, and Internal Coastal Day, resulting in nearly 15,000 more trees and mangroves planted, 51.4 tons of garbage collected, and nearly 17 kilometers of shoreline cleaned.

We supported the Bataan Integrated Coastal Management Program by co-hosting the Pawikan Festival which returned as a physical event in 2022. Petron sponsored the Environmental Forum held at the Pawikan Conservation Center in Morong, renewing our long-standing pledge to protect biodiversity in the area.

Health and Community Engagement

Looking after the health and wellbeing of our stakeholders is an extension of our role as a nation builder. To promote safety in the community, we partnered with the local government of Limay for the construction of a reinforced concrete pedestrian bridge. The Limay Pedestrian Bridge, which will span 82 meters and 6.30 meters wide, will be situated along the By-Pass Road Project covering Barangay Luz up to Barangay San Francisco de Asis.

Meanwhile, since 2021, the Petron Rosario Clinic in Cavite has been utilized by the LGU as a venue to perform elective surgeries during weekends. Prior to the pandemic, the Petron Clinics in Rosario, Pandacan, and Limay provided specialized medical services such as X-Ray, Ultrasound, ECG, and Laboratory services. As of this writing, these clinics remain closed to the public due to health protocols.

Road Safety

Petron Lakbay Alalay kept its long tradition of serving motorists during extended holidays. Petron stations along major thoroughfares offered free service check-ups covering tire pressure, oil and radiator water level, and brakes inspection. Emergency roadside assistance such as minor car repairs, first aid, and emergency phone calls were also available.

To complement our regular activities, over 50 **Petron Car Care Centers** and Lube Bays also gave free vehicle inspections during the Undas weekend.




THE TESDA-PETRON CAR CARE CENTER

Together with TESDA, Petron opened this learning facility specializing in automotive servicing

Through our partnership with the Technical Education and Skills Development Authority (TESDA), our automotive care brand Petron Car Care Center (CCC) has become a venue to enrich the skills of our local mechanics via the **TESDA-Petron Car Care Center**.

On June 29, 2022, we inaugurated the TESDA-Petron CCC inside the TESDA Compound in Taguig, opening its doors to qualified individuals looking to expand their expertise in automotive servicing.

The facility comes complete with a full car repair set-up patterned after the Petron CCC. With this partnership, Petron hopes to impart not only the Petron brand of excellence but also its commitment to service which has kept it a part of Filipino journeys for decades.

To ensure the quality of the service, the TESDA-Petron CCC exclusively uses Petron's world-class automotive oils. Training modules customized for our needs for possible employment opportunities are also being developed with TESDA. The training center is expected to produce around 100 graduates per year.

This partnership complements Petron Foundation's Automotive Care Education (ACE) program. Fueled by the same mission to build up the skills and productivity of Filipinos, members of Petron's fenceline communities receive training through the ACE program to become TESDA-certified mechanics and later work at Petron CCCs or Lube Bays.

The road to progress is not forged by one entity alone. And our hope is for this new training center to become a starting point where our countrymen will come out more capable, more experienced, and more empowered for the future.

Corporate Social Responsibility Highlights

EDUCATION

2,564
Tulong Aral ng Petron (TAP) scholars from elementary to college for SY 2021-2022

976
TAP graduates (elementary to college)

Over 17,000
TAP scholars since 2002

256
Petron Schools/classrooms built since 2002

68,800
Students and teachers assisted through Brigada Eskwela 2022

10,291
Teachers, school heads, and administrators benefiting from Teacher Training since 2002

ENVIRONMENT

Over 1 million
Trees and mangroves planted since 2000

Nearly 15,000
Trees and mangroves planted in 2022

51,371 kg
of garbage collected

16.6 km
of shoreline cleaned

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

COMMUNITY

100%
Participation of Petron terminals in social development and initiatives

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

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

206
Scholars hired by Petron, including BPSU (Bataan Peninsula State University) scholars hired as apprentices or cadets

COVID-19 AND RELIEF ASSISTANCE

Over 5,000
SMC employees, third party personnel, and endorsed individuals and Limay residents vaccinated at Ligtas Lahat Bataan Vaccination Site

₱ 100,000
Disaster relief assistance for earthquake victims in Abra

> “While our journey has not been easy, we are emerging from this period stronger and more determined to take on our bigger goals and aspirations.

Board of Directors

Ramon S. Ang
President and CEO

Lubin B. Nepomuceno

Ron. W. Haddock

Aurora T. Calderon

Estelito P. Mendoza

Francis H. Jardeleza

Mirzan Mahathir

Virgilo S. Jacinto

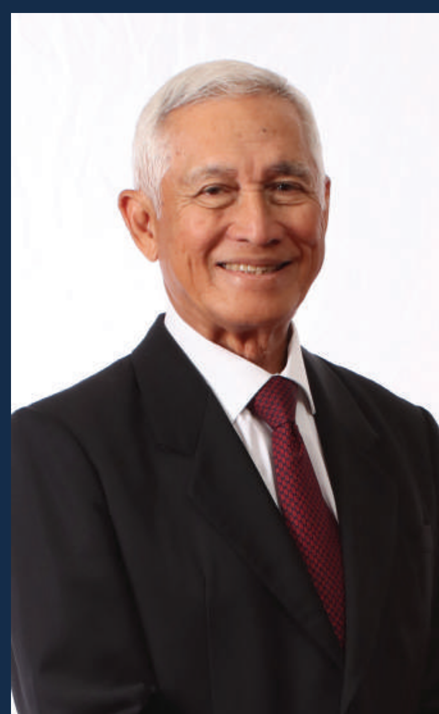
Nelly F. Villafuerte

Jose P. de Jesus

Horacio C. Ramos

John Paul L. Ang

Artemio V. Panganiban



Margarito B. Teves

Ricardo C. Marquez

Directors' Profiles

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"), New Ventures Realty Corporation ("NVRC"), Petron Freeport Corporation ("PFC"), Petron Fuel International Sdn. Bhd. (Malaysia) ("PFISB"), Petron Malaysia Refining & Marketing Bhd. (Malaysia) ("PMRMB"), and Petron Oil (M) Sdn. Bhd. ("POMSB") (Malaysia); 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"), Philippine Diamond Hotel and Resort, Inc., and Eagle Cement Corporation; Chairman, President and Chief Executive Officer of SMC TPLEX Corporation (formerly, Private Infra Dev Corporation); President and Chief Executive Officer of Northern Cement Corporation; Chairman and Chief Executive Officer of SMC Asia Car Distributors Corp.; and President of San Miguel Northern Cement, Inc. 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 Far Eastern University. He holds a doctoral degree in Business Engineering (Honoris Causa, 2018) from Far Eastern University and a Ph.D. in Humanities (Honoris Causa, October 1, 2006) from National University.

Mr. Ang also holds the following positions in other publicly listed companies: Vice Chairman, President and Chief Executive 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), and San Miguel Brewery Hongkong Limited (a company publicly listed in Hong Kong); 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 Petron Marketing Corporation ("PMC"); Director and Chief Executive Officer of PMRMB; Director of POGI, PFISB, POMSB, LLCDC, NVRC, PFC, Philippine Polypropylene Inc. ("PPI"), PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd., Petron Singapore Trading Pte. Ltd. ("PSTPL"), SMYPC and San Miguel Yamamura Packaging International, Ltd.; Chairman and Chief Executive Officer of Petron Foundation, Inc. ("PFI"); Chairman and President of Mema Holdings, Inc.; Chairman of Overseas Ventures Insurance Corporation Ltd. ("Ovincor") and Petrofuel Logistics, Inc. Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with SMC as a furnace engineer at the Manila Glass Plant in 1973 and rose to the ranks to become the General Manager of the San Miguel Packaging Group in 1998. He was also formerly the Senior Vice President and General Manager of the Company (September 2009–February 2013) and the President of the Company (February 2013–February 2015). He also served as the Chairman of Petrogen (until 2021) and a Director of MNHPI (2012–2014). Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and master's degree in Business Administration from De La Salle University. He also attended the Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

Mr. Nepomuceno does not hold a directorship in any company listed with the PSE other than Petron.

Estelito P. Mendoza

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

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

Jose P. de Jesus

Filipino, born 1934; has served as a Director of the Company since May 20, 2014. He is an Independent Director and the Chairman of Converge ICT 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, SMC SLEX, Inc., Comstech Integration Alliance, Inc., as well as an independent director of Alviera Country Club. He is a Trustee of the Kapampangan Development Foundation and Holy Angel University, and a Member of the Board of Advisors of Bantayog ng mga Bayani Foundation. 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 under university scholarship and Fulbright grant.

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

Ron W. Haddock

American, born 1940; has served as a Director of the Company since December 2, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of AEI; and lead independent director of the board of Delek Logistics Partners LP. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman of Safety-Kleen Systems; Chairman and Chief Executive Officer of Prisma Energy International and FINA, and held various management positions in Exxon Mobil Corporation including as Manager of Baytown Refinery, Corporate Planning Manager, Vice President for Refining, and Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc. He holds a degree in Mechanical Engineering from Purdue University.

Mr. Haddock does not hold a directorship in any company listed with the PSE other than Petron.

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

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

Aurora T. Calderon

Filipino, born 1954; has served as a Director of the Company since August 13, 2010. She is a member of the Executive Committee, the Audit Committee, the Risk Oversight Committee and the Related Party Transaction Committee. She holds the following positions, among others: Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of SMC; President of Petrogen; Director of SMC, PMRMB, POGM, POGI, PMC, PFC, PSTPL, SEA Refinery, NVRC, LLCDC, SMYPC, Thai San Miguel Liquor Co., Ltd., SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp., and various subsidiaries of SMC; and Director and Treasurer of Petron-affiliate Top Frontier. She has served as a Director of the Manila Electric Company ("MERALCO") (January 2009–May 2009), Senior Vice President of Guoco Holdings (1994–1998), Chief Financial Officer and Assistant to the President of PICOP Resources (1990–1998) and Assistant to the President and Strategic Planning at the Elizalde Group (1981–1989). She is a certified public accountant and is a member of the Capital Market Development Committee of the Financial Executives Institute of the Philippines and the Philippine Institute of Certified Public Accountants. She is also a director of the Market Governance Board of the Philippine Dealing System Holdings. Ms. Calderon graduated magna cum laude from the University of the East in 1973 with a degree in Business Administration major in Accounting and earned her master's degree in Business Administration from the Ateneo de Manila University in 1980.

Of the companies in which Ms. Calderon currently holds directorships other than Petron, SMC and Petron affiliate Top Frontier are also listed with the PSE.

Francis H. Jardeleza

Filipino, born 1949; has served as a Director of the Company since August 4, 2020. He is likewise a Director of GSMI and SMFB. He is also a director of MORE Electric and Power Corporation. He has been a Professorial Lecturer in Constitutional, Administrative, Remedial and Corporation Law at the University of the Philippines College of Law since 1993. Justice Jardeleza is also currently the Chairman of the International and Maritime Law Department of the Philippine Judicial Academy. He was formerly the Senior Vice President and General Counsel of SMC (1996–2010), a partner of Angara Abello Concepcion Regala and Cruz Law Offices (1975–1987), Roco Buñag Kapunan Migallos and Jardeleza Law Offices (1992–1995), Jardeleza Sobreviñas Diaz Hayudini and Bodegon Law Offices (1987–1990) and Jardeleza Law Offices (1990–1992). He is a retired Associate Justice of the Supreme Court of the Philippines (August 19, 2014–September 25, 2019). He also served as Solicitor General of the Office of the Solicitor General of the Philippines (February 20, 2012–August 18, 2014) and Deputy Ombudsman for Luzon of the Office of the Ombudsman of the Philippines (July 7, 2011–February 19, 2012). Justice Jardeleza earned his Bachelor of Laws degree (salutatorian and cum laude) from the University of the Philippines in 1974, placed third in the bar exam that same year, and earned his Master of Laws degree from Harvard Law School in 1977.

Of the companies in which Justice Jardeleza currently holds directorships other than Petron, Petron affiliates GSMI and SMFB are also listed with the PSE.

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 and 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 Villareal Law Offices (June 1985–May 1993) and an Associate of SyCip Salazar Feliciano & Hernandez Law Office (1981–1985). Atty. Jacinto is an Associate Professor of Law at the University of the Philippines. He obtained his law degree from the University of the Philippines (cum laude) where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard University.

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

Nelly Favis-Villafuerte

Filipino, born 1937; has served as a Director of the Company since December 1, 2011. She was a columnist in two columns of the Manila Bulletin for more than 34 years and resigned recently. She was also a former Member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2005 until July 2011. She is the President and General Manager of LRV Agri-Science Farm, Inc., a family-owned corporation, and a Director of Bicol Broadcasting Systems, Inc. (also a family-owned corporation). She is an author of business handbooks on microfinance, credit card transactions, exporting and cyberspace and a four (4)-volume series on the laws on banking and financial intermediaries (Philippines). Atty. Villafuerte has served as Governor of the Board of Investments (1998–2005), Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the Department of Trade and Industry (“DTI”) (July 1998–May 2000), and Undersecretary for the Regional Operations Group of the DTI (May 2000–2005). She holds a master’s degree in Business Management from the Asian Institute of Management (“AIM”) and was a professor of international law/trade/marketing at the graduate schools of AIM, Ateneo Graduate School of Business and De La Salle Graduate School of Business and Economics. Atty. Villafuerte obtained her Associate in Arts and law degrees from the University of the Philippines and ranked seventh place in the bar examinations.

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

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 (2014–2016), the Secretary of the Department of Environment and Natural Resources (February 12–June 30, 2010), and the Director of Mines and Geosciences Bureau (June 1996–February 2010). Mr. Ramos has a Bachelor of Science degree in Mining Engineering from the Mapua Institute of Technology obtained in 1967, and has a Graduate Diploma in Mining and Mineral Engineering from the University of New South Wales, Australia in 1976, and a Master of Engineering in Mining Engineering also from the University of New South Wales, Australia in 1978.

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

John Paul L. Ang

Filipino, born 1980; was elected as a Director of the Company on March 9, 2021. He has been a director of SMC since January 21, 2021, SMC Global Power Holdings Corp. since June 1, 2021, SMFB since June 2, 2021 and Top Frontier since July 9, 2021. He holds and has held various positions in Eagle Cement Corporation, such as the President and Chief Executive Officer since 2008, a Director since 2010, a member of the Audit Committee since 2020 and the Chairman of the Executive Committee since February 2017. He also served as a member of the Nomination and Remuneration Committee (February 13, 2017–July 15, 2020) and the General Manager and Chief Operating Officer (2008–2016). He has been the President and Chief Executive Officer of South Western Cement Corporation since 2017 and a Director of KB Space Holdings, Inc. since 2016. He was the Managing Director of Sarawak Clinker Sdn. Bhd. Malaysia (2002–2008) and the Purchasing Officer of Basic Cement (2002–2003). Mr. Ang has a Bachelor of Arts in Interdisciplinary Studies from the Ateneo de Manila University.

Of the companies in which Mr. Ang currently holds directorships, parent companies Top Frontier and SMC and Petron affiliate SMFB 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 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 Far Eastern University in 1960, placed sixth in the bar exam that same year, and holds honorary doctoral degrees in law from several universities. He co-founded and headed the National Union of Students of the Philippines in 1957–1959.

Apart from Petron, Chief Justice Panganiban is an Independent Director of the following listed companies: MERALCO, JG Summit Holdings, Inc., PLDT, Inc., Metro Pacific Investments 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 London-based *The Banker* magazine. He holds a Master of Arts degree in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

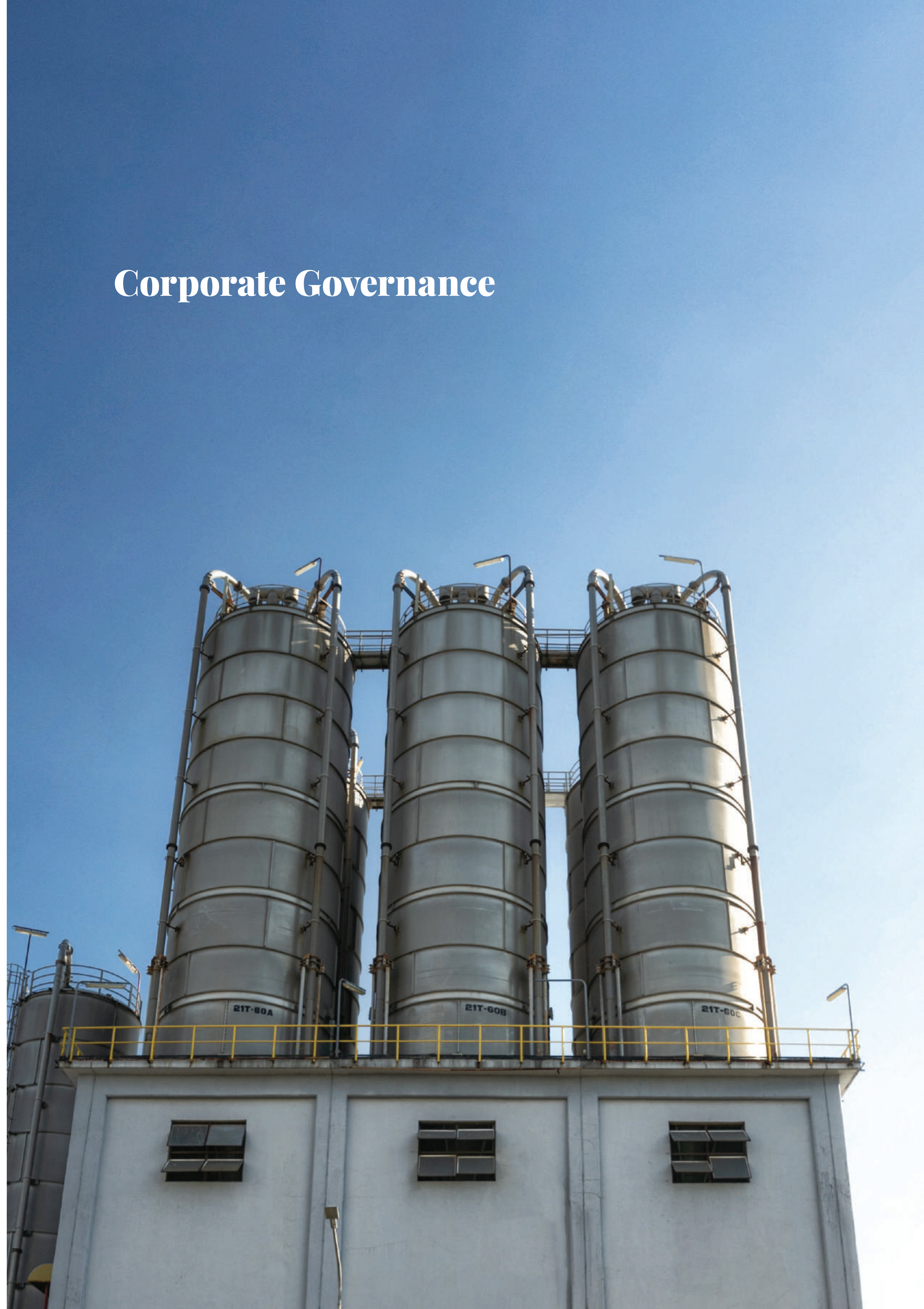
Of the companies in which Mr. Teves currently holds directorships other than Petron, SMC and Atok are also listed with the PSE.

Ricardo C. Marquez

Filipino, born 1960; has served as independent director of the Company since May 17, 2022. He currently holds the following positions: an independent director and the Chairman of the Risk Oversight Committee of SMFB (since March 2017); an independent director and the Chairman of the Risk Oversight Committee of Eagle Cement Corporation (since February 2017); an independent director of Top Frontier (since June 2022) and a member of the Board of Trustees of the Public Safety Mutual Benefit Fund, Inc. (beginning July 2015), after serving as its Chairman from July 2015 to June 2016. He served the Philippine National Police ("PNP") in various capacities before he became the PNP Chief in July 2015. He was awarded twice the Philippine Legion of Honor by the President of the Philippines, and feted by his alma mater with her highest award, the Cavalier Award as the Most Outstanding Alumnus in Special Operations. He completed the Senior Leadman Course of the University of the Philippines Open University; Leaders in Development Executive Program of the Harvard Kennedy School; the Strategic Business Economics Program of the University of Asia and the Pacific; the 224th Session of the Federal Bureau of Investigation National Academy; and the Senior Crisis Management Course of the Anti-Terrorism Assistance Program, Department of Homeland Security in Washington, D.C. He graduated from the Philippine Military Academy and holds a Master in Management degree from the Philippine Christian University.

Of the companies in which Gen. Marquez currently holds directorships other than Petron, Petron affiliate SMFB is also listed with the PSE.

Corporate Governance



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 2022, the Board of Directors appointed Atty. Jhoanna Jasmine M. Javier-Elacio, then OIC–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 2022, 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 20, and 21, 2022, with the second publication completed 26 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, 2022, the outstanding capital stock of the Company was comprised of 9,375,104,497 common shares; 13,403,000 Series 3A preferred shares; and 6,597,000 Series 3B preferred shares.

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 ₱1,000 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 ₱1,000.00 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Cash dividends have been paid out on the Series 3 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.

Preferred Share Dividend Payments

The cash dividends declared in 2022 for the preferred shares are discussed below.

Series 3A Preferred Shares

Cash dividends of ₱17.17825 per Series 3A Preferred Share were declared by the Board of Directors for the following periods and with the following details: (i) on August 1, 2022, for the third quarter of 2022, with a record date of August 31, 2022 and a pay-out date of September 26, 2022 (with September 25, 2022 falling on a Sunday); (ii) on November 8, 2022, for the fourth quarter of 2022, with a record date of November 29, 2022 and a pay-out date of December 26, 2022 (with December 25, 2022 being a holiday and falling on a Sunday); and (iii) on November 8, 2022, for the first quarter of 2023, with a record date of March 2, 2023 and a pay-out date of March 27, 2023 (with March 25, 2023 falling on a Saturday).

Series 3B Preferred Shares

Cash dividends of ₱17.84575 per Series 3B Preferred Share were declared by the Board of Directors for the following periods and with the following details: (i) on August 1, 2022, for the third quarter of 2022, with a record date of August 31, 2022 and a pay-out date of September 26, 2022 (with September 25, 2022 falling on a Sunday); (ii) on November 8, 2022, for the fourth quarter of 2022, with a record date of November 29, 2022 and a pay-out date of December 26, 2022 (with December 25, 2022 being a holiday and falling on a Sunday); and (iii) on November 8, 2022, for the first quarter of 2023, with a record date of March 2, 2023 and a pay-out date of March 27, 2023 (with March 25, 2023 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 2022 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 needs not be a stockholder, will subscribe to an oath to faithfully execute his/her duties as an inspector of votes with strict impartiality and according to 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 2022, 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 rovided 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 2022) 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 2022, the Board of Directors had six (6) meetings held on February 15, March 8, May 4, May 17, August 1, and November 8. Except for: 1) one director who attended five (5) out of the six (6) board meetings held in 2022 (equal to 83% of the number of meetings held), and 2) one director who attended two (2) out of three (3) board meetings held in 2022 prior to the cession of his office as director, all the other of directors attended all the board meetings held in 2022 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 2022 at the board meeting held on November 9, 2021. 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 2022 conducted by providers duly accredited by the SEC.

The attendance of the directors at the meetings and corporate governance seminar held in 2022 is set out below:

Directors' Attendance at Meetings and Corporate Governance Seminar

DIRECTORS' NAME	February 15 Special Board Meeting	March 8 Regular Board Meeting	May 4 Regular Board Meeting	May 17 Annual Stockholders' Meeting	May 17 Organizational Board Meeting	August 1 Regular Board Meeting	November 8 Regular Board Meeting	Attendance at Corporate Governance Seminar in 2022
1. Ramon S. Ang	●	●	●	●	●	●	●	●
2. Lubin B. Nepomuceno	●	●	●	●	●	●	●	●
3. Estelito P. Mendoza	●	●	●	▽	▽	●	●	●
4. Jose P. De Jesus	●	●	●	●	●	●	●	●
5. Ron W. Haddock	●	●	●	●	●	●	●	●
6. Mirzan Mahathir	●	●	●	●	●	●	●	●
7. Aurora T. Calderon	●	●	●	●	●	●	●	●
8. Francis H. Jardeleza	●	●	●	●	●	●	●	●
9. Virgilio S. Jacinto	●	●	●	●	●	●	●	●
10. Nelly Favis-Villafuerte	●	●	●	●	●	●	●	●
11. Horacio C. Ramos	●	●	●	●	●	●	●	●
12. John Paul L. Ang	●	●	●	●	●	●	●	●
13. Artemio V. Panganiban	●	●	●	●	●	●	●	●
14. Margarito B. Teves	●	●	●	●	●	●	●	●
15. Carlos Jericho L. Petilla *	●	●	▽	N/A	N/A	N/A	N/A	N/A
16. Ricardo C. Marquez **	N/A	N/A	N/A	●	●	●	●	●

Legend: ● *Present* ▽ *Absent*
* *Ceased to be a Director on May 17, 2022*
** *Elected as Director at the May 17, 2022 Annual Stockholders' Meeting*

Independent Directors

In 2022, 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. Petilla ceased to be a director on May 17, 2022. Mr. Ricardo C. Marquez was elected as director at the May 17, 2022 Annual Stockholders' Meeting, completing the roster of independent directors.

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 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 2022, the Executive Committee was chaired by Mr. Ramon S. Ang, with Ms. Aurora T. Calderon and Lubin B. Nepomuceno as members. Mr. John Paul L. Ang and Atty. Virgilio S. Jacinto were alternate members of the Executive Committee.

The Executive Committee held 5 meetings in 2022, 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.

Executive Committee

MEMBERS	January 12	March 18	May 30	August 11	October 25
Ramon S. Ang (Chairperson)	●	●	●	●	
Lubin B. Nepomuceno (Member)	●	●	●	●	●
Aurora T. Calderon (Member)	●	●	●	●	●
Virgilio S. Jacinto (Alternate Member)					●
John Paul L. Ang (Alternate Member) *					

** Alternate Member from May 17, 2022 Organizational Meeting*

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 2022, the Audit Committee was chaired by Independent Director 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. Ricardo C. Marquez replaced Mr. Petilla at the May 17, 2022 Organizational Meeting. Mr. Ferdinand K. Constantino acted as advisor to the committee.

The Audit Committee held four (4) meetings on March 8, May 4, August 1, and November 8, with attendance as indicated below.

Audit Committee

MEMBERS	March 8	May 4	August 1	November 8
Margarito B. Teves (Independent Director; Chairperson)	●	●	●	●
Artemio V. Panganiban (Independent Director)	●	●	●	●
Carlos Jericho L. Petilla (Independent Director) *	●	▽	N/A	N/A
Ricardo C. Marquez (Independent Director)	(Not yet a committee member)	(Not yet a committee member)	●	●
Estelito P. Mendoza	●	●	●	●
Aurora T. Calderon	●	●	●	●
Ferdinand K. Constantino	●	●	●	●

▽ *Absent*
* *Replaced by Gen. Ricardo C. Marquez as a member at the May 17, 2022 Organizational Meeting*

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 17, 2022 (the date of the 2022 organizational board meeting), the Corporate Governance Committee was chaired by Independent Director Carlos Jericho L. Petilla, with Independent Director former Chief Justice Artemio V. Panganiban, Mr. Margarito B. Teves, Atty. Estelito P. Mendoza, and Atty. Virgilio S. Jacinto as members. From May 17, 2022, the Corporate Governance Committee was chaired by Independent Director former Chief Justice Artemio V. Panganiban, with Independent Directors Mr. Margarito B. Teves and Mr. Ricardo C. Marquez, and Atty. Estelito P. Mendoza, and Atty. Virgilio S. Jacinto as members.

In 2022, the Corporate Governance Committee held one (1) meeting on March 8, with the following members in attendance:

Corporate Governance Committee

MEMBERS	March 8
Carlos Jericho L. Petilla (Independent Director) *	●
Artemio V. Panganiban (Independent Director)	●
Margarito B. Teves (Independent Director)	●
Estelito P. Mendoza	●
Virgilio S. Jacinto	●

* *Replaced by Chief Justice Artemio V. Panganiban at the May 17, 2022 Organizational Meeting*

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 2022, the Risk Oversight Committee was chaired by Independent Director Mr. Ricardo C. Marquez, with Independent Director Mr. Margarito B. Teves and Ms. Aurora T. Calderon as members.

The Risk Oversight Committee did not hold meetings in 2022.

Related Party Transaction Committee

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

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

The Related Party Transaction Committee has been chaired by independent director former Chief Justice Artemio V. Panganiban, with Independent Director Mr. Margarito B. Teves and Ms. Aurora T. Calderon as members.

In 2022, the Related Party Transaction Committee held one (1) meeting, with attendance indicated below:

Related Party Transaction Committee

MEMBERS	November 8
Artemio V. Panganiban (Independent Director; Chairperson)	●
Margarito B. Teves (Independent Director)	●
Aurora T. Calderon	●

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 2022. 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 4.72 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 4.73 based on a series of nine (9) questions; and (4) Individual Performance of Directors - The ratings averaged 4.76 based on a series of 10 questions.

External Audit

R.G. Manabat & Co./KPMG ("KPMG") was the independent auditor of the Company for year 2022. 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 17, 2022.

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 2022, the OGCCS, headed by Atty. Elacio, 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 protection officer.

Policy on Related Party Transactions

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

On November 9, 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 2022 of the Company with related parties.

Financial Highlights

Sustained recovery amid uncertainty

	2022	2021	2020
	Amounts in millions of Philippine Pesos, except earnings (loss) per share and sales volume data		
Net Sales	857,638	438,057	286,033
Gross Profit	33,850	30,499	8,713
Operating Income (Loss)	19,213	17,215	(4,629)
Net Income (Loss)	6,697	6,136	(11,413)
EBITDA	33,061	27,198	4,308
Total Assets	460,071	407,420	349,725
Total Equity	113,550	110,913	86,195
Earnings (Loss) Per Share	0.01	0.05	(1.58)
Sales Volume (in Thousand Barrels)	112,812	82,241	78,582
Return on Assets	1.54%	1.62%	-3.07%
Return on Equity	5.97%	6.23%	-12.78%

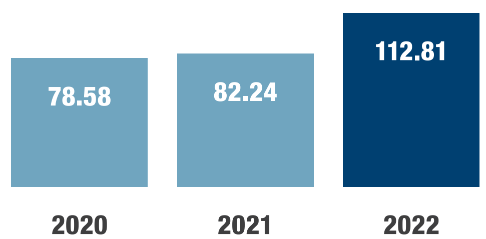
Geopolitical issues, global oil supply disruption, and lingering challenges caused by COVID-19 were the major concerns that loomed over 2022. These contributed to the very high volatility in oil prices during the year. After surging in the second quarter of 2022, prices corrected in the second half. Overall in 2022, the benchmark Dubai crude remained elevated averaging US$96/bbl compared to US$69/bbl in 2021. On the upside, 2022 also ushered in the return of strong regional refining cracks.

Consolidated sales volume grew to 112.81 million barrels (MMB), 37% higher than previous year. The high demand in the industrial and aviation sectors fueled the recovery in Commercial sales. As motorists' mobility increased, Retail sales of the Philippines and Malaysia together reflected a 26% improvement. In addition, PSTPL's trading volume increased more than two-fold and with the polypropylene plant back in operations in 2022, sales of polypropylene also went up substantially.

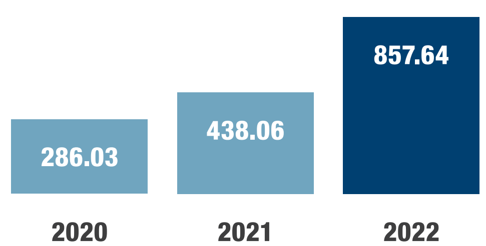
Net sales almost doubled to ₱857.64 billion from ₱438.06 billion in the previous year driven by the 37% growth in sales volume and high price levels vis-a-vis 2021.

Year-on-year profitability improved, gross profit rose by 11% to ₱33.85 billion traced to healthier refining margins and volume growth while earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 22% to ₱33.06 billion.

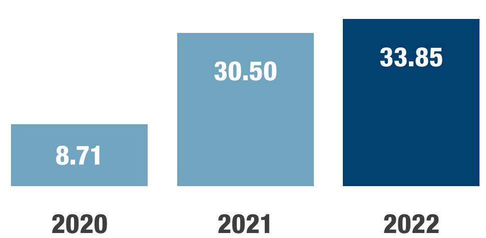
SALES VOLUME
(in million barrels)



NET SALES
(in billions of Philippine Pesos)



GROSS PROFIT
(in billions of Philippine Pesos)



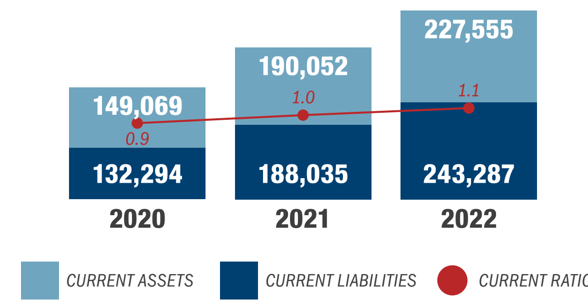
Higher working capital requirements

By the end of 2022, consolidated assets aggregated to ₱460.07 billion, up by 13% versus end-2021 level mainly from higher working capital (receivables and inventories) as a result of the spike in oil prices. Consequently, short-term loans and suppliers' credit also escalated.

Meanwhile, movement in long-term debt was primarily due to the 9% or ₱4.76 depreciation of the peso against the US dollar raising the end-2022 balance to ₱107.06 billion from ₱102.65 billion as of end-2021. Total liabilities climbed by 17% to ₱346.52 billion.

Current ratio improved to 1.1x while return on assets and equity were at 1.54% and 5.97%, respectively.

CURRENT ASSETS VS. CURRENT LIABILITIES
(in millions of Philippine Pesos)

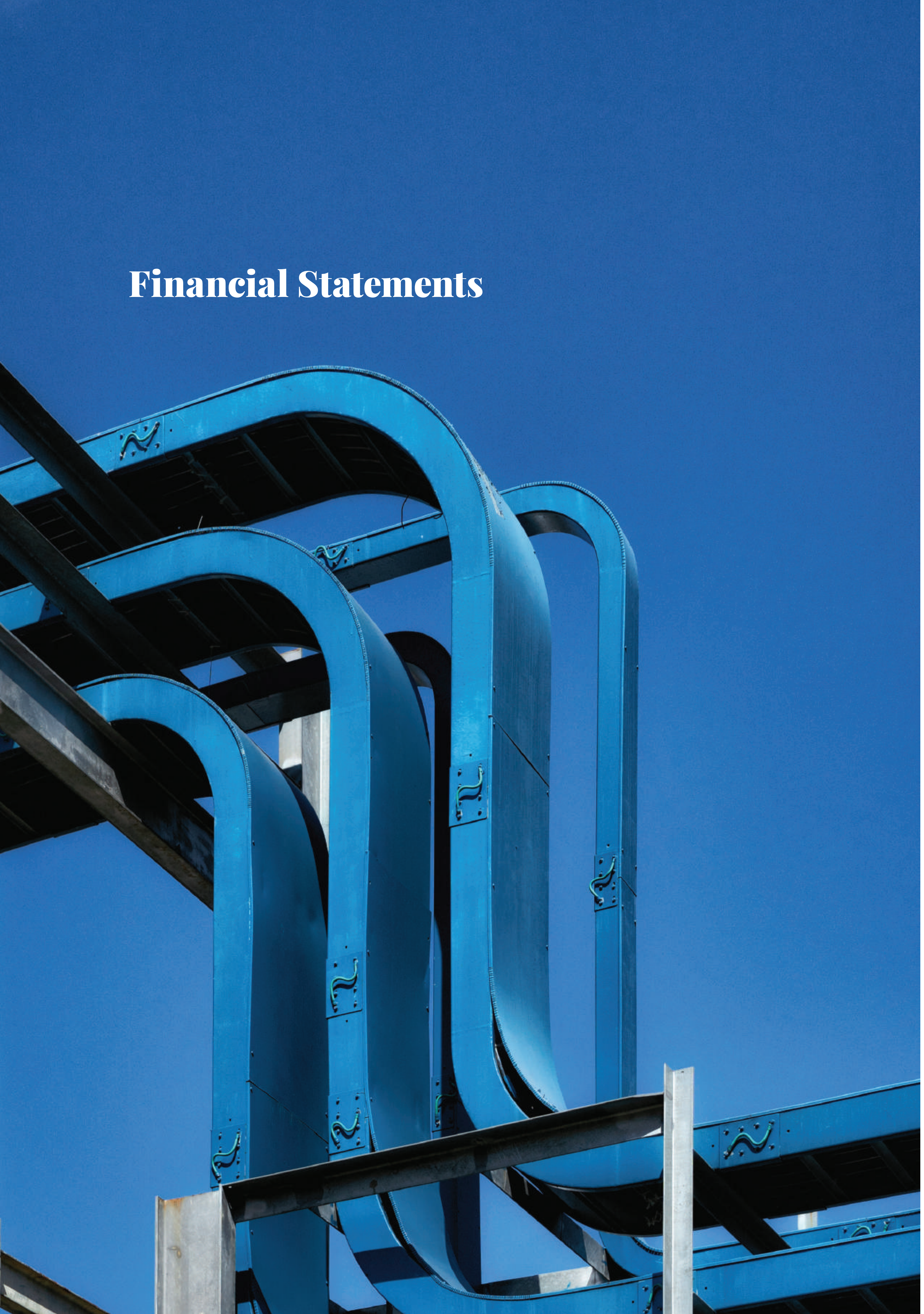


Stable cash balance

	2022	2021	2020
	Amounts in Millions of Philippine Pesos		
Beginning Cash Balance	36,406	27,053	34,218
Operating Inflows (Outflows)	(22,674)	(10,668)	2,533
Investing Outflows	(2,382)	(9,759)	(8,437)
Financing Inflows	22,807	28,098	318
Effects of Exchange Rate Changes	3,026	1,682	(1,579)
Ending Cash Balance	37,183	36,406	27,053

Cash balance stood at ₱37.18 billion as of end-2022 from the previous year's balance of ₱36.41 billion.

Operating activities generated cash of ₱31.95 billion which was used to pay interests and taxes as well as fund the projects in the refinery, terminals and service stations. The remaining balance combined with the net cash provided by financing activities was used to cover the higher working capital requirements during the year.



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 2022:

- 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 2022;
- 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 Head 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 2022.

Margarito B. Teves
Chairperson
Independent Director

Estelito P. Mendoza
Director

Artemio V. Panganiban
Independent Director

Aurora T. Calderon
Director

Ricardo C. Marquez
Independent Director

PETRON

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, 2022 and 2021**, 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 6th day of March 2023

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 06 2023, 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. 70;
Page No. 15;
Book No. II;
Series of 2023

MARIA CRISSELDA T. TORCUATOR
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
Appointment No. 0582-23
Until December 31, 2024
Attorney's Roll No. 71094
PTR No. 5113009/01-03-2023/Mandaluyong
IBP No. 268623/01-04-2023/RSM
MCLE Compliance No. VII-0021478/06-17-2022

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)
144,388 (as of December 31, 2022)	May 16, 2023	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.***

KPMG

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and of its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

KPMG

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 (P857,638 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 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 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 (P85,347 million)
Refer to Note 3, *Significant Accounting Policies*, Note 4, *Use of 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 (P8,509 million)
Refer to Note 3, *Significant Accounting Policies*, Note 4, *Use of Judgments, Estimates and Assumptions* and Note 13, *Business Combination, Investment in Shares of Stock of Subsidiaries, Goodwill and Non-Controlling Interests* to the consolidated financial statements.

The risk
The Group has significant amount of goodwill arising from business acquisitions. We particularly focused on the valuation of goodwill allocated to Petron Oil and Gas International Sdn. Bhd. Group (Petron Malaysia Group) which accounts for 99% of total goodwill. The annual impairment test was significant to our audit as the assessment process is complex by nature and is based on management's judgment and assumptions on future market and/or economic conditions. The assumptions used include future cash flow projections, growth rates and discount rates.

Our response
We performed the following audit procedures, among others, on the valuation of goodwill:

- We tested the integrity of the discounted cash flow model used by the Group. This involved the review of component auditor's work and use of their own valuation specialist to assist in evaluating the models used and assumptions applied and comparing these assumptions to external data, where applicable. The key assumptions include sales volume, selling price and gross profit margin.

- We compared the Group's assumptions to externally derived data, where applicable, 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, 2022, 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, 2022 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.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and determine whether the other information needs to be revised.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

KPMG

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Rohanie C. Galicia.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
SEC Accreditation No. 118706-SEC, Group A, valid for five (5) years
covering the audit of 2022 to 2026 financial statements
Tax Identification No. 249-773-914
BIR Accreditation No. 08-001987-044-2021
Issued September 2, 2021; valid until September 1, 2024
PTR No. MKT 9563827
Issued January 3, 2023 at Makati City

March 16, 2023
Makati City, Metro Manila

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

		December 31	
	Note	**2022**	2021
ASSETS			
Current Assets			
Cash and cash equivalents	*5, 35, 36*	**P37,183**	P36,406
Financial assets at fair value	*6, 15, 35, 36*	**1,753**	1,005
Trade and other receivables - net	*4, 8, 29, 35, 36*	**81,979**	51,745
Inventories - net	*4, 9*	**85,347**	67,684
Other current assets	*15, 29*	**37,025**	31,195
Total Current Assets		**243,287**	188,035
Noncurrent Assets			
Investment in shares of stock of an associate	*2, 14*	**1,075**	1,012
Property, plant and equipment - net	*4, 10, 12, 38*	**170,153**	171,602
Right-of-use assets - net	*4, 11*	**5,398**	5,648
Investment property - net	*4, 10, 12*	**28,437**	29,175
Deferred tax assets - net	*4, 28*	**1,812**	2,172
Goodwill - net	*4, 13*	**8,509**	8,235
Other noncurrent assets - net	*4, 6, 15, 35, 36*	**1,400**	1,541
Total Noncurrent Assets		**216,784**	219,385
		P460,071	P407,420
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*16, 34, 35, 36*	**P137,886**	P109,196
Liabilities for crude oil and petroleum products	*17, 29, 32, 35, 36*	**51,067**	42,641
Trade and other payables	*18, 29, 31, 34, 35, 36, 40*	**22,896**	14,001
Lease liabilities - current portion	*4, 32, 34, 35*	**1,380**	1,335
Derivative liabilities	*35, 36*	**723**	997
Income tax payable		**204**	302
Current portion of long-term debt - net	*19, 34, 35, 36*	**13,399**	21,580
Total Current Liabilities		**227,555**	190,052
Noncurrent Liabilities			
Long-term debt - net of current portion	*19, 34, 35, 36*	**93,662**	81,065
Retirement benefits liability - net	*31*	**3,261**	3,327
Deferred tax liabilities - net	*28*	**3,601**	3,784
Lease liabilities - net of current portion	*4, 32, 34, 35*	**13,714**	14,220
Asset retirement obligation	*4, 20*	**3,527**	2,857
Other noncurrent liabilities	*21, 35, 36*	**1,201**	1,202
Total Noncurrent Liabilities		**118,966**	106,455
Total Liabilities		**346,521**	296,507

Forward

		December 31	
	Note	**2022**	2021
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**	62,712
Retained earnings		**30,357**	30,232
Equity reserves		**(16,887)**	(18,341)
Treasury stock		**(18,000)**	(18,000)
Total Equity Attributable to Equity Holders of the Parent Company		**105,167**	103,588
Non-controlling Interests	*13*	**8,383**	7,325
Total Equity		**113,550**	110,913
		P460,071	P407,420

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Million Pesos, Except Per Share Data)

	Note	**2022**	2021	2020
SALES	*29, 32, 38*	**P857,638**	P438,057	P286,033
COST OF GOODS SOLD	*23*	**823,788**	407,558	277,320
GROSS PROFIT		**33,850**	30,499	8,713
SELLING AND ADMINISTRATIVE EXPENSES	*24*	**(16,175)**	(14,557)	(14,389)
OTHER OPERATING INCOME	*4, 30*	**1,538**	1,273	1,047
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*27, 38*	**(13,094)**	(10,008)	(11,313)
INTEREST INCOME	*27, 38*	**898**	564	780
SHARE IN NET INCOME OF AN ASSOCIATE	*14*	**63**	8	-
OTHER INCOME (EXPENSE) - Net	*27*	**1,021**	(482)	(1,049)
		(25,749)	(23,202)	(24,924)
INCOME (LOSS) BEFORE INCOME TAX		**8,101**	7,297	(16,211)
INCOME TAX EXPENSE (BENEFIT)	*28, 37, 38*	**1,404**	1,161	(4,798)
NET INCOME (LOSS)		**P6,697**	P6,136	(P11,413)
Attributable to:				
Equity holders of the Parent Company	*33*	**P5,727**	P5,369	(P11,380)
Non-controlling interests	*13*	**970**	767	(33)
		P6,697	P6,136	(P11,413)
BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	*33*	**P0.01**	P0.05	(P1.58)

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Million Pesos)

	Note	2022	2021	2020
NET INCOME (LOSS)		**P6,697**	P6,136	(P11,413)
OTHER COMPREHENSIVE LOSS				
Item that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*31*	**(626)**	(597)	(631)
Income tax benefit (expense)	*28*	**156**	(213)	191
		(470)	(810)	(440)
Items that may be reclassified to profit or loss				
Income on cash flow hedges	*36*	**73**	202	100
Exchange differences on translation of foreign operations		**2,137**	880	(1,330)
Unrealized fair value gains on investments in debt instruments at fair value through other comprehensive income	*7*	**-**	-	1
Share in other comprehensive income of a joint venture		**-**	-	10
Income tax expense	28	**(19)**	(65)	(30)
		2,191	1,017	(1,249)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**1,721**	207	(1,689)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax		**P8,418**	P6,343	(P13,102)
Attributable to:				
Equity holders of the Parent Company		**P7,181**	P5,399	(P12,852)
Non-controlling interests	*13*	**1,237**	944	(250)
		P8,418	P6,343	(P13,102)

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(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, 2021		**P9,485**	**P37,500**	**P62,712**	**P7,003**	**P23,229**	**(P5,962)**	**(P12,379)**	**(P18,000)**	**P103,588**	**P7,325**	**P110,913**
Net income on cash flow hedges - net of tax	*36*	-	-	-	-	-	-	54	-	54	-	54
Exchange differences on translation of foreign operations		-	-	-	-	-	-	1,875	-	1,875	262	2,137
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(475)	-	-	(475)	5	(470)
Other comprehensive income (loss)		-	-	-	-	-	(475)	1,929	-	1,454	267	1,721
Net income for the year		-	-	-	-	5,727	-	-	-	5,727	970	6,697
Total comprehensive income (loss) for the year		-	-	-	-	5,727	(475)	1,929	-	7,181	1,237	8,418
Cash dividends	22	-	-	-	-	(1,044)	-	-	-	(1,044)	(179)	(1,223)
Distributions paid	22	-	-	-	-	(4,545)	-	-	-	(4,545)	-	(4,545)
Share issuance cost of a subsidiary		-	-	-	-	(13)	-	-	-	(13)	-	(13)
Transactions with owners		-	-	-	-	(5,602)	-	-	-	(5,602)	(179)	(5,781)
As of December 31, 2022		**P9,485**	**P37,500**	**P62,712**	**P7,003**	**P23,354**	**(P6,437)**	**(P10,450)**	**(P18,000)**	**P105,167**	**P8,383**	**P113,550**

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, 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

	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, 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 capital 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

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020
(Amounts in Million Pesos)

	Note	**2022**	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**P8,101**	P7,297	(P16,211)
Adjustments for:				
Interest expense and other financing charges	*27, 38*	**13,094**	10,008	11,313
Depreciation and amortization	*26, 38*	**11,876**	9,848	9,490
Unrealized foreign exchange losses (gains) - net		**670**	2,811	(2,308)
Retirement benefits costs	*31*	**367**	289	289
Share in net income of an associate	*14*	**(63)**	(8)	-
Interest income	*27*	**(898)**	(564)	(780)
Other losses - net		**(1,201)**	(1,228)	(994)
Operating income before working capital changes		**31,946**	28,453	799
Changes in noncash assets, certain current liabilities and others	*34*	**(38,308)**	(29,322)	12,031
Changes in noncash assets and liabilities of new subsidiary	*13*	**(3,165)**	-	-
Cash generated from (used in) operations		**(9,527)**	(869)	12,830
Contribution to retirement fund	*31*	**(900)**	(810)	(315)
Interest paid		**(12,086)**	(9,274)	(10,758)
Income taxes paid		**(1,001)**	(365)	(110)
Interest received		**840**	650	886
Net cash flows provided by (used in) operating activities		**(22,674)**	(10,668)	2,533
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	*10*	**(5,397)**	(9,195)	(8,167)
Proceeds from sale of property and equipment		**9**	131	144
Acquisition of investment property	*12*	**(286)**	(695)	(591)
Proceeds from sale of investment property		**12**	-	-
Increase in other noncurrent assets		**(22)**	-	(43)
Proceeds from disposal of:				
Investment in subsidiary - net	*13*	**-**	-	181
Investments in debt instruments		**-**	-	39
Net cash from consolidation of a new subsidiary	*13*	**3,302**	-	-
Net cash flows used in investing activities		**(2,382)**	(9,759)	(8,437)

Forward

	Note	**2022**	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans, bonds and advances	*29, 34*	**P373,935**	P227,057	P151,408
Payments of:				
Loans and bonds	*34*	**(342,654)**	(215,431)	(155,604)
Lease liabilities	*30, 34*	**(2,347)**	(2,226)	(2,361)
Cash dividends and distributions	*22, 34*	**(6,127)**	(4,655)	(4,423)
Redemption of preferred shares	*22*	**-**	(2,878)	-
Issuance of capital securities	*22*	**-**	26,231	11,298
Net cash flows provided by financing activities		**22,807**	28,098	318
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**3,026**	1,682	(1,579)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**777**	9,353	(7,165)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**36,406**	27,053	34,218
CASH AND CASH EQUIVALENTS AT END OF YEAR	*5*	**P37,183**	P36,406	P27,053

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 more than 30 terminals and facilities 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 around 1,900 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, 10 product terminals and facilities, and a network of more than 750 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, 2022, 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 and Sustainability Reporting Standards Council (FSRSC).

The consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on March 6, 2023.

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 2022	2021	Country of Incorporation
Overseas Ventures Insurance Corporation Ltd. (Ovincor)	**100.00**	100.00	Bermuda
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
Mema Holdings, Inc. (Mema) and Subsidiaries	**100.00**	-	Philippines

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, 2022 and 2021, NVRC owns 100% of Las Lucas Construction and Development Corporation (LLCDC), Parkville Estates and 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, 2022 and 2021, 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, 2022 and 2021, PAHL owns 100% of Robinsons International Holdings Limited (RIHL) which owns 100% of Philippine Polypropylene, Inc. (PPI) and 40% of MLC.

Mema is a holding company acquired by the Parent Company on June 30, 2022. As of December 31, 2022, Mema owns 100% of Weldon Offshore Strategic Limited Incorporated which owns 100% of Petrofuel Logistics, Inc. (PLI). PLI engages in the business of providing logistics and freight forwarding services for the hauling, carriage, transportation, forwarding, and/or storage of various goods and products.

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 2022 and 2021.

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 the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of Amended Standards

The FSRSC approved the adoption of a number of amended standards as part of PFRS.

The Group has adopted the following PFRS effective January 1, 2022 and accordingly, changed its accounting policies in the following areas:

- 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 entity 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.

- 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 comprises both incremental costs and an allocation of other direct costs.

- 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, *Financial Instruments*). 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.

  - Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16, *Leases*). 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*.

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:

  - replaced a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirement;

  - added a requirement that, for transactions and other events within the scope of PAS 37 or International Financial Reporting Interpretations Committee (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 adoption of the amended standards did not have a material effect on the consolidated financial statements.

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2022 and have not been applied in preparing the consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements.

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

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

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

- Classification of Liabilities as Current or Noncurrent - 2020 amendments and Non-Current Liabilities with Covenants - 2022 amendments (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 only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;

  - provided additional disclosure requirements for non-current liabilities subject to conditions within twelve months after the reporting period to enable the assessment of the risk that the liability could become repayable within twelve months; 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, 2024, with earlier application permitted. Entities that have early applied the 2020 amendments may retain application until the 2022 amendments are applied. Entities that will early apply the 2020 amendments after issue of the 2022 amendments must apply both amendments at the same time.

- Lease Liability in a Sale and Leaseback (Amendments to PFRS 16 *Leases*). The amendments confirm the following:

  - On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

  - After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

  A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. For example, the seller-lessee could determine the lease payments to be deducted from the lease liability as expected lease payments or as equal periodic payments over the lease term, with the difference between those payments and amounts actually paid recognized in profit or loss.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. A seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into on or after the date of initial application of PFRS 16.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgments*). The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are 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 material to the financial statements. The amendments to PFRS Practice Statement 2 provide guidance and examples on the application of materiality to accounting policy disclosures.

  The amendments are effective for annual reporting periods beginning on or after 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 require an entity to recognize deferred tax on transactions, such as leases for the lessee and decommissioning obligations, that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract, and considers the fact that many insurance contracts generate cash flows with substantial variability over a long period. PFRS 17 introduces a new approach that: (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract; (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

  Under PFRS 17, groups of insurance contracts are measured based on fulfillment 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 fulfillment 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.

  On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB. 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 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FSRSC 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.

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

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

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

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

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

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

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

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group's investments in equity and debt instruments at FVOCI are classified under this category.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, the Group may irrevocably designate a financial asset as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

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

<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.

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

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

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

At each reporting date, the Group assesses whether these financial assets at amortized cost and investments in debt instruments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

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

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

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

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

Classification of Financial Instruments between Liability and Equity
Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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

Freestanding Derivatives
The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

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

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

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

The Group has outstanding derivatives accounted for as cash flow hedge as at December 31, 2022 and 2021 (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, 2022 and 2021 (Note 36).

Inventories
Inventories are carried at the lower of cost and net realizable value (NRV). For petroleum products and crude oil, the NRV is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

For financial reporting purposes, the Group uses the first-in, first-out method in costing petroleum products and crude oil. Cost is determined using the moving-average method in costing lubes and greases, blending components, polypropylene, materials and supplies inventories. For income tax reporting purposes, cost of all inventories is determined using the moving-average method.

For financial reporting purposes, duties and taxes related to the acquisition of inventories are capitalized as part of inventory cost. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

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

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

Business Combination
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units.

  Each unit or group of units to which the goodwill is allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

  Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*
  The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

  An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

Business Combinations under Common Control
The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflect the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

Non-controlling Interests
The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures
An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in shares of stock of associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of an associate or joint venture is recognized as "Share in net income of an associate and joint venture" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income of an associate and joint venture" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture and then recognizes the loss as part of "Share in net income of an associate and joint venture" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in an associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group's 25.06% interest in Petrogen, accounted for as an investment in an associate, 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI) and 50.00% joint venture interest in Terminal Bersama Sdn Bhd (TBSB), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, are accounted for under the equity method of accounting. The investment in associate and interest in joint ventures are 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, 2022 and 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 - 30
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 “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 -12 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, 2022 and 2021, 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.

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 Parent Company. Also, the Parent Company has the sole and absolute discretion to defer payment of any or all of the distribution (Note 22).

Incremental costs directly attributable to the issuance of capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to capital securities.

Retained Earnings
Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

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

Translation Reserve
The translation reserve comprises of all foreign currency differences arising from the translation of the financial statements of foreign operations.

Reserve for Retirement Plan
The reserve for retirement plan represents re-measurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest).

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

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

Treasury Stock
Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue
The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

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

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

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue is recognized at the point in time when control of petroleum and related products is transferred to the customer, which is normally upon delivery of the goods. The Group provides trade discounts and volume rebates to certain customers based on the level of their purchases which may be applied against the amount of their existing or future payables to the Group. Trade discounts and volume rebates do not result to significant variable consideration and are generally determined based on concluded sales transactions as at the end of each month. The general payment terms with customers are combination of prepayments and credit terms on an average of 45 days from invoice date.

The Group identified several performance obligations related to the sale of goods and accounted for them separately:

- *Provisions of Technical Support.* The Group provides technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs. Revenue is recognized over time upon rendering of services to the customer. The Group allocates portion of the revenue to the technical support based on expected cost plus a margin approach.

- *Consumer Loyalty Program.* The Group has Consumer Loyalty Programs which allows customers to accumulate points when they purchase products at participating service stations. These points can be redeemed for Group's products, rewards, discounts and other privileges from partner merchants. Revenue is allocated between the goods sold and the points issued that are expected to be redeemed. This allocation is based on the relative stand-alone selling price of the points. A deferred liability account is set up for these points. The liability will be reversed when the Group has fulfilled its obligations to supply the discounted products under the terms of the program or when it is no longer probable that the points under the program will be redeemed. The deferred liability is based on the best estimate of future redemption profile. All the estimates are reviewed on an annual basis or more frequently, where there is indication of a material change.

Service Income. Revenue is recognized over time when the performance of contractually agreed task has been rendered and control over the services has been transferred to the customer. General payment terms is on an average of 45 days from invoice date.

Other sources of revenue are as follows:

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

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

Rent Income. Rent income from operating leases (net of any incentives given to the lessees), other than from the use of loaned equipment, is recognized on a straight-line basis over the lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Gain or Loss on Sale of Investments in Shares of Stock. Gain or loss is recognized when the Group disposes of its investment in shares of stock of a subsidiary, associate and joint venture and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Other Income. Other income is recognized when there is incidental economic benefit, other than the usual business operations, that will flow to the Group and that can be measured reliably.

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

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

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

Research and Development Costs
Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits
Short-term Employee Benefits. Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits Costs and Other Employee Benefit Costs. Petron has a tax qualified and funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Some of its subsidiaries have separate unfunded, noncontributory, retirement plans.

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

Savings Plan. The Group established a Savings Plan wherein eligible employees may apply for membership and have the option to contribute 5% to 15% of their monthly base pay. The Group, in turn, contributes an amount equivalent to 50% of the employee-member's contribution. However, the Group's 50% share applies only to a maximum of 10% of the employee-member's contribution. The Savings Plan aims to supplement benefits upon employees' retirement and to encourage employee-members to save a portion of their earnings. The Group accounts for this benefit as a defined contribution pension plan and recognizes a liability and an expense for this plan as the expenses for its contribution fall due. The Group has no legal or constructive obligations to pay further contributions after payments of the equivalent employer-share. The accumulated savings of the employees plus the Group's share, including earnings, will be paid in the event of the employee's: (a) retirement, (b) resignation after completing at least five years of continuous services, (c) death, or (d) involuntary separation not for cause.

Land/Home Ownership Plan. The Group established the Land/Home Ownership Plan, an integral part of the Savings Plan, to extend a one-time financial assistance to Savings Plan members in securing housing loans for residential purposes.

Foreign Currency
Foreign Currency Translations. Transactions in foreign currencies are initially recorded in the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

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

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

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of financial assets at FVOCI, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in OCI.

Foreign Operations. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in OCI and presented in the “Other reserves” account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statements of income as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in share of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in OCI, and presented in the “Other reserves” account in the consolidated statements of changes in equity.

<u>Taxes</u>
Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Trade and other payables" accounts in the consolidated statements of financial position.

Related Parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities.

Basic and Diluted Earnings Per Common Share (EPS)
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of capital securities, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Operating Segments
The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 38 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Determining Functional Currency. The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates. It is the currency that mainly influences the sales price of goods and services and the costs of providing these goods and services.

Identification of Distinct Performance Obligation. The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The Group has determined that it has distinct performance obligations other than the sale of petroleum products such as the provision of technical support and consumer loyalty program and allocates the transaction price into these several performance obligations.

Determining whether a Contract Contains a Lease. The Group uses its judgment in determining whether a contract contains a lease. At inception of a contract, the Group makes an assessment whether it has the right to obtain substantially all the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

Operating Lease Commitments - Group as Lessor. The Group has entered into various lease agreements as lessor. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases.

Rent income recognized as "Other operating income" in the consolidated statements of income amounted to P1,538, P1,273 and P1,047 in 2022, 2021 and 2020, respectively. Rent income recognized as part of "Other expenses - net" account in the consolidated statements of comprehensive income amounted to P63 each in 2022, 2021 and 2020 (Notes 27 and 30). Revenues from the customers' use of loaned equipment amounted to P1,173, P1,153 and P1,150 in 2022, 2021 and 2020, 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).

The Group likewise determined that it has control over Mema upon acquisition of its 100% of its authorized capital on June 30, 2022. The Group has the power, in practice, to govern the financial and operating policies of Mema, to appoint or remove the majority of the members of the BOD of Mema and to cast majority votes at meetings of the BOD of Mema. The Group controls Mema since it is exposed, and has rights, to variable returns from its involvement with Mema and has the ability to affect those returns through its power over Mema (Note 13).

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 2022, 2021 and 2020, majority of the entities within the Group opted to continue claiming itemized standard deductions except for 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 shows 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 P3, P28 and P67 in 2022, 2021 and 2020 respectively (Notes 8 and 24). Receivables written-off amounted to P97 in 2022, P6 in 2021 and P8 in 2020 (Note 8).

The carrying amount of trade and other receivables amounted to P81,979 and P51,745 as of December 31, 2022 and 2021, 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 2022 and 2021. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	**2022**	2021
Cash in banks and cash equivalents	*5*	**P35,819**	P35,318
Noncurrent deposits	*15*	**127**	128
		P35,946	P35,446

Net Realizable Values of Inventories. In determining the NRV of inventories, management takes into account the most reliable evidence available at the time the estimates are made. Future realization of the carrying amount of inventories of P85,347 and P67,684 as of the end of 2022 and 2021, 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 P356 in 2022, P37 in 2021 and nil in 2020 (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 2022, 2021 and 2020, the Group provided an additional loss on inventory obsolescence amounting to P73, nil, and P73, 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 P170,153 and P171,602 as of December 31, 2022 and 2021, respectively. Accumulated depreciation of property, plant and equipment, amounted to P115,586 and P106,424 as of December 31, 2022 and 2021, respectively (Note 10).

Right-of-use assets, net of accumulated depreciation, amounted to P5,398 and P5,648 as of December 31, 2022 and 2021, respectively. Accumulated depreciation of right-of-use asset amounted to P2,295 and P1,728 as of December 31, 2022 and 2021, respectively (Note 11).

Investment property, net of accumulated depreciation, amounted to P28,437 and P29,175 as of December 31, 2022 and 2021, respectively. Accumulated depreciation of investment property amounted to P19,965 and P17,852 as of December 31, 2022 and 2021, respectively (Note 12).

Intangible assets with finite useful lives, net of accumulated amortization, amounted to P110 and P139 as of December 31, 2022 and 2021, respectively (Note 15). Accumulated amortization of intangible assets with finite useful lives amounted to P759 and P708 as of December 31, 2022 and 2021, 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 P48,413 and P43,119 as of December 31, 2022 and 2021, respectively (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 1% and 3% in 2022 and 2021, respectively, and discount rates of 8.4% and 7.7% in 2022 and 2021, 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 2022, 2021 and 2020 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, 2022 and 2021.

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 P1,812 and P2,172 as of December 31, 2022 and 2021, 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 P519, P434 and P430 in 2022, 2021 and 2020, respectively. Remeasurement losses of the net defined retirement obligation recognized in OCI amounted to P626, P597 and P631 in 2022, 2021 and 2020, respectively. The retirement benefits liability amounted to P3,327 and P3,459 as of December 31, 2022 and 2021, 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 3.25% to 8.47% depending on the life of the capitalized costs. The Group also conducts periodic review of the estimates of dismantling costs to consider actual expenses incurred during the actual retirement of assets and uses this as input in determining future liability. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P3,559 and P2,877 as of December 31, 2022 and 2021, respectively (Note 20).

5. Cash and Cash Equivalents

This account consists of:

	Note	**2022**	2021
Cash on hand		**P1,364**	P1,088
Cash in banks		**8,854**	8,972
Short-term placements		**26,965**	26,346
	35, 36	**P37,183**	P36,406

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 0.05% to 6.32% in 2022, 0.01% to 2.75% in 2021 and 0.01% to 5.75% in 2020 (Note 27).

6. Financial Assets at Fair Value

This account consists of:

	Note	**2022**	2021
Proprietary membership shares		**P352**	P298
Derivative assets not designated as cash flow hedge		**1,257**	687
Derivative assets designated as cash flow hedge		**181**	53
	35, 36	**1,790**	1,038
Less: noncurrent portion	*15*	**37**	33
		P1,753	P1,005

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 2022, 2021 and 2020 amounted to P54, P23 and (P9), 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

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

	Note	2021
Financial Assets at FVOCI		
Balance as of January 1		P126
Disposals*		(126)
Balance as of December 31		-
Financial Assets at Amortized Cost		
Balance as of January 1		255
Disposals*		(255)
Balance as of December 31		-
	14, 35, 36	P -

**Disposal in 2021 was due to deconsolidation of Petrogen (see Note 14).*

8. Trade and Other Receivables

This account consists of:

	Note	**2022**	2021
Trade	*35*	**P53,087**	P32,705
Related parties - trade	*29, 35*	**6,112**	2,684
Allowance for impairment loss on trade receivables		**(737)**	(839)
		58,462	34,550
Government		**19,190**	14,853
Related parties - non-trade	*29*	**1,007**	1,193
Others		**3,509**	1,338
Allowance for impairment loss on non-trade receivables		**(189)**	(189)
		23,517	17,195
	35, 36	**P81,979**	P51,745

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 nil and P13,273 as of December 31, 2022 and 2021, 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 2022 and 2021 is shown below:

	Note	**2022**	2021
Balance at beginning of year		**P1,343**	P1,302
Additions	*24*	**3**	28
Write off	*4*	**(97)**	(6)
Reversal/reclassifications		**(11)**	3
Currency translation adjustment		**13**	16
Balance at end of year		**1,251**	1,343
Less noncurrent portion for long-term receivables	*35*	**325**	315
		P926	P1,028

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 P97 and P6 in 2022 and 2021, 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, 2022 and 2021:

	Weighted Average Loss Rate	**Gross Carrying Amount**	**ECL**
December 31, 2022			
Retail	**1.38%**	**P6,095**	**P84**
Lubes	**0.11%**	**885**	**1**
Gasul	**4.12%**	**1,286**	**53**
Industrial	**0.93%**	**30,168**	**281**
Others	**1.14%**	**44,471**	**507**
		P82,905	**P926**

	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

9. Inventories

This account consists of:

	2022	2021
Crude oil and others	**P38,512**	P32,573
Petroleum	**37,260**	26,168
Materials and supplies	**5,128**	5,458
Lubes, greases and aftermarket specialties	**4,447**	3,485
	P85,347	P67,684

The cost of these inventories amounted to P86,346 and P68,291 as of December 31, 2022 and 2021, respectively.

If the Group had used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have increased by P1,487 and decreased by P994 as of December 31, 2022 and 2021, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P804,136, P393,781 and P262,938 in 2022, 2021 and 2020, respectively (Note 23).

Research and development costs on these products constituted the expenses incurred for internal projects in 2022, 2021 and 2020 (Note 24).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2022 and 2021 are as follows:

	Note	**2022**	2021
Balance at beginning of year		**P607**	P613
Additions/reductions:			
Inventory obsolescence	*4*	**73**	(43)
Inventory write-down	*4*	**356**	37
Reversals		**(37)**	-
Balance at end of year		**P999**	P607

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, 2021		P23,497	P194,249	P19,784	P5,887	P4,134	P20,182	P267,733
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
Additions		127	2,150	265	498	-	2,893	5,933
Acquisition of subsidiary	*13*	-	-	-	261	5	-	266
Disposals/reclassifications		1,724	3,049	(206)	29	48	(5,200)	(556)
Reclassification to/from investment property	*12*	222	-	-	-	32	-	254
Currency translation adjustment		480	824	332	81	63	36	1,816
December 31, 2022		**27,116**	**212,844**	**20,478**	**7,199**	**4,472**	**13,630**	**285,739**
Accumulated Depreciation								
January 1, 2021		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
Depreciation		966	6,543	1,108	238	93	-	8,948
Acquisition of subsidiary	*13*	-	-	-	45	2	-	47
Disposals/reclassifications		(46)	-	(518)	(50)	4	-	(610)
Reclassification to/from investment property	*12*	(106)	-	-	-	-	-	(106)
Currency translation adjustment		263	349	208	63	-	-	883
December 31, 2022		**15,871**	**77,063**	**15,550**	**5,730**	**1,372**	**-**	**115,586**
Carrying Amount								
December 31, 2021		P9,769	P136,650	P5,335	P896	P3,051	P15,901	P171,602
December 31, 2022		**P11,245**	**P135,781**	**P4,928**	**P1,469**	**P3,100**	**P13,630**	**P170,153**

In 2022 and 2021, 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 2022, 2021 and 2020 based on management's assessment of impairment indicators.

Certain fully depreciated property, plant and equipment with aggregate costs of P29,924 and P25,485 as at December 31, 2022 and 2021, respectively, are still being used in the Group's operations.

The Group capitalized interest amounting to P536, P337 and P313 in 2022, 2021, and 2020, respectively (Notes 16, 19, 27 and 30). The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 2.27% to 8.22% in 2022 and from 1.34% to 8.21% in 2021.

Capital Commitments
As of December 31, 2022 and 2021, the Group has outstanding commitments to acquire property, plant and equipment amounting to P6,061 and P6,161, 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:

	Note	Land	Buildings and Improvements and Related Facilities	Service Stations and Other Equipment	Total
Cost					
January 1, 2021		P6,567	P1,093	P24	P7,684
Additions		171	421	-	592
Remeasurements		(517)	(406)	-	(923)
Currency translation adjustment		20	3	-	23
December 31, 2021		6,241	1,111	24	7,376
Additions		61	6	-	67
Acquisition of subsidiary	*13*	-	15	-	15
Remeasurements		104	53	46	203
Currency translation adjustment		28	3	1	32
December 31, 2022		**6,434**	**1,188**	**71**	**7,693**
Accumulated Depreciation					
January 1, 2021		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
Remeasurements		(109)	11	2	(96)
Depreciation		420	223	4	647
Acquisition of subsidiary	*13*	-	3	-	3
Currency translation adjustment		9	4	-	13
December 31, 2022		**1,798**	**482**	**15**	**2,295**
Carrying Amount					
December 31, 2021		P4,763	P870	P15	P5,648
December 31, 2022		**P4,636**	**P706**	**P56**	**P5,398**

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 P1,065 and P1,070 in 2022 and 2021, 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 P511, P10 and P4, respectively, in 2022, and P314, P8 and P4, respectively, in 2021 (Note 30).

The Group had total cash outflows for leases of P3,208, P2,862 and P2,972 in 2022, 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, 2021		P9,208	P5,744	P18,070	P12,372	P45,394
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
Additions		3	-	284	638	925
Disposals/reclassifications		(12)	(2,382)	(186)	2,529	(51)
Reclassifications from/to property, plant and equipment	*10*	(32)	-	(222)	-	(254)
Currency translation adjustment		114	289	352	-	755
December 31, 2022		**9,326**	**4,164**	**19,387**	**15,525**	**48,402**
Accumulated Depreciation						
January 1, 2021		-	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
Depreciation		-	28	694	1,264	1,986
Disposals/reclassifications		-	(4,051)	(1)	3,799	(253)
Reclassifications from/to property, plant and equipment	*10*	-	-	106	-	106
Currency translation adjustment		-	109	166	(1)	274
December 31, 2022		**-**	**874**	**11,469**	**7,622**	**19,965**
Carrying Amount						
December 31, 2021		P9,253	P1,469	P8,655	P9,798	P29,175
December 31, 2022		**P9,326**	**P3,290**	**P7,918**	**P7,903**	**P28,437**

In 2022 and 2021, certain investment property were reclassified from/to property, plant and equipment due to change in usage of the asset from/to used in operations to/from leased to another party under an operating lease agreement (Note 10).

No impairment loss was required to be recognized in 2022, 2021 and 2020 based on management's assessment of impairment indicators.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment property that generated income in 2022, 2021 and 2020.

The fair value of investment property amounting to P48,413 and P43,119 as of December 31, 2022 and 2021, 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 P32,813 and P27,166 as of December 31, 2022 and 2021, 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 P6,110 and P6,017 as of December 31, 2022 and 2021, 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, 2022 and 2021 represents the remaining fair value amounting to P9,490 and P9,936, respectively.

<u>Valuation Technique and Significant Unobservable Inputs</u>
The valuation of investment property applied the following approaches below:

Sales Comparison Approach. The market value of land was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established 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. Business Combination, Investment in Shares of Stock of Subsidiaries, Goodwill and Non-controlling Interests

Business Combination and 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:

Mema
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. The Mema group includes the subsidiary engaged in hauling and logistics services (Note 2). On June 30, 2022, control over the investee has been transferred to the Group after the resolution of the substantive pending issues agreed by both the seller and the Parent Company. On December 29, 2022, P300 adjustment in purchase price was agreed by the Parent Company and the seller. As of December 31, 2022, the adjustment in purchase price is still outstanding (Note 18) and was subsequently settled to the seller in February 2023.

The fair value of net assets acquired amounted to P426 on June 30, 2022. The group recognized P22 gain on acquisition, presented under "Other income (expenses) - net" in the consolidated statements of income in 2022, which pertains to the excess of fair value of assets acquired and liabilities assumed over the consideration paid / accrued.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	June 30, 2022
Assets	
Cash and cash equivalents	P3,406
Accounts and other receivables	2,034
Prepaid expenses and other current assets	69
Property, plant and equipment - net	219
Other noncurrent assets	15
Liabilities	
Accounts and other payables	(5,303)
Other liabilities	(14)
Total Identifiable Net Assets	**P426**

The fair value of trade and other receivables amounted to P2,034. None of the receivables has been impaired and the full amount is expected to be collected. As of December 31, 2022, P2,000 was already collected.

Accounts and other payables amounting to P5,165 was settled as of December 31, 2022 from the existing cash and the collected receivables.

The fair value of the acquired property, plant and equipment was measured using depreciated replacement cost by considering the current replacement cost of new assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

Mema has contributed to Group's net income of P26 from the acquisition date to December 31, 2022. Had the acquisition occurred on January 1, 2022, the Group's revenue and net income in 2022 would have been P857,638 and P6,693, respectively. Mema has no contribution to consolidated sales since the entity provides hauling and logistics services to the Parent Company.

On October 27, 2022, the Parent Company and Mema executed a Subscription Agreement to subscribe to an additional 1,375,000,000 common shares of Mema for a subscription price of P1,375 or P1.00 per common share, of which P899 was paid in 2022.

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:

	2022	2021
Cost		
Balance at beginning of year	**P8,235**	P8,031
Translation adjustments	**274**	204
Net carrying amount at end of year	**P8,509**	P8,235

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, 2022 and 2021, 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 actual operating results, and justifiable assumptions for future business performance but excluding net cash inflows from expansion projects like new stations, Management believes that this five to ten-year forecast period was justified due to the long-term nature of the business.

- A discount rate of 8.4% in 2022 and 7.7% in 2021 was applied based on the weighted average cost of capital using the Capital Asset Pricing Model (CAPM).

- In 2022, cash flows beyond ten years were estimated by extrapolating the projections using a growth rate of 1% up to the CGU's maximum capacity as Management believes that the current network of service stations will mature and grow with the economy for the next thirty years. In 2021, cash flows beyond five years were estimated by extrapolating the projections using a steady growth rate of 3% up to the CGU's maximum capacity for the next thirty years.

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 1%, 2%, and 3% in 2022 and 2%, 3% and 4% in 2021 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 2022, 2021 and 2020 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, 2022		December 31, 2021	
	NVRC	**PMRMB**	NVRC	PMRMB
Non-controlling Interests Percentage	**14.45%**	**26.60%**	14.45%	26.60%
Carrying amount of non-controlling interest	**P476**	**P7,907**	P467	P6,858
Current assets	**P567**	**P32,736**	P617	P25,192
Noncurrent assets	**9,392**	**27,420**	9,415	27,287
Current liabilities	**(1,104)**	**(29,269)**	(1,219)	(25,486)
Noncurrent liabilities	**(3,695)**	**(2,899)**	(3,791)	(2,942)
Net assets	**P5,160**	**P27,988**	P5,022	P24,051
Net income attributable to non-controlling interests	**P9**	**P961**	P12	P755
Other comprehensive income attributable to non-controlling interests	**P -**	**P267**	P -	P177
Sales	**P397**	**P227,026**	P395	P109,483
Net income	**P137**	**P6,165**	P159	P2,842
Other comprehensive income	**-**	**24**	-	24
Total comprehensive income	**P137**	**P6,189**	P159	P2,866
Cash flows provided by (used in) operating activities	**P249**	**(P25)**	P123	(P3,832)
Cash flows provided by (used in) investing activities	**9**	**(863)**	(5)	(1,938)
Cash flows provided by (used in) financing activities	**(317)**	**219**	(158)	7,175
Effects of exchange rate changes on cash and cash equivalents	**-**	**(3)**	-	-
Net increase (decrease) in cash and cash equivalents	**(P59)**	**(P672)**	(P40)	P1,405

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 P63 and P8 in 2022 and 2021, respectively, 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**

As of December 31, 2022 and 2021, the Parent Company owns 25.06% of Petrogen accounted for as an investment in an associate.

Following are the condensed financial information of Petrogen as of and for the years ended December 31, 2022 and 2021:

	2022	2021
Percentage of ownership	**25.06%**	25.06%
Current assets	**P5,708**	P7,075
Noncurrent assets	**2,085**	649
Current liabilities	**(3,508)**	(3,686)
Net assets	**P4,285**	P4,038
Revenue	**P2,589**	P1,749
Net income	**P247**	P40
Share in net assets	**P1,075**	P1,012
Carrying amount of investment in shares of stock of an associate	**P1,075**	P1,012

15. Other Assets

This account consists of:

	Note	**2022**	2021
Current			
Prepaid taxes		**P33,566**	P26,754
Input VAT		**1,900**	3,011
Prepaid expenses	*29*	**1,168**	1,097
Special-purpose fund		**169**	158
Tax recoverable		**24**	5
Others - net		**198**	170
		P37,025	P31,195
Noncurrent			
Input VAT		**P94**	P127
Catalyst - net		**422**	489
Prepaid rent		**164**	202
Derivative assets designated as cash flow hedge	*6, 35, 36*	**37**	33
Noncurrent deposits	*35, 36*	**127**	128
Intangibles - net	*4*	**110**	139
Others - net		**446**	423
		P1,400	P1,541

The "Others - net" under "Noncurrent" account includes marketing assistance to dealers and other prepayments amounting to P256, P262 and P256 as of December 31, 2022, 2021 and 2020, respectively, net of amortization amounting to P47, P57 and P75 in 2022, 2021 and 2020, respectively.

The amortization of prepaid rent amounted to nil in 2022, nil in 2021 and P4 in 2020.

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 P58, P67 and P86 in 2022, 2021 and 2020, 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 P237, P176 and P261 in 2022, 2021 and 2020, respectively (Notes 23 and 26).

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 5 to 181 days and annual interest ranging from 1.28% to 6.88% in 2022, 1.18% to 2.95% in 2021 and 0.92% to 6.75% in 2020 (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 P4,316 in 2022, P2,089 in 2021 and P3,418 in 2020 (Note 27). Interest expense amounting to P169 was capitalized as part of property, plant and equipment in 2022 while P115 in 2021 and P174 in 2020 (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	**2022**	2021
Third parties		**P51,057**	P42,586
Related parties	*29*	**10**	55
	35, 36	**P51,067**	P42,641

18. Trade and Other Payables

This account consists of:

	Note	**2022**	2021
Trade		**P6,075**	P4,427
Specific taxes and other taxes payable		**8,205**	4,615
Accrued payroll		**204**	200
Due to related parties	*29*	**5,008**	1,470
Accrued interest		**1,245**	668
Accrued rent		**350**	330
Dividends payable	*34*	**470**	829
Asset retirement obligation - current	*20*	**32**	20
Insurance liabilities		**3**	154
Retention payable		**24**	78
Retirement benefits liability	*31*	**66**	132
Deferred liability on consumer loyalty program		**813**	814
Others	*13, 40*	**401**	264
	35, 36	**P22,896**	P14,001

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, advances and other payables which are normally settled within a year.

The Group recognized revenue that was included in the deferred liability on consumer loyalty program amounting to P1,452 and P1,211 in 2022 and 2021, respectively (Note 38).

19. Long-term Debt

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

	Note	2022	2021
Unsecured Peso-Denominated (net of debt issue costs)			
Term loan of 5.4583% due until 2022	*(a)*	**P -**	P1,000
Fixed rate retail bonds of 4.5219% due in 2023	*(b)*	**6,990**	6,979
Term loan of 5.5276% due until 2024	*(d)*	**3,744**	5,878
Term loan of 5.7584% due until 2022	*(e)*	**-**	2,497
Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025	*(f)*	**19,906**	19,867
Fixed retail bond of 3.4408% due until 2025 and 4.3368% due until 2027	*(k)*	**17,823**	17,779
Term loan of 4.5900% due until 2025	*(i)*	**3,116**	4,356
Term loan of 7.1663% due until 2027	*(l)*	**4,967**	-
Term loan of 7.4206% due until 2027	*(m)*	**4,969**	-
Term Loan of 7.5496% due until 2027	*(n)*	**4,968**	-
Term Loan of 6.4920% due in 2025	*(o)*	**2,359**	-
Term Loan of 6.8672% due in 2025	*(p)*	**621**	-
Unsecured Foreign Currency-Denominated (net of debt issue costs)			
Floating rate dollar loan - US$1,000 million due until 2022	*(c)*	**-**	7,219
Floating rate dollar loan - US$800 million due until 2024	*(g)*	**6,276**	22,992
Floating rate yen loan - JP¥15 billion due until 2025	*(h)*	**4,528**	6,556
Floating rate dollar loan - US$150 million due in 2023	*(j)*	**-**	7,522
Floating rate dollar loan - US$550 million due until 2027	*(q)*	**26,794**	-
	34, 35, 36	**107,061**	102,645
Less current portion		**13,399**	21,580
		P93,662	P81,065

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 2022 and 2021, the Parent Company settled matured interim principal payments aggregating to P1,000 each year. The Parent Company has fully paid the facility as of December 31, 2022.

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 and has fully paid the remaining balance in 2022.

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, 2022, the P11,250 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. The Parent Company has fully settled the facility in 2022.

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 Undated Subordinated Capital Securities (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 2022 and 2021, US$343 million and US$228 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. In 2022, the Parent Company has paid the principal amortizations amounting to JP¥4.29 billion.

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 2022 and 2021, P1,250 and P625 amortizations of principal have 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. In 2022, the Parent Company has prepaid the principal in full.

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 a power plant project and payment of existing indebtedness.

l. On May 19, 2022, the Parent Company drew and availed a P5,000 term loan facility which was signed and executed on May 17, 2022. The facility is subject to a fixed interest rate of 7.1663% per annum and amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 semi-annual payments beginning May 19, 2024. The proceed were used for partial financing of a power plant project.

m. On June 15, 2022, the Parent Company drew and availed a P5,000 term loan facility which was signed and executed on June 10, 2022. The facility is subject to a fixed interest rate of 7.4206% interest per annum and amortized over 5 years with a 15-month grace period, after which the total principal will be amortized in 16 equal quarterly payment beginning September 15, 2023. The proceeds were used to partially pay the US$1,000 term loan facility.

n. On June 16, 2022, the Parent Company drew and availed a P5,000 term loan facility which was signed and executed on June 7, 2022. The facility is subject to a fixed interest rate of 7.5496% interest per annum and amortized over 5 years with a 15-month grace period, after which the total principal will be amortized in 16 equal quarterly payments beginning September 16, 2023. The proceeds were used to pay balances of the US$1,000 million and various loan facilities.

o. On September 8, 2022, the Parent Company drew and availed a P2,375 term loan facility which was signed and executed on September 6, 2022. The facility is subject to a fixed interest rate of 6.4920% per annum and will be fully paid on September 8, 2025. The proceeds were partially used to pay existing indebtedness.

p. On September 30, 2022, the Parent Company drew and availed a P625 term loan facility which was signed and executed on September 6, 2022. The facility is subject to a fixed interest rate of 6.8672% per annum and will be fully paid on September 8, 2025. The proceeds will be used to pay existing indebtedness.

q. On November 8, 2022, the Parent Company signed and executed a US$550 million term loan facility. Initial drawdown of US$117 million was made on November 15, 2022, the proceeds of which were used to partially pay the US$800 million loan term loan facility. On November 29, 2022, the Company drew an additional US$150 million from the facility to fully prepay its US$150 million term loan facility. Additional US$228 million was drawn on December 15, 2022 to further partially prepay the US$800 million loan term loan facility. The US$550 million term loan 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 November 8, 2024. The facility is subject to a floating interest rate based on SOFR plus a spread, repriced every 1, 3 or 6 months.

The above-mentioned debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Group 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, 2022 and 2021, the Group has complied with the financial covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P6,165, P5,220 and P5,727 in 2022, 2021 and 2020, respectively (Note 27). Interest amounting to P269 was capitalized in 2022, P130 in 2021 and P49 in 2020 (Note 10).

Movements in debt issue costs follow:

	Note	2022	2021
Balance at beginning of year		**P982**	P1,368
Additions		**956**	229
Amortization for the year	27	**(603)**	(615)
Balance at end of year		**P1,335**	P982

Repayment Schedule
As of December 31, 2022 and 2021, the annual maturities of long-term debt are as follows (Note 35):

2022

Year	Gross Amount	Debt Issue Costs	Net
2023	**P13,472**	**P73**	**P13,399**
2024	**31,177**	**638**	**30,539**
2025	**31,225**	**348**	**30,877**
2026	**10,885**	**132**	**10,753**
2027 and beyond	**21,637**	**144**	**21,493**
	P108,396	**P1,335**	**P107,061**

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

20. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	2022	2021
Balance at beginning of year		**P2,877**	P2,867
Additions		**76**	133
Accretion for the year	27	**216**	252
Effect of change in estimates	4	**141**	86
Effect of change in discount rate		**252**	(457)
Settlement		**(3)**	(4)
Balance at end of year including current portion		**P3,559**	P2,877

21. Other Noncurrent Liabilities

This account consists of:

	Note	2022	2021
Cylinder deposits		**P736**	P687
Cash bonds		**420**	450
Derivative liabilities designated as cash flow hedge		**-**	25
Others		**45**	40
	35, 36	**P1,201**	P1,202

"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, 2022 and 2021, the Parent Company had 144,388 and 144,720 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, 2022 and 2021, the Parent Company had 20,000,000 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2022 and 2021 are as follows:

	2022	2021
Series 3A Preferred Shares	**10**	9
Series 3B Preferred Shares	**25**	24
	35	33

b. Retained Earnings

<u>Declaration of Cash Dividends</u>
On various dates in 2020, 2021 and 2022, 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
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, 2022
Series 3B	17.84575	November 9,2021	June 3, 2022	June 27, 2022
2022				
Series 3A	**17.17825**	**August 1, 2022**	**August 31, 2022**	**September 26, 2022**
Series 3B	**17.84575**	**August 1, 2022**	**August 31, 2022**	**September 26, 2022**
Series 3A	**17.17825**	**November 8, 2022**	**November 29, 2022**	**December 26, 2022**
Series 3B	**17.84575**	**November 8, 2022**	**November 29, 2022**	**December 26, 2022**
Series 3A	**17.17825**	**November 8, 2022**	**March 2, 2023**	**March 27, 2023**
Series 3B	**17.84575**	**November 8, 2022**	**March 2, 2023**	**March 27, 2023**

Total cash dividends declared by the Parent Company amounted to P1,044 for 2022, P1,899 in 2021, P2,515 in 2020.

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 in 2023.

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. As of December 31, 2022, the purchase transaction of these lots is ongoing and expected to be completed by the second half of 2023.

The appropriated retained earnings attributable to the equity holders of the Parent Company amounted to P7,003 as of December 31, 2022 and 2021.

c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint ventures and an associate amounting to P43,604, P33,573 and P26,345 as of December 31, 2022, 2021 and 2020, 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:

	2022	2021	2020
Balance at beginning of year	**(P12,379)**	(P13,223)	(P12,195)
Net loss on cash flow hedges, net of tax	**54**	137	70
Changes in fair value of investment in debt instruments	**-**	-	1
Cumulative translation adjustment	**1,875**	707	(1,109)
Share in other comprehensive loss of a joint venture	**-**	-	10
Balance at end of year	**(P10,450)**	(P12,379)	(P13,223)

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 18, 2022 (P864), January 18, 2022 (P787), July 16, 2021 (P770), January 15, 2021 (P737), July 17, 2020 (P814), January 17, 2020 (P834).

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, 2022 (P1,286), April 18, 2022 (P1,140), 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.

f. 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 25, 2022 (P3), August 30, 2022 (P3), May 27, 2022 (P3), March 1, 2022 (P3), 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, 2022 (P65), September 22, 2022 (P69), June 22, 2022 (P64), March 22, 2022 (P62), 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, 2022 (P53), August 10, 2022 (P50), May 10, 2022 (P47), February 10, 2022 (P46), 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	**2022**	2021	2020
Inventories	*9*	**P804,136**	P393,781	P262,938
Depreciation and amortization	*26*	**7,079**	5,099	4,802
Materials and supplies		**5,238**	3,431	2,969
Purchased services and utilities		**2,683**	1,387	1,567
Personnel expenses	*25*	**1,564**	1,413	1,463
Others	*30, 32*	**3,088**	2,447	3,581
		P823,788	P407,558	P277,320

Distribution or transshipment costs included as part of inventories amounted to P13,329, P6,035 and P8,290 in 2022, 2021 and 2020, 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	**2022**	2021	2020
Depreciation and amortization	*26*	**P4,797**	P4,749	P4,688
Personnel expenses	*25*	**3,858**	3,219	3,103
Purchased services and utilities		**3,857**	3,524	3,988
Maintenance and repairs		**1,624**	1,429	1,177
Materials and office supplies		**811**	673	422
Advertising		**464**	318	421
Taxes and licenses		**350**	309	340
Rent	*30*	**291**	220	130
Impairment losses on trade and other receivables	*4, 8*	**3**	28	67
Others	*9*	**120**	88	53
		P16,175	P14,557	P14,389

Selling and administrative expenses include research and development costs amounting to P61, P62 and P66 in 2022, 2021 and 2020, respectively (Note 9).

25. Personnel Expenses

This account consists of:

	Note	**2022**	2021	2020
Salaries, wages and other employee costs	*29*	**P4,972**	P4,264	P4,194
Retirement benefits costs - defined benefit plan	*29, 31*	**367**	289	289
Retirement benefits costs - defined contribution plan	*29*	**83**	79	83
		P5,422	P4,632	P4,566

The above amounts are distributed as follows:

	Note	**2022**	2021	2020
Costs of goods sold	*23*	**P1,564**	P1,413	P1,463
Selling and administrative expenses	*24*	**3,858**	3,219	3,103
		P5,422	P4,632	P4,566

26. Depreciation and Amortization

This account consists of:

	Note	2022	2021	2020
Cost of goods sold:				
Property, plant and equipment	*10*	**P6,702**	P4,794	P4,363
Right-of-use assets	*11*	**140**	129	178
Other assets	*15*	**237**	176	261
	23	**7,079**	5,099	4,802
Selling and administrative expenses:				
Property, plant and equipment	*10*	**2,246**	2,259	2,168
Right-of-use assets	*11*	**507**	490	490
Investment property	*12*	**1,986**	1,933	1,944
Intangible assets and others	*15*	**58**	67	86
	24	**4,797**	4,749	4,688
	38	**P11,876**	P9,848	P9,490

27. Interest Expense and Other Financing Charges, Interest Income and Other Expenses

This account consists of:

	Note	2022	2021	2020
Interest expense and other financing charges:				
Long-term debt	*19*	**P5,320**	P4,490	P5,080
Short-term loans	*16*	**4,147**	1,974	3,244
Bank charges		**1,453**	1,240	729
Accretion on lease liability	*30*	**1,065**	1,070	1,115
Amortization of debt issue costs	*19*	**576**	600	598
Defined benefit obligation	*31*	**225**	201	241
Accretion on ARO	*20*	**216**	252	77
Product borrowings		**54**	171	218
Others		**38**	10	11
	38	**P13,094**	P10,008	P11,313
Interest income:				
Short-term placements	*5*	**P720**	P400	P507
Plan assets	*31*	**73**	56	100
Advances to related parties	*29*	**58**	79	94
Trade receivables	*8*	**37**	19	44
Cash in banks	*5*	**10**	10	17
Investments in debt instruments		**-**	-	18
	38	**P898**	P564	P780

Forward

	Note	2022	2021	2020
Other income (expenses) - net:				
Marked-to-market gains (losses) - net	*36*	**P4,673**	P315	(P2,428)
Changes in fair value of financial assets at FVPL	*6*	**54**	23	(9)
Hedging gains (losses) - net		**(739)**	104	(1,121)
Foreign currency gains (losses) - net	*35*	**(3,678)**	(1,242)	2,363
Others - net		**711**	318	146
		P1,021	(P482)	(P1,049)

The Group recognized share in the net income of TBSB amounting to P3.45 in 2022, P1.78 in 2021 and P4.16 in 2020. These were recorded as part of "Others - net" under "Other expenses - net" account in the consolidated statements of income. Bank charges amounting to P49 was capitalized as part of property, plant and equipment in 2022 while P28 in 2021 and P5 in 2020 (Note 10).

Also included in "Others - net" were the following: (i) gain on acquisition of Mema amounting to P22 in 2022 (Note 13); (ii) rental income amounting to P63 each in 2022, 2021 and 2020 (Note 30); (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:

<u>2022</u>

	January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31
Net retirement benefits liability	P1,883	(P135)	P162	P1,910
Rental	1,262	283	(161)	1,384
NOLCO	7,793	(1,068)	-	6,725
Various allowances, accruals and others	509	224	-	733
Inventory differential	(172)	823	-	651
MCIT	689	(181)	-	508
ARO	444	75	-	519
Unutilized tax losses	402	51	-	453
Fair market value adjustments on business combination	(27)	-	-	(27)
Unrealized foreign exchange gains - net	(240)	280	(18)	22
Capitalized taxes and duties on inventories deducted in advance	(764)	(84)	-	(848)
Capitalized interest, losses, duties and taxes on property, plant and equipment deducted in advance and others	(3,605)	81	-	(3,524)
Excess of double-declining over straight-line method of depreciation and amortization	(9,786)	(509)	-	(10,295)
	(P1,612)	(P160)	(P17)	(P1,789)

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)	-	(240)
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)

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

	2022	2021
Deferred tax assets - net	**P1,812**	P2,172
Deferred tax liabilities - net	**(3,601)**	(3,784)
	(P1,789)	(P1,612)

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:

	2022	2021	2020
Current	**P1,244**	P784	P220
Deferred	**160**	377	(5,018)
	P1,404	P1,161	(P4,798)

As of December 31, 2022, 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**
2020	December 31, 2025	**P25,209**	**P -**
2021	December 31, 2026	**1,678**	**198**
2022	December 31, 2025	**-**	**310**
		P26,887	**P508**

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:

	2022	2021	2020
Statutory income tax rate	**25.00%**	25.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Adjustment to income tax rate due to CREATE	**-**	(1.96%)	-
Interest income subjected to lower final tax	**(0.11%)**	(0.07%)	0.14%
Nontaxable income	**(7.17%)**	(4.67%)	0.33%
Nondeductible expense	**(8.39%)**	(4.46%)	1.49%
Nondeductible interest expense	**0.09%**	0.04%	(0.05%)
Excess of optional standard deduction over deductible expenses	**-**	(0.17%)	0.07%
Write-off of NOLCO/MCIT	**7.52%**	-	-
Others, mainly income subject to different tax rates	**0.40%**	1.47%	(2.38%)
Effective income tax rate	**17.34%**	15.18%	29.60%

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.

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*	**2022**	**P58**	**P -**	**P894**	**P -**	On demand; interest bearing	Unsecured; no impairment
		2021	78	-	1,138	-		
		2020	93	-	1,543	-		
	a	**2022**	**-**	**-**	**-**	**-**	On demand; non-interest bearing	Unsecured; no impairment
		2021	-	-	-	-		
		2020	-	-	19	-		
Intermediate Parent	*b, e, f, h, i*	**2022**	**20**	**207**	**16**	**453**	On demand; non-interest bearing	Unsecured; no impairment
		2021	18	167	17	333		
		2020	7	174	11	251		
Under Common Control	*14, b, c, d, h, i, j, k l, m*	**2022**	**16,473**	**4,625**	**6,278**	**2,178**	On demand; non-interest bearing	Unsecured; no impairment
		2021	7,705	4,095	2,584	2,307		
		2020	4,443	4,445	1,097	1,918		
	m	**2022**	**-**	**35**	**-**	**3,345**	On demand; interest bearing	Unsecured; no impairment
		2021	-	-	-	-		
		2020	-	-	-	-		
Associate	*b, h. l, k*	**2022**	**200**	**100**	**90**	**56**	On demand; non-interest bearing	Unsecured; no impairment
		2021	-	159	283	101		
		2020	-	-	-	-		
Joint Ventures	*c, g, h*	**2022**	**-**	**-**	**2**	**-**	On demand; non-interest bearing	Unsecured; no impairment
		2021	-	-	2	-		
		2020	-	-	4	-		
Associates and Joint Ventures under Common Control	*b, h, n*	**2022**	**365**	**-**	**71**	**19**	On demand; non-interest bearing	Unsecured; no impairment
		2021	206	-	45	3		
		2020	321	-	60	5		
	n	**2022**	**-**	**101**	**-**	**2,865**	Short-term; interest bearing	Unsecured; no impairment
		2021	-	64	-	2,000		
		2020	-	137	-	3,183		
		2022	**P17,116**	**P5,068**	**P7,351**	**P8,916**		
		2021	P8,007	P4,485	P4,069	P4,744		
		2020	P4,864	P4,756	P2,734	P5,357		

a. As of December 31, 2022 and 2021, 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 6,747 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. 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).

l. 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.

m. Amounts owed to entities under common control include interest-bearing advances from San Miguel Insurance Company Ltd.

n. Amounts owed to associate of entities under common control include interest-bearing short-term loans payable to Bank of Commerce.

o. The compensation and benefits of key management personnel of the Group, by benefit type, included in the "Personnel expenses" account as follows (Note 25):

	2022	2021	2020
Salaries and other short-term employee benefits	**P906**	P749	P741
Retirement benefits costs - defined benefit plan	**139**	104	109
Retirement benefits costs - defined contribution plan	**35**	31	33
	P1,080	P884	P883

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	**2022**	2021	2020
Interest on lease liabilities	*11*	**P1,065**	P1,070	P1,115
Income from sub-leasing		**(1,275)**	(796)	(1,054)
Income from rent concession	*27*	**-**	-	(23)
Expenses relating to the variable portion of lease payments		**4**	4	3
Expenses relating to short-term leases		**511**	314	251
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		**10**	8	13
		P315	P600	P305

Rent expense amounting to P18 is included in cost of goods sold - others in 2022, P14 in 2021 and P13 in 2020 (Note 23). Interest expense amounting to P49 was capitalized as part of property, plant and equipment in 2022, P64 in 2021 while P85 in 2020 (Note 10).

Amounts recognized in consolidated statements of cashflows:

	Note	**2022**	2021	2020
Interest paid under operating activities	*34*	**P336**	P310	P344
Cash outflows for short term and low value lease		**525**	326	267
Principal lease payments under financing activities	*34*	**2,347**	2,226	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.

	2022	2021
Less than one year	**P1,099**	P992
One to two years	**657**	520
Two to three years	**361**	318
Three to four years	**280**	275
Four to five years	**270**	267
More than five years	**2,456**	2,632
	P5,123	P5,004

Rent income recognized in profit or loss amounted to:

	Note	**2022**	2021	2020
Other operating income		**P1,538**	P1,273	P1,047
Others - net	*27*	**63**	63	63
		P1,601	P1,336	P1,110

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, 2022. 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)		
	2022	2021	2020	**2022**	2021	2020	**2022**	2021	2020
Balance at beginning of year	**(P4,486)**	(P4,864)	(P4,738)	**P1,027**	P1,056	P1,083	**(P3,459)**	(P3,808)	(P3,655)
Recognized in Profit or Loss									
Current service cost	**(263)**	(289)	(289)	**-**	-	-	**(263)**	(289)	(289)
Past service cost - plan amendment*	**(104)**	-	-	**-**	-	-	**(104)**	-	-
Interest expense	**(225)**	(201)	(241)	**-**	-	-	**(225)**	(201)	(241)
Interest income	**-**	-	-	**73**	56	100	**73**	56	100
	(592)	(490)	(530)	**73**	56	100	**(519)**	(434)	(430)
Recognized in Other Comprehensive Income									
Remeasurements:									
Actuarial gains (losses) arising from:									
Experience adjustments	**(127)**	(77)	(64)	**-**	-	-	**(127)**	(77)	(64)
Changes in financial assumptions	**267**	235	(64)	**-**	-	-	**267**	235	(64)
Changes in demographic assumptions	**2**	29	138	**-**	-	-	**2**	29	138
Return on plan asset excluding interest	**-**	-	-	**(768)**	(784)	(641)	**(768)**	(784)	(641)
	142	187	10	**(768)**	(784)	(641)	**(626)**	(597)	(631)
Others									
Benefits paid	**476**	711	357	**(359)**	(611)	(301)	**117**	100	56
Contributions	**-**	-	-	**1,200**	1,310	815	**1,200**	1,310	815
Translation adjustment	**(40)**	(30)	37	**-**	-	-	**(40)**	(30)	37
	436	681	394	**841**	699	514	**1,277**	1,380	908
Balance at end of year	**(P4,500)**	(P4,486)	(P4,864)	**P1,173**	P1,027	P1,056	**(P3,327)**	(P3,459)	(P3,808)

**In 2022, the Parent Company added disability benefit for employees hired before January 1, 2022 resulting in the recognition of past service cost.*

The above net defined benefit retirement liability was recognized in the consolidated statements of financial position as follows:

	Note	2022	2021
Trade and other payables	*18*	**P66**	P132
Retirement benefits liability (noncurrent portion)		**3,261**	3,327
		P3,327	P3,459

Retirement benefits costs (income) recognized in the consolidated statements of income by the Parent Company amounted to P294, P212 and P214 in 2022, 2021 and 2020, respectively, including past service cost on plan amendment amounting to P104 in 2022.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P73, P77 and P75 in 2022, 2021 and 2020, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2022 and 2021.

Plan assets consist of the following:

	2022	2021
Shares of stock:		
Quoted	**63%**	72%
Unquoted	**15%**	12%
Government securities	**13%**	11%
Cash and cash equivalents	**5%**	4%
Others	**4%**	1%
	100%	100%

Investment in Shares of Stock. As of December 31, 2022 and 2021, the Group's plan assets include 459,156,097 common shares of Petron with fair market value per share of P2.40 and P3.17 as of December 31, 2022 and 2021, respectively, and 14,250,900 common shares of SMC with fair market value per share of P92.95 and P114.90 as of December 31, 2022 and 2021, respectively.

The Parent Company's plan recognized a loss on the investment in marketable securities of Petron and SMC amounting to P666, P565 and P451 in 2022, 2021 and 2020, respectively, mainly as a result of marked-to-market remeasurements.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P15 in 2022, P20 in 2021 and P66 in 2020.

Government Securities represents debt instruments issued by sovereign government mainly held by two trustee banks of the plan.

Others include receivables, unit investment trust funds, and debt instruments which earn interest.

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 P515 to its defined benefit retirement plan in 2023.

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:

	2022	2021	2020
Discount rate	**5.00% to 7.41%**	5.00% to 5.20%	3.95% to 5.00%
Future salary increases	**5.00% to 6.50%**	4.00% to 5.75%	4.00% to 5.75%

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 5 to 15 years as of December 31, 2022 and 6 to 17 years as of December 31, 2021.

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	
2022	**1 Percent Increase**	**1 Percent Decrease**
Discount rate	**(P268)**	**P275**
Salary increase rate	**315**	**(281)**

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

The Parent Company has advances to PCERP amounting to P894 and P1,138 as of December 31, 2022 and 2021, 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 2022 and 2021 (Note 29).

In 2022 and in 2021, 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, 2022 and 2021 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, 2022, 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) and/or Khafji Crude Oil (Khafji) at pricing based on latter's standard KEC/Khafji prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice while the contract with KPC is from July 1, 2022 to June 30, 2023.

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 52% of crude and condensate volume processed in 2022 are from EMEPMI with balance of around 48% 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, 2022 and 2021 (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 P110, P96 and P97 in 2022, 2021 and 2020, 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 every fifth year 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, 2022 and 2021, 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:

	2022	2021	2020
Net income (loss) attributable to equity holders of the Parent Company	**P5,727**	P5,369	(P11,380)
Dividends on preferred shares for the year	**(1,044)**	(1,899)	(1,578)
Distributions to the holders of capital securities	**(4,545)**	(3,037)	(1,816)
Net income (loss) attributable to common shareholders of the Parent Company (a)	**P138**	P433	(P14,774)
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)	**P0.01**	P0.05	(P1.58)

As of December 31, 2022, 2021 and 2020, 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):

	2022	2021	2020
Decrease (increase) in assets:			
Trade and other receivables	**(P25,890)**	(P24,308)	P16,401
Inventories	**(16,265)**	(22,104)	27,456
Other assets	**(4,915)**	1,923	(2,260)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	**(458)**	17,929	(16,216)
Trade and other payables and others	**9,146**	(2,742)	(12,943)
	(38,382)	(29,302)	12,438
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, and others	**74**	(20)	(407)
	(P38,308)	(P29,322)	P12,031

b. Changes in liabilities arising from financing activities:

	Dividends Payable	**Lease Liabilities**	**Advances from a Related Party**	**Short-term Loans**	**Long-term Debt**	**Total**
Balance as of January 1, 2022	**P829**	**P15,555**	**P -**	**P109,196**	**P102,645**	**P228,225**
Changes from financing cash flows:						
Payment of principal	**-**	**(2,347)**	**-**	**-**	**-**	**(2,347)**
Proceeds from availment of loans/advances	**-**	**-**	**3,362**	**325,620**	**44,953**	**373,935**
Payments of loans	**-**	**-**	**-**	**(298,315)**	**(44,339)**	**(342,654)**
Dividends and distributions declared	**5,768**	**-**	**-**	**-**	**-**	**5,768**
Dividends and distributions paid	**(6,127)**	**-**	**-**	**-**	**-**	**(6,127)**
Total changes from financing cash flows	**(359)**	**(2,347)**	**3,362**	**27,305**	**614**	**28,575**
New leases	**-**	**642**	**-**	**-**	**-**	**642**
Interest expense	**-**	**1,453**	**-**	**-**	**-**	**1,453**
Interest paid	**-**	**(336)**	**-**	**-**	**-**	**(336)**
Effects of changes in foreign exchange rates	**-**	**127**	**-**	**1,385**	**3,200**	**4,712**
Other charges	**-**	**-**	**-**	**-**	**602**	**602**
Balance as of December 31, 2022	**P470**	**P15,094**	**P3,362**	**P137,886**	**P107,061**	**P263,873**

	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	4,978	-	-	-	4,978
Dividends and distributions paid	(4,655)	-	-	-	(4,655)
Total changes from financing cash flows	323	(2,226)	31,075	(19,449)	9,723
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	P828	P15,555	P109,196	P102,645	P228,224

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.

<u>Risk Management Structure</u>
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:

	2022		2021	
	US Dollar (in millions)	**Phil. Peso Equivalent**	US Dollar (in millions)	Phil. Peso Equivalent
Assets				
Cash and cash equivalents	**566**	**31,576**	569	29,012
Trade and other receivables	**676**	**37,701**	522	26,624
Other assets	**25**	**1,383**	16	815
	1,267	**70,660**	1,107	56,451
Liabilities				
Short-term loans	**279**	**15,531**	294	14,989
Liabilities for crude oil and petroleum products	**844**	**47,122**	793	40,465
Long-term debts (including current maturities)	**691**	**38,521**	880	44,859
Other liabilities	**311**	**17,344**	538	27,416
	2,125	**118,518**	2,505	127,729
Net foreign currency-denominated monetary liabilities	**(858)**	**(47,858)**	(1,398)	(71,278)

The Group incurred net foreign currency gains (losses) amounting to (P3,678), (P1,242) and P2,363 in 2022, 2021 and 2020, 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, 2022	55.755
December 31, 2021	50.999
December 31, 2020	48.023

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, 2022 and 2021:

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
2022	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P422)**	**(P461)**	**P422**	**P461**
Trade and other receivables	**(146)**	**(706)**	**146**	**706**
Other assets	**(17)**	**(21)**	**17**	**21**
	(585)	**(1,188)**	**585**	**1,188**
Short-term loans	**-**	**279**	**-**	**(279)**
Liabilities for crude oil and petroleum products	**449**	**1,196**	**(449)**	**(1,196)**
Long-term debts (including current maturities)	**691**	**518**	**(691)**	**(518)**
Other liabilities	**51**	**309**	**(51)**	**(309)**
	1,191	**2,302**	**(1,191)**	**(2,302)**
	P606	**P1,114**	**(P606)**	**(P1,114)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
2021	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P416)	(P465)	P416	P465
Trade and other receivables	(56)	(509)	56	509
Other assets	(11)	(13)	11	13
	(483)	(987)	483	987
Short-term loans	-	294	-	(294)
Liabilities for crude oil and petroleum products	380	1,059	(380)	(1,059)
Long-term debts (including current maturities)	880	660	(880)	(660)
Other liabilities	13	174	(13)	(174)
	1,273	2,187	(1,273)	(2,187)
	P790	P1,200	(P790)	(P1,200)

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 P385 and P449 in 2022 and 2021, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table. As of December 31, 2022 and 2021, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2022	**<1 Year**	**1 - <2 Years**	**2 - <3 Years**	**3 - <4 Years**	**4 - <5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso denominated	**P11,642**	**P19,057**	**P22,425**	**P3,000**	**P13,752**	**P -**	**P69,876**
Interest rate	**4.5% - 7.5%**	**4.6% - 7.8%**	**3.4% - 8.1%**	**7.2% - 7.5%**	**4.3% - 7.5%**	**-**	**-**
Floating Rate							
US$ denominated (expressed in Php)	**-**	**10,290**	**7,885**	**7,885**	**7,885**	**-**	**33,945**
Interest rate*		**1, 3, 6 mos. Libor/SOFR + margin**	**1, 3, 6 mos. Libor/SOFR + margin**	**1, 3, 6 mos. Libor/SOFR + margin**	**1, 3, 6 mos. Libor/SOFR + margin**		
JP¥ denominated (expressed in Php)	**1,830**	**1,830**	**915**	**-**	**-**	**-**	**4,575**
Interest rate*	**1, 3, 6 mos. TONA + margin**	**1, 3, 6 mos. TONA + margin**	**1, 3, 6 mos. TONA + margin**				
	P13,472	**P31,177**	**P31,225**	**P10,885**	**P21,637**	**P -**	**P108,396**

**The Parent Company reprices every month but has been given an option to reprice every 3 or 6 months.*

2021	<1 Year	1 - <2 Years	2 - <3 Years	3 - <4 Years	4 - <5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P6,892	P10,393	P16,058	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. TONA + margin	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin			
	P21,869	P31,599	P23,785	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.*

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	**2022**	2021
Cash in banks and cash equivalents	*5*	**P35,819**	P35,318
Derivative assets	*6*	**1,438**	740
Trade and other receivables - net	*8*	**81,979**	51,745
Noncurrent deposits	*15*	**127**	128
		P119,363	P87,931

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, 2022 and 2021:

	Trade Accounts Receivables Per Class			
	Class A	**Class B**	**Class C**	**Total**
December 31, 2022				
Retail	**P1,701**	**P3,338**	**P1,052**	**P6,091**
Lubes	**630**	**196**	**59**	**885**
Gasul	**794**	**328**	**164**	**1,286**
Industrial	**21,581**	**2,891**	**5,693**	**30,165**
Others	**13,670**	**6,457**	**645**	**20,772**
	P38,376	**P13,210**	**P7,613**	**P59,199**

	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

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 P5,416 and P4,720 as of December 31, 2022 and 2021, 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.

	2022					
	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	**P35,819**	**P -**	**P -**	**P -**	**P -**	**P35,819**
Trade and other receivables	**-**	**81,979**	**926**	**-**	**-**	**82,905**
Derivative assets not designated as cash flow hedge	**-**	**-**	**-**	**1,257**	**-**	**1,257**
Derivative assets designated as cash flow hedge	**-**	**-**	**-**	**-**	**181**	**181**
Long-term receivables - net	**-**	**-**	**325**	**-**	**-**	**325**
Noncurrent deposits	**127**	**-**	**-**	**-**	**-**	**127**
	P35,946	**P81,979**	**P1,251**	**P1,257**	**P181**	**P120,614**

	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

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, 2022 and 2021.

2022	**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	**P37,183**	**P37,183**	**P37,183**	**P -**	**P -**	**P -**
Trade and other receivables	**81,979**	**81,979**	**81,979**	**-**	**-**	**-**
Derivative assets (including non-current portion)	**1,438**	**1,438**	**1,401**	**37**	**-**	**-**
Proprietary membership shares	**352**	**352**	**352**	**-**	**-**	**-**
Noncurrent deposits	**127**	**127**	**-**	**-**	**-**	**127**
Financial Liabilities						
Short-term loans	**137,886**	**139,058**	**139,058**	**-**	**-**	**-**
Liabilities for crude oil and petroleum products	**51,067**	**51,067**	**51,067**	**-**	**-**	**-**
Trade and other payables*	**13,344**	**13,344**	**13,344**	**-**	**-**	**-**
Derivative liabilities (including non-current portion)	**723**	**723**	**723**	**-**	**-**	**-**
Long-term debts (including current maturities)	**107,061**	**125,710**	**20,123**	**35,913**	**69,674**	**-**
Lease liability (including current portion)	**15,094**	**24,534**	**2,138**	**2,015**	**5,486**	**14,895**
Cash bonds	**420**	**420**	**-**	**403**	**17**	**-**
Cylinder deposits	**736**	**736**	**-**	**-**	**-**	**736**
Other noncurrent liabilities**	**45**	**46**	**-**	**6**	**24**	**16**

**excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others*
***excluding cash bonds, cylinder deposits and derivative liabilities*

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*

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:

	2022	2021
Total assets	**P460,071**	P407,420
Total liabilities	**346,521**	296,507
Total equity	**113,550**	110,913
Debt to equity ratio	**3.1:1**	2.7:1
Assets to equity ratio	**4.1:1**	3.7:1

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:

		2022		2021	
	Note	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	*5*	**P37,183**	**P37,183**	P36,406	P36,406
Trade and other receivables	*8*	**81,979**	**81,979**	51,745	51,745
Noncurrent deposits	*15*	**127**	**127**	128	128
FA at amortized cost		**119,289**	**119,289**	88,279	88,279
Derivative assets designated as cash flow hedge	*6*	**181**	**181**	53	53
FA at FVOCI		**181**	**181**	53	53
Financial assets at FVPL	*6*	**352**	**352**	298	298
Derivative assets not designated as cash flow hedge	*6, 15*	**1,257**	**1,257**	687	687
FA at FVPL		**1,609**	**1,609**	985	985
Total financial assets		**P121,079**	**P121,079**	P89,317	P89,317

		2022		2021	
	Note	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	*16*	**P137,886**	**P137,886**	P109,196	P109,196
Liabilities for crude oil and petroleum products	*17*	**51,067**	**51,067**	42,641	42,641
Trade and other payables*	*18*	**13,344**	**13,344**	7,598	7,598
Long-term debt including current portion	*19*	**107,061**	**107,061**	102,645	102,645
Derivative liabilities designated as cash flow hedge	*21*	**-**	**-**	116	116
Cash bonds	*21*	**420**	**420**	450	450
Cylinder deposits	*21*	**736**	**736**	687	687
Other noncurrent liabilities**	*21*	**45**	**45**	40	40
Other FL		**310,559**	**310,559**	263,373	263,373
Derivative liabilities not designated as cash flow hedge		**723**	**723**	906	906
Total financial liabilities		**P311,282**	**P311,282**	P264,279	P264,279

**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 2022 and 2021 are same at 7.54%.

Short-term Loans, Liabilities for Crude Oil and Petroleum Products and Trade and Other Payables. The carrying amount of short-term loans, liabilities for crude oil and petroleum products and trade and other payables approximates fair value due to the relatively short-term maturities of these financial instruments.

<u>Derivative Financial Instruments</u>
The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency, interest rate and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risks. The portfolio is a mixture of instruments including forwards, swaps and options.

<u>Derivative Instruments Accounted for as Cash Flow Hedges</u>
The Group designated the following derivative financial instruments as cash flow hedges (Note 35).

	Maturity			
December 31, 2022	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign Currency and Interest Rate Risk				
Cross Currency Swap				
Notional amount	**US$20**	**US$10**	**US$ -**	**US$30**
Average strike rate	**P47.00 to P56.50**	**P47.00 to P56.50**	**P -**	**-**
Fixed interest rate	**4.19% to 5.75%**	**4.19% to 5.75%**	**-**	**-**
Interest Rate Risk				
Interest Rate Collar				
Notional amount	**US$30**	**US$15**	**US$ -**	**US$45**
Interest rate	**0.44% to 1.99%**	**0.44% to 1.99%**	**-**	**-**

	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%	-

The table below summarizes the amounts pertaining to the designated hedged item.

December 31, 2022	**Change in Fair Value Used for Measuring Hedge Ineffectiveness**	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign Currency Risk			
US dollar-denominated loan	**P -**	**P -**	**P -**
Foreign Currency and Interest Rate Risks			
US dollar-denominated loan	**(118)**	**21**	**(17)**
Interest Rate Risks			
US dollar-denominated loan	**(63)**	**47**	**-**

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)	-

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, 2022 and 2021.

December 31, 2022	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$ -**	**P -**	**P -**	**Financial assets at FVPL, Derivative liabilities**	**P -**	**(P20)**	**P -**	**P13**	**Other income (expenses) - net**
Foreign Currency and Interest Rate Risks									
Cross currency swap	**30**	**118**	**-**	**Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities**	**118**	**(161)**	**(171)**	**51**	**Interest expense and other financing charges, Other income (expenses) - net**
Interest Rate Risk									
Interest rate collar	**45**	**63**	**-**	**Derivative liabilities, Other noncurrent assets**	**63**	**17**	**-**	**(17)**	**Interest expense and other financing charges**

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

No hedging ineffectiveness was recognized in the 2022 and 2021 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, 2022		December 31, 2021	
	Hedging Reserve	**Cost of Hedging Reserve**	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of year	**(P75)**	**P71**	(P207)	P54
Changes in fair value:				
Foreign currency risk	**-**	**(20)**	28	4
Foreign currency risk and interest rate risk	**294**	**(161)**	448	(216)
Interest rate risk	**67**	**17**	24	(16)
Amount reclassified to profit or loss:				
Foreign currency risk	**-**	**13**	(28)	61
Foreign currency risk and interest rate risk	**(171)**	**51**	(276)	168
Interest rate risk	**-**	**(17)**	-	16
Income tax effect	**(48)**	**29**	(64)	-
Balance at end of year	**P67**	**(P17)**	(P75)	P71

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:

Cross Currency Swaps. As of December 31, 2022, the Group has no outstanding cross currency swaps. The net negative fair value of these cross-currency swaps amounted to nil in 2022 and P6 in 2021.

Interest Rate Collar. As of December 31, 2022, the Group has no outstanding interest rate collar. The net negative fair value of this interest rate collar amounted to nil in 2022 and P1 in 2021.

Freestanding Derivatives

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Group.

Currency Forwards. As of December 31, 2022 and 2021, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$894 million and US$698 million, respectively, and with various maturities in 2024 and 2023. As of December 31, 2022 and 2021, the net fair value of these currency forwards amounted to P28 and P330, respectively.

Commodity Swaps. The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2024 and 2023. 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 31.4 million barrels and 24.6 million barrels for 2022 and 2021, respectively. The estimated net receipts/(payouts) for these transactions amounted to P506 and (P543) as of December 31, 2022 and 2021, respectively.

Commodity Options. As of December 31, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2022, 2021 and 2020, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P4,673, P315 and (P2,428), 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 2022 and 2021 are as follows:

	Note	**2022**	2021
Fair value at beginning of year		**(P219)**	(P502)
Net changes in fair value during the year	*27*	**4,673**	315
Fair value of settled instruments		**(3,920)**	(32)
Fair value at end of year		**P534**	(P219)

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, 2022 and 2021. 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.

	2022	2021
	Level 2	Level 2
Financial Assets		
FVPL	**P352**	P298
Derivative assets	**1,438**	740
Financial Liabilities		
Derivative liabilities	**(723)**	(1,022)

The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2022 and 2021. 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 and the ITH entitlement period ended in June 2020.

<u>AFAB</u>
In December 2021, the Petron Bataan Refinery renewed its registration with the AFAB as a registered enterprise. The registration shall be valid and in effect as long as the registered enterprise remains in good standing or until revoked or cancelled. FAB-registered enterprises are entitled to avail of fiscal incentives under the Special Economic Zone Act of 1995 or the Omnibus Investment Code of 1987 such as (i) tax- and duty-free importation of merchandise which include raw materials, capital equipment machineries and spare parts; (ii) exemption from export wharfage dues, export taxes, imposts, and fees; and (iii) VAT zero-rating of local purchases, subject to compliance with Bureau of Internal Revenue and AFAB requirements. Further, VAT will only be imposed on the Parent Company as a FAB Registered Enterprise upon the withdrawal of products from the refinery instead of the VAT being payable upon importation of crude oil.

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, Indonesia, 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.

<u>Segment Assets and Liabilities</u>
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.

<u>Inter-segment Transactions</u>
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.

<u>Major Customer</u>
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, 2022, 2021 and 2020.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
2022						
Revenue:						
External sales	**P854,712**	**P -**	**P1,173**	**P1,221**	**P532**	**P857,638**
Inter-segment sales	**378,045**	**-**	**397**	**-**	**(378,442)**	**-**
Operating income	**18,898**	**-**	**242**	**42**	**31**	**19,213**
Net income	**8,513**	**-**	**137**	**42**	**(1,995)**	**6,697**
Assets and liabilities:						
Segment assets*	**517,953**	**-**	**9,959**	**644**	**(70,297)**	**458,259**
Segment liabilities*	**376,728**	**-**	**4,646**	**131**	**(38,585)**	**342,920**
Other segment information:						
Property, plant and equipment	**168,999**	**-**	**-**	**90**	**1,064**	**170,153**
Depreciation	**11,941**	**-**	**85**	**14**	**(164)**	**11,876**
Interest expense	**13,240**	**-**	**292**	**2**	**(440)**	**13,094**
Interest income	**965**	**-**	**229**	**5**	**(301)**	**898**
Income tax expense	**1,364**	**-**	**41**	**8**	**(9)**	**1,404**

**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.*
***Ovincor was reclassified to Others from Insurance following the deconsolidation of Petrogen*

	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.*

Inter-segment sales transactions amounted to P376,738, P175,725 and P86,854 for the years ended December 31, 2022, 2021 and 2020, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2022, 2021 and 2020:

	Retail	**Lube**	**Gasul**	**Industrial**	**Others**	**Total**
2022						
Revenue	**P395,183**	**P6,403**	**P33,126**	**P156,307**	**P263,693**	**P854,712**
Property, plant and equipment	**7,920**	**27**	**149**	**23**	**160,880**	**168,999**
Capital expenditures	**1,170**	**4**	**0**	**1**	**12,360**	**13,535**
2021						
Revenue	206,337	5,318	24,947	71,354	127,626	435,582
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

a. revenues from the use of loaned equipment are presented as part of "Retail", "Gasul" and "Industrial"
b. revenues from provisions of technical support are presented as part of "Retail" and "Industrial"
c. revenues from consumer loyalty program are presented as part of "Others"

Geographical Segments

The following table presents segment assets of the Group as of December 31, 2022 and 2021.

	2022	2021
Local	**P349,713**	P311,567
International	**108,546**	93,681
	P458,259	P405,248

Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the years ended December 31, 2022, 2021 and 2020.

	Petroleum	**Insurance**	**Leasing****	**Marketing**	**Elimination/ Others****	**Total**
2022						
Local	**P412,845**	**P -**	**P1,570**	**P1,221**	**(P2,893)**	**P412,743**
Export/international	**819,912**	**-**	**-**	**-**	**(375,017)**	**444,895**
2021						
Local	221,676	4	1,548	906	(912)	223,222
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

***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. Distributions

On January 18, 2023, the Parent Company paid distributions amounting to US$11.50 million (P841) to the holders of the US$500 million SPCS.

On February 10, 2023, the Parent Company paid distributions amounting to US$906 thousand (P49) to the holders of the US$100 million RPS.

On February 27, 2023, the Parent Company paid distributions amounting to US$60 thousand (P3) to the holders of the US$6 million RPS.

b. Partial Redemption of US$500 million of SPCS

On January 19, 2023, the Parent Company redeemed US$22.47 million from the US$500 million SPCS at a purchase price of US$927 per US$1,000 in principal amount.

c. Loan Drawdowns

On January 20, 2023, the Parent Company drew US$30 million from the US$550 million term loan facility to partially prepay its JP¥15 billion term loan facility. Additional US$25 million was drawn on February 3, 2023, to partially prepay the US$800 million term loan facility. The additional drawdowns are 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 November 8, 2024. These are subject to a floating interest rate based on SOFR plus a spread, repriced every 1, 3 or 6 months.

c. On March 6, 2023, the BOD of the Parent Company approved the following:

i. Public offer and issuance of up to P50,000 preferred shares with features to be determined by the Management.

ii. Declaration of P0.10/share cash dividends to common stockholders to be paid on April 4, 2023.

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 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 Petron's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration. In a resolution promulgated on October 6, 2022, the Court of Appeals denied the respective motions for reconsideration of Petron and PNOC. In consideration of the possible delay in the final resolution of the case if Petron were to proceed with the filing of a petition for review with the Supreme Court on the issue of rental payments it seeks to recover and the decision in favor of Petron on the rescission of the Deeds of Conveyance and the reconveyance to it of the properties that has been affirmed by the Court of Appeals, Petron has decided to no longer pursue a petition for review with the Supreme Court. The PNOC filed a petition for review on certiorari with the Supreme Court in early December 2022. As of December 31, 2022, Petron is awaiting orders from the Supreme Court.

b. 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, 2022. 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. As of December 31, 2022 and 2021, the Group has not set up any provision related to this case consistent with Parent Company's position, as also advised by its counsels, that the Parent Company is not liable for the damages resulting from the oil spill incident because it was only the charterer of the sunken vessel and that it had no control or supervision over the operation of said vessel. Moreover, the environmental damage had already been paid and settled by the International Oil Pollution Compensation Funds (IOPC) where Parent Company makes contribution as a member.

c. Effect of COVID-19 and Impact of Russia-Ukraine War

When the global pandemic started, the Group, being engaged in the fuel business, was 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.

Globally, oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand disruption 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 resulting to substantial net loss of the Group in 2020.

With the 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 to the recovery of demand reaching 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 several resurgences in COVID-19 cases from new variants.

While the world is already phasing out COVID-19 prevention measures approaching endemic phase in 2022, China continues to impose Zero-Tolerance policy against COVID. China, including its economic centers Beijing and Shanghai, underwent stringent lockdowns to curb the spread of the virus affecting the country's economy which remains under pressure. This caused China's oil demand dropping in 2022 tempering oil prices towards the end of year.

In February 2022, the invasion of Ukraine by Russia resulted to sudden escalation in oil prices with Dubai crude breaching the $100/bbl mark by March 2022 due to the disruption of global oil supply. Amid economic sanctions imposed on Russia and OPEC's efforts to manage production, demand continued to be healthy as most of the countries are already recovering from the pandemic and approaching endemic phase. By June 2022 oil prices soared to a record high $113/bbl. However, by mid of the third quarter, prices began to correct with Dubai averaging $97/bbl in the 3rd quarter and further went down to $85/bbl in the 4th quarter of 2022.

The Group' sales volume for 2022 grew substantially by 37% compared to last year's level. The Group's consolidated revenues almost doubled the 2021 level to P857,636. Despite volatility in the market and elevated costs, the robust refining margins allowed the Group to realize net income of P6,697, 9% higher than last year's net income level.

The extent to which the COVID-19 and Russia-Ukraine war will continue to impact the Group will depend on future developments, including actions taken by OPEC and other oil producing countries and the international community and by the Philippines and internationally by governments, which are highly uncertain and cannot be quantified nor determined at this point.

d. 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.

e. The Group has unused letters of credit totaling approximately P44,127 and P52,251 as of December 31, 2022 and 2021, respectively.

KPMG

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Philippines 1209
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Internet www.home.kpmg/ph
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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group") as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated March 16, 2023.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following schedules are the responsibility of the Group's management:

- Supplementary Schedules of Annex 68-J
- Map of the Conglomerate

These supplementary information are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not required parts of the consolidated financial statements. Such supplementary information have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
SEC Accreditation No. 118706-SEC, Group A, valid for five (5) years
covering the audit of 2022 to 2026 financial statements
Tax Identification No. 249-773-914
BIR Accreditation No. 08-001987-044-2021
Issued September 2, 2021; valid until September 1, 2024
PTR No. MKT 9563827
Issued January 3, 2023 at Makati City

March 16, 2023
Makati City, Metro Manila

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REPORT OF INDEPENDENT AUDITORS ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group") as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated March 16, 2023. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas and calculations, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and no material exceptions were noted.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
SEC Accreditation No. 118706-SEC, Group A, valid for five (5) years
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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of Petron Corporation (the "Company") as at and for the years ended December 31, 2022 and 2021, and have issued our report thereon dated March 16, 2023.

Our audits were made for the purpose of forming an opinion on the separate financial statements taken as a whole. The supplementary information included in the *Reconciliation of Retained Earnings Available for Dividend Declaration* is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

R.G. MANABAT & CO.

Rohanie C. Galicia

ROHANIE C. GALICIA
Partner
CPA License No. 0118706
SEC Accreditation No. 118706-SEC, Group A, valid for five (5) years
covering the audit of 2022 to 2026 financial statements
Tax Identification No. 249-773-914
BIR Accreditation No. 08-001987-044-2021
Issued September 2, 2021; valid until September 1, 2024
PTR No. MKT 9563827
Issued January 3, 2023 at Makati City

March 16, 2023
Makati City, Metro Manila

PETRON CORPORATION AND SUBSIDIARIES
INDEX TO SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2022

Statement of Management's Responsibility for the Consolidated Financial Statements

Report of Independent Auditors on Supplementary Information Filed Separately from the Consolidated Financial Statements

Supplementary Schedules to the Consolidated Financial Statements

Supplementary Schedules of Annex 68 - J		Page No.
A.	Financial Assets	NA[(a)]
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	NA[(b)]
C.	Amounts Receivable and Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements	1 - 2
D.	Long-term Debt	3
E.	Indebtedness to Related Parties	NA
F.	Guarantees of Securities of Other Issuers	NA
G.	Capital Stock	4

[(a)] Balance of Financial Assets at Fair Value Through Profit or Loss is less than 5% of total current assets.
[(b)] Balance of account is less than 1% of the total assets of the Group and no individually significant advances over P100,000.

Map of the Conglomerate within which the Group belongs

Financial Soundness Indicators

Schedule of Proceeds from Recent Offering of Securities

Report on Independent Auditors on Supplementary Information Filed Separately from the Separate Financial Statements

Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2022
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	P 19,655	P 332,368	P (325,438)	P -	P 26,585	P 26,585	P -	P 26,585
Overseas Ventures Insurance Corporation Ltd.	19	-	(19)	-	-	-	-	-
Petrogen Insurance Corporation	-	-	-	-	-	-	-	-
Petron Freeport Corporation	87	1	(9)	-	79	79	-	79
Petron Singapore Trading Pte., Ltd.	1,675	18,807	(19,014)	-	1,468	1,468	-	1,468
Petron Marketing Corporation	-	-	-	-	-	-	-	-
New Ventures Realty Corporation and Subsidiaries	2,072	653	(850)	-	1,875	75	1,800	1,875
Mema Holdings Inc.	-	899	16	-	915	915	-	915
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	3,314	1,447	(15)	-	4,746	4,746	-	4,746
Petrochemical Asia (Hk) Limited and Subsidiaries	-	-	-	-	-	-	-	-
TOTAL	**P 26,822**	**P 354,175**	**P (345,329)**	**P -**	**P 35,668**	**P 33,868**	**P 1,800**	**P 35,668**

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2022
(Amounts in Millions)

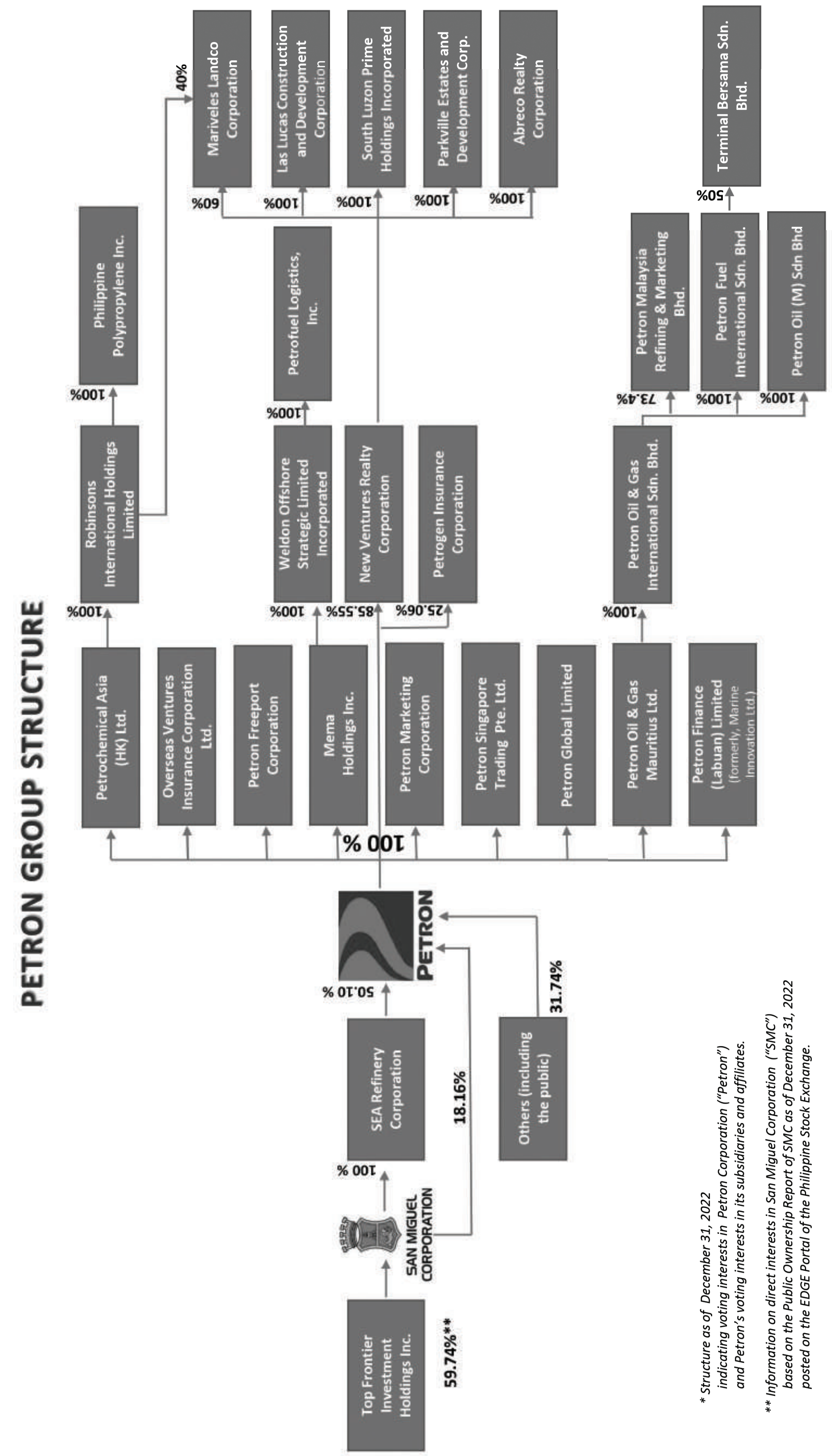
NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	P 3,791	P 22,003	P (19,409)	P -	P 6,385	P 4,760	P 1,625	P 6,385
Overseas Ventures Insurance Corporation Ltd.	-	565	(6)	-	559	559	-	559
Petrogen Insurance Corporation	-	-	-	-	-	-	-	-
Petron Freeport Corporation	38	-	(9)	-	29	29	-	29
Petron Singapore Trading Pte., Ltd.	22,655	331,407	(325,751)	-	28,311	28,311	-	28,311
Petron Marketing Corporation	17	3	-	-	20	20	-	20
New Ventures Realty Corporation and Subsidiaries	238	53	(42)	-	249	74	175	249
Mema Holdings Inc.	-	141	(110)	-	31	31	-	31
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	-	-	-	-	-	-	-	-
Petrochemical Asia (Hk) Limited and Subsidiaries	83	3	(2)	-	84	84	-	84
TOTAL	**P 26,822**	**P 354,175**	**P (345,329)**	**P -**	**P 35,668**	**P 33,868**	**P 1,800**	**P 35,668**

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE D - LONG-TERM DEBT
DECEMBER 31, 2022
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Amount Shown as Current	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Final Maturity
Unsecured term notes and bonds:							
Peso denominated:							
Fixed	Philippine Commercial Capital Inc. – Trust and In	9,000	-	8,917	3.4408%	Bullet	October 2027
Fixed	Philippine Commercial Capital Inc. – Trust and In	9,000	-	8,906	4.3368%	Bullet	October 2025
Fixed	Bank of the Philippine Islands	3,125	1,244	3,116	4.5900%	12-month grace period; amortized in 16 quarterly payments	April 2025
Fixed	Philippine Depository and Trust Corp	7,000	6,990	6,990	4.5219%	Bullet	October 2023
Fixed	Banco De Oro	3,750	2,138	3,744	5.5276%	Amortized quarterly for 7 years	July 2024
Fixed	Banco De Oro	5,000	613	4,968	7.4206%	Amortized quarterly for 5 years	June 2027
Fixed	Philippine Depository and Trust Corp	13,200	-	13,144	7.8183%	Bullet	April 2024
Fixed	Philippine Depository and Trust Corp	6,800	-	6,762	8.0551%	Bullet	October 2025
Fixed	Landbank of the Philippines	5,000	614	4,969	7.5496%	15-month grace period; amortized in 16 quarterly payments	June 2027
Fixed	China Bank Corporation	2,375	-	2,359	6.4920%	Bullet	September 2025
Fixed	China Bank Corporation	625	-	621	6.8672%	Bullet	September 2025
Fixed	China Bank Corporation	5,000	-	4,967	7.1663%	2-year grace period; amortized in 7 semi-annual payments	May 2027
		69,875	11,599	69,463			
Foreign currency - denominated							
Floating	Standard Chartered Bank (Hongkong) Limited	6,348	-	6,276	LIBOR + margin	2-year grace period; amortized in 7 semi-annual payments	May 2024
Floating	Sumitomo Mitsui Banking Corp.	4,574	1,800	4,527	TONA + margin	2-year grace period; amortized in 7 semi-annual payments	March 2025
Floating	Standard Chartered Bank (Hongkong) Limited	27,599	-	26,795	SOFR + margin	2-year grace period; amortized in 7 semi-annual payments	Nov 2027
		38,521	1,800	37,598			
Total Long-term Debt		**P 108,396**	**P 13,399**	**P 107,061**			

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE G - CAPITAL STOCK
DECEMBER 31, 2022

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors and executive officers	Others
Common stock	9,375,104,497	9,375,104,497	Not applicable	6,858,912,221	1,871,443	2,514,320,833
Preferred stock	624,895,503					
Series 3A Preferred		13,403,000	Not applicable	-	700	13,402,300
Series 3B Preferred		6,597,000	Not applicable	-	20,300	6,576,700



** Structure as of December 31, 2022 indicating voting interests in Petron Corporation ("Petron") and Petron's voting interests in its subsidiaries and affiliates.*

*** Information on direct interests in San Miguel Corporation ("SMC") based on the Public Ownership Report of SMC as of December 31, 2022 posted on the EDGE Portal of the Philippine Stock Exchange.*

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	December 31, 2022	December 31, 2021
Liquidity			
a) Current Ratio	Current Assets / Current Liabilities	**1.07**	0.99
b) Quick Ratio	Current Assets less Inventories and Other Current Assets / Current Liabilities	**0.53**	0.47
Solvency			
c) Debt to Equity Ratio	Total Interest-bearing Liabilities [b] / Total Equity	**2.16**	1.91
d) Asset to Equity Ratio	Total Assets / Total Equity	**4.05**	3.67
e) Interest Rate Coverage Ratio	Earnings Before Interests and Taxes / Interest Expense and Other Financing Charges	**1.62**	1.73
Profitability			
f) Return on Equity	Net Income [a] / Average Total Equity	**5.97%**	6.23%
g) Return on Assets	Net Income [a] / Average Total Assets	**1.54%**	1.63%
Operating Efficiency			
h) Volume Growth	$\left(\frac{\text{Current Period Volume}}{\text{Prior Period Volume}} - 1\right)$	**37.17%**	4.66%
i) Sales Growth	$\left(\frac{\text{Current Period Sales}}{\text{Prior Period Sales}} - 1\right)$	**95.78%**	53.15%
j) Operating Margin	Income from Operating Activities / Sales	**2.24%**	3.93%

[a] *trailing 12 months net income*
[b] *excludes lease liabilities*

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS OF DECEMBER 31, 2022
(Amounts in Thousand Pesos)

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

Unappropriated retained earnings, *as adjusted to available for dividend distribution,* beginning		**P6,268,172**
Add: Reversal of prior years' unrealized net income		**361,291**
Adjusted Unappropriated retained earnings, beginning		**P6,629,463**
Add: Net income actually earned/realized during the period		
Net income during the period closed to retained earnings	P2,536,160	
Less: Non-actual/ unrealized income, net of tax:		
Fair value gains arising from marked-to-market measurement *(P919,385 if gross of tax)*	689,539	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS *(P211,518 if gross of tax)*	158,639	
Sub-total	848,178	
Net income actually earned during the year	1,687,982	**1,687,982**
Less: Dividend declarations during the year	(1,043,906)	
Distributions paid	(4,545,822)	
	(5,589,728)	**(5,589,728)**
TOTAL RETAINED EARNINGS, END OF THE YEAR AVAILABLE FOR DIVIDEND DECLARATION		**P2,727,717**

PETRON CORPORATION
Proceeds from Issuance of Series E and Series F Fixed Rate Bonds
December 31, 2022

i. Gross and Net Proceeds as disclosed in the final prospectus

In P Millions	
Gross Proceeds	**P18,000.00**
Less: Underwriting fees for the Preferred Shares being sold by the Company	63.00
Taxes to be paid by the Company	135.00
Philippine SEC filing and legal research fee	5.11
Listing application fee	0.20
Listing maintenance fee	0.45
Rating fee	4.05
Trustee fees	0.13
Registry and paying	0.50
Estimated legal and other professional fees	7.80
Estimated other expenses	0.55
Total Expenses	**P216.79**
Net Proceeds	**P17,783.21**

The net proceeds of the Offer shall be used for (i) the redemption of the Company's Series A Bonds, (ii) the partial financing of the Power Plant Project, and (iii) payment of existing indebtedness

ii. Actual Gross and Net Proceeds

In P Millions	
Actual Gross Proceeds	**P18,000.00**
Less: Underwriting Fees, Filing and Processing Fees, Documentary Stamp Tax, Legal and Professional Fees and Other Expenses	227.95
Actual Net Proceeds	**P17,772.05**

iii. Each Expenditure Item where the Proceeds was Used

In P Millions	
Actual Net Proceeds	**P17,772.05**
Less: Redemption of the Series A Bonds	13,000.00
Payment for power plant project	2,964.60
Payment of long term loan amortization to:	
Bank of the Philippine Islands	697.49
BDO Unibank, Inc.	535.71
UnionBank	250.00
Total Payments	**P17,447.80**
Balance	**P324.25**

iv. Balance of the Proceeds as of the End of the Reporting Period

As of December 31, 2022, balance of proceeds amounted to P324.25 million.

Terminals and Airport Installations

TERMINALS

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 / 46 / 68 / 100
Hydrotur AW GT 32
Hydrotur EP 32 / 46 / 68 / 100
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 AND 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

Petron Corporation
SMC Head Office Complex
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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:

SMC Stock Transfer Service Corporation
40 San Miguel Avenue 1550 Mandaluyong City
Trunkline: (632) 8-632-3450 to 52
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Investor Relations

Petron Corporation welcomes inquiries from analysts and institutional investors. Please write or call:

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