

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS December 31, 2018, 2017 and 2016



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REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of Petron Corporation and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition (P557,386 million)

Refer to Note 3, *Significant Accounting Policies* and Note 37, *Segment Information* to the consolidated financial statements.

The risk

Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when the sales transactions have been completed and control over the goods and services has been transferred to the customer. Revenue generated from the sale of petroleum and related products is susceptible to manipulation as the pricing may vary in response to different market conditions. Whilst revenue recognition and measurement is not complex for the Group, voluminous sales transactions and the sales target which form part of the Group's key performance measure may provide venue to improperly recognize revenue.

Our response

We performed the following audit procedures, among others, on revenue recognition:

- We tested operating effectiveness of the key controls over revenue recognition. We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls between different information technology applications for the evaluation of relevant information technology systems and the design and operating effectiveness of controls over the recording of revenue transactions.
- We checked on a sampling basis, the sales transactions to the delivery documents for the year.
- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess whether these transactions are recorded in the correct financial year.
- We tested journal entries posted to revenue accounts, including any unusual or irregular items.
- We tested credit notes recorded after the financial year to identify potential reversals of revenue which were inappropriately recognized in the current financial year.

Adoption of PFRS 15, Revenue from Contracts with Customers (P557,386 million)
Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 37, *Segment Information* to the consolidated financial statements.

The risk

PFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The core principle of PFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the considerations to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the new five-step model. PFRS 15 also requires extensive disclosures. The Group was required to review its contracts which involved, among others, the identification of performance obligations other than selling petroleum and related products. There is judgment involved in the application of the new standard, including the assessment of performance obligations and estimation of the stand-alone selling price of each performance obligation.

Our response

We performed the following audit procedures, among others, on the adoption of PFRS 15:

- We evaluated the appropriateness of the Group's accounting policies under PFRS 15 based on our understanding of the Group's revenue transactions.
- We obtained understanding of the transition approach and any practical expedients applied by the Group.
- We assessed the appropriateness of the Group's revenue recognition under PFRS 15 across significant revenue streams by testing the implementation of the requirements of PFRS 15 for a sample of contracts.
- We assessed the sufficiency and appropriateness of the disclosures in the consolidated financial statements based on the requirements of PFRS 15.

Valuation of Inventories (P63,873 million)

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 9, *Inventories* to the consolidated financial statements.

The risk

There is a risk over the recoverability of the Group's inventories due to market price volatility of crude and petroleum products. Such volatility can lead to potential issues over the full recoverability of inventory balances. In addition, determining the net realizable values of inventories is subject to management's judgment and estimation. This includes estimating the selling price of finished goods and the cost of conversion of raw materials based on available market price forecasts and current costs.

Our response

We performed the following audit procedures, among others, on the valuation of inventories:

- We obtained and reviewed the calculation of write-down of the Group's raw materials and finished goods based on the net realizable values of finished goods at yearend.
- For raw materials, projected production yield was used to estimate the cost of conversion for the raw materials as at yearend. We assessed the projected yield by comparing it to the actual yield achieved from crude oil production runs during the year. We then compared the estimated costs of finished goods to the net realizable values to determine any potential write-down.
- For finished goods, we assessed the reasonableness of estimated selling prices by checking various products' sales invoices issued around and after yearend. Any write-down is computed based on the difference between the net realizable value and the cost of inventory held at yearend.

Valuation of Goodwill (P8,532 million)

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 13, *Investment in Shares of Stock of Subsidiaries, Goodwill and Non-Controlling Interests* to the consolidated financial statements.

The risk

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



Our response

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

- We tested the integrity of the discounted cash flow model used by the Group. This involved using our own valuation specialist to assist us in evaluating the models used and assumptions applied and comparing these assumptions to external data, where applicable. The key assumptions include sales volume, selling price and gross profit margin.
- We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, cost of inflation and discount rates, as well as performing break-even analysis on the assumptions.
- We also assessed the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions used in the valuation of goodwill.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, 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, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.



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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Mr. Darwin P. Virocel.

R.G. MANABAT & CO.



DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

Issued October 18, 2016; valid until October 17, 2019

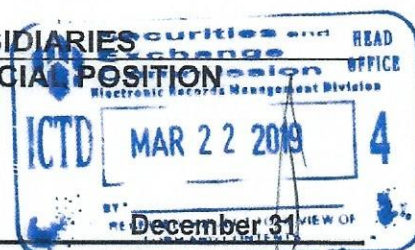
PTR No. MKT 7333639

Issued January 3, 2019 at Makati City

March 12, 2019

Makati City, Metro Manila

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



	Note	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	5, 34, 35	P17,405	P17,014
Financial assets at fair value	6, 14, 34, 35	1,126	336
Investments in debt instruments	7, 34, 35	40	199
Trade and other receivables - net	4, 8, 28, 34, 35	42,497	38,159
Inventories	4, 9	63,873	56,604
Other current assets	10, 14, 28	37,081	33,178
Total Current Assets		162,022	145,490
Noncurrent Assets			
Investments in debt instruments	7, 34, 35	338	332
Property, plant and equipment - net	4, 11, 12, 37	163,984	177,690
Investment property - net	4, 11, 12	16,536	75
Deferred tax assets - net	4, 27	257	207
Goodwill - net	4, 13	8,532	8,277
Other noncurrent assets - net	4, 6, 14, 34, 35	6,485	5,959
Total Noncurrent Assets		196,132	192,540
		P358,154	P338,030
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	15, 33, 34, 35	P82,997	P69,583
Liabilities for crude oil and petroleum products	16, 28, 31, 34, 35	25,991	36,920
Trade and other payables	17, 28, 30, 33, 34, 35, 39	28,471	11,604
Derivative liabilities	34, 35	614	1,791
Income tax payable		146	808
Current portion of long-term debt - net	18, 33, 34, 35	17,799	3,789
Total Current Liabilities		156,018	124,495
Noncurrent Liabilities			
Long-term debt - net of current portion	18, 33, 34, 35	100,201	97,916
Retirement benefits liability	30	2,433	4,885
Deferred tax liabilities - net	27	8,450	7,397
Asset retirement obligation	4, 19	3,592	2,681
Other noncurrent liabilities	20, 34, 35	1,274	1,037
Total Noncurrent Liabilities		115,950	113,916
Total Liabilities		271,968	238,411

Forward

December 31			
	Note	2018	2017
Equity Attributable to Equity Holders of the Parent Company	21		
Capital stock		P9,485	P9,485
Additional paid-in capital		19,653	19,653
Capital securities		24,881	30,546
Retained earnings		49,491	49,142
Equity reserves		(14,031)	(5,171)
Treasury stock		(10,000)	(10,000)
Total Equity Attributable to Equity Holders of the Parent Company		79,479	93,655
Non-controlling Interests	13	6,707	5,964
Total Equity		86,186	99,619
		P358,154	P338,030

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Million Pesos, Except Per Share Data)

	<i>Note</i>	2018	2017	2016
SALES	28, 31, 37	P557,386	P434,624	P343,840
COST OF GOODS SOLD	22	522,824	391,969	306,125
GROSS PROFIT		34,562	42,655	37,715
SELLING AND ADMINISTRATIVE EXPENSES	23	(15,641)	(15,017)	(13,918)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	26, 37	(9,689)	(8,487)	(7,557)
INTEREST INCOME	26, 37	706	535	507
SHARE IN NET INCOME OF AN ASSOCIATE	10	-	63	66
OTHER INCOME (EXPENSES) - Net	26	517	(907)	(2,435)
		(24,107)	(23,813)	(23,337)
INCOME BEFORE INCOME TAX		10,455	18,842	14,378
INCOME TAX EXPENSE	27, 36, 37	3,386	4,755	3,556
NET INCOME		P7,069	P14,087	P10,822
Attributable to:				
Equity holders of the Parent Company	32	P6,218	P12,739	P10,100
Non-controlling interests	13	851	1,348	722
		P7,069	P14,087	P10,822
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	32	P0.28	P0.86	P0.60

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Million Pesos)

	<i>Note</i>	2018	2017	2016
NET INCOME		P7,069	P14,087	P10,822
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Items that will not be reclassified to profit or loss</i>				
Equity reserve for retirement plan	30	(1,133)	(1,142)	2,647
Share in other comprehensive income of an associate and a joint venture	10	-	3	3
Income tax benefit (expense)	27	339	346	(794)
		(794)	(793)	1,856
<i>Items that may be reclassified to profit or loss</i>				
Net loss on cash flow hedges	35	(110)	-	-
Exchange differences on translation of foreign operations		1,372	3,303	523
Unrealized fair value losses on investments in debt instruments at FVOCI	7	(10)	(4)	(2)
Share in other comprehensive loss of a joint venture		-	(1)	-
Income tax benefit	27	36	1	1
		1,288	3,299	522
OTHER COMPREHENSIVE INCOME - Net of tax		494	2,506	2,378
TOTAL COMPREHENSIVE INCOME FOR THE YEAR - Net of tax		P7,563	P16,593	P13,200
Attributable to:				
Equity holders of the Parent Company		P6,570	P14,772	P12,742
Non-controlling interests		993	1,821	458
		P7,563	P16,593	P13,200

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Million Pesos)

	Note	Equity Attributable to Equity Holders of the Parent Company									
		Retained Earnings			Equity Reserves			Non-controlling Interests			Total Equity
		Capital Stock	Additional Paid-In Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	
As of December 31, 2017		P9,485	P19,653	P30,546	P15,160	P33,982	(P2,146)	(P3,025)	(P10,000)	P93,655	P99,619
Adjustment due to adoption of Philippine Financial Reporting Standard (PFRS) 9	3	-	-	-	-	42	-	-	-	42	40
As of January 1, 2018, as adjusted		9,485	19,653	30,546	15,160	34,024	(2,146)	(3,025)	(10,000)	93,697	99,659
Net loss on cash flow hedges - net of tax	35	-	-	-	-	-	-	(77)	-	(77)	(77)
Unrealized fair value losses on investments in debt instruments		-	-	-	-	-	-	(8)	-	(8)	(8)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	1,231	-	1,231	1,372
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(794)	-	-	(794)	(793)
Other comprehensive income (loss)		-	-	-	-	-	(794)	1,146	-	352	494
Net income for the year		-	-	-	-	6,218	-	-	-	6,218	7,069
Total comprehensive income (loss) for the year		-	-	-	-	6,218	(794)	1,146	-	6,570	7,563
Cash dividends	21	-	-	-	-	(2,052)	-	-	-	(2,052)	(2,289)
Distributions paid	21	-	-	-	-	(3,839)	-	-	-	(3,839)	(3,839)
Redemption of undated subordinated capital securities	21	-	-	(30,546)	-	-	-	(9,223)	-	(39,769)	(39,769)
Issuance of senior perpetual capital securities	21	-	-	24,881	-	-	-	-	-	24,881	24,881
Acquisition of additional interest in a subsidiary	13	-	-	-	-	(20)	-	11	-	(9)	(20)
Transactions with owners		-	-	(5,665)	-	(5,911)	-	(9,212)	-	(20,788)	(21,036)
As of December 31, 2018		P9,485	P19,653	P24,881	P15,160	P34,331	(P2,940)	(P11,091)	(P10,000)	P79,479	P86,186

Forward

Equity Attributable to Equity Holders of the Parent Company										
Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings			Equity Reserves			Non-controlling Interests
				Capital	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total
As of January 1, 2017	P9,485	P19,653	P30,546	P15,160	P26,851	(P1,345)	(P5,859)	P84,491	P4,329	P88,820
Unrealized fair value loss on investments in debt instruments - net of tax	-	-	-	-	-	-	(3)	(3)	-	(3)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	2,838	2,838	-	3,303
Equity reserve for retirement plan - net of tax	-	-	-	-	-	(804)	-	(804)	-	(796)
Share in other comprehensive income (loss) of an associate and a joint venture	-	-	-	-	-	3	(1)	2	-	2
Other comprehensive income (loss)	-	-	-	-	-	(801)	2,834	2,033	473	2,506
Net income for the year	-	-	-	-	12,739	-	-	12,739	1,348	14,087
Total comprehensive income (loss) for the year	-	-	-	-	12,739	(801)	2,834	14,772	1,821	16,593
Cash dividends	21	-	-	-	(1,584)	-	-	(1,584)	(186)	(1,770)
Distributions paid	21	-	-	-	(4,024)	-	-	(4,024)	-	(4,024)
Transactions with owners	-	-	-	-	(5,608)	-	-	(5,608)	(186)	(5,794)
As of December 31, 2017	P9,485	P19,653	P30,546	P15,160	P33,982	(P2,146)	(P3,025)	P93,655	P5,964	P99,619

Forward

Equity Attributable to Equity Holders of the Parent Company													
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings			Equity Reserves			Total	Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock				
As of January 1, 2016		P9,485	P19,653	P30,546	P25,082	P16,630	(P3,204)	(P5,563)	(P10,000)	P82,629	P471	P83,100	
Unrealized fair value loss on investments in debt instruments - net of tax		-	-	-	-	-	-	(1)	-	(1)	-	(1)	
Exchange differences on translation of foreign operations		-	-	-	-	-	-	784	-	784	(261)	523	
Equity reserve for retirement plan - net of tax		-	-	-	-	-	1,856	-	-	1,856	(3)	1,853	
Share in other comprehensive income of an associate and a joint venture		-	-	-	-	-	3	-	-	3	-	3	
Other comprehensive income (loss)		-	-	-	-	-	1,859	783	-	2,642	(264)	2,378	
Net income for the year		-	-	-	-	10,100	-	-	-	10,100	722	10,822	
Total comprehensive income for the year		-	-	-	-	10,100	1,859	783	-	12,742	458	13,200	
Cash dividends	21	-	-	-	-	(1,584)	-	-	-	(1,584)	(168)	(1,752)	
Distributions paid	21	-	-	-	-	(3,807)	-	-	-	(3,807)	-	(3,807)	
Reversal of appropriations - net	21	-	-	-	(9,922)	9,922	-	-	-	-	-	-	
Acquisition of additional interest in a subsidiary	13	-	-	-	-	-	-	(570)	-	(570)	570	-	
Purchase of non-controlling interest in a subsidiary	13	-	-	-	-	-	-	(509)	-	(509)	(1,412)	(1,921)	
Transfer from non-controlling interests		-	-	-	-	(4,410)	-	-	-	(4,410)	4,410	-	
Transactions with owners		-	-	-	(9,922)	121	-	(1,079)	-	(10,880)	3,400	(7,480)	
As of December 31, 2016		P9,485	P19,653	P30,546	P15,160	P26,851	(P1,345)	(P5,859)	(P10,000)	P84,491	P4,329	P88,820	

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Million Pesos)

	<i>Note</i>	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P10,455	P18,842	P14,378
Adjustments for:				
Depreciation and amortization	25	11,543	10,979	9,505
Interest expense and other financing charges	26	9,689	8,487	7,557
Retirement benefits costs	30	523	508	579
Share in net income of an associate	10	-	(63)	(66)
Interest income	26	(706)	(535)	(507)
Unrealized foreign exchange losses (gains) - net		2,484	(880)	529
Other losses (gains) - net		(1,738)	594	538
Operating income before working capital changes		32,250	37,932	32,513
Changes in noncash assets, certain current liabilities and others	33	(15,616)	(13,043)	4,550
Cash generated from operations		16,634	24,889	37,063
Contribution to retirement fund	30	(1,068)	(100)	(135)
Interest paid		(9,035)	(7,492)	(7,014)
Income taxes paid		(1,980)	(1,920)	(902)
Interest received		496	376	257
Net cash flows provided by operating activities		5,047	15,753	29,269
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	11	(10,416)	(13,142)	(19,122)
Proceeds from sale of property and equipment		58	1,195	336
Acquisition of investment property	12	(852)	-	-
Proceeds from sale of investment property		-	16	18
Increase in other noncurrent assets		(79)	(969)	(536)
Proceeds from disposal (acquisition) of:				
Investment in shares of stock of an associate	10	-	1,750	-
Investments in debt instruments		148	(61)	139
Net cash flows used in investing activities		(11,141)	(11,211)	(19,165)

Forward

	<i>Note</i>	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans	33	P339,581	P298,669	P226,360
Payments of:				
Loans	33	(312,564)	(298,199)	(230,924)
Cash dividends and distributions	21, 33	(6,160)	(5,773)	(5,537)
Issuance of senior perpetual capital securities	21	24,881	-	-
Redemption of undated subordinated capital securities	21	(39,769)	-	-
Acquisition of additional interest in a subsidiary	13	(20)	-	-
Purchase of non-controlling interest in a subsidiary	13	-	-	(1,921)
Increase (decrease) in other noncurrent liabilities		-	588	(3)
Net cash flows provided by (used in) financing activities		5,949	(4,715)	(12,025)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		536	(145)	372
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		391	(318)	(1,549)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		17,014	17,332	18,881
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	P17,405	P17,014	P17,332

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Reporting Entity

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

Petron is the leading oil refining and marketing company in the Philippines. Petron is committed to its vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates the Philippines' largest and most modern refinery in Bataan, with a rated capacity of 180,000 barrels a day. Petron's Integrated Management Systems (IMS) - certified refinery processes crude oil into a full range of world-class petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, and petrochemicals. From the refinery, Petron moves its products mainly by sea to more than 30 terminals strategically located across the country. Through this network, Petron supplies fuels to its service stations and various essential industries such as power-generation, transportation, manufacturing, agriculture, etc. Petron also supplies jet fuel at key airports to international and domestic carriers.

With over 2,400 service stations and hundreds of industrial accounts, Petron remains the leader in all the major segments of the market. Petron retails gasoline and diesel to motorists and public transport operators. Petron also sells its LPG brands "Gasul" and "Fiesta" to households and other industrial consumers through an extensive dealership network.

Petron sources its fuel additives from its blending facility in Subic Bay. This gives Petron the capability to formulate unique additives for Philippine driving conditions. It also has a facility in Mariveles, Bataan where the refinery's propylene production is converted into higher-value polypropylene resin.

In line with efforts to increase its presence in the regional market, Petron exports various products to Asia-Pacific countries. Today, Petron is one of the leading oil companies in Malaysia with an integrated business which includes an 88,000 barrel-per-day refinery, 10 terminals, and a network of over 600 service stations.

The Parent Company is a public company under Section 17.2 of Securities Regulation Code and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). As of December 31, 2018, the Parent Company's public float stood at 26.73%.

The intermediate parent company of Petron is San Miguel Corporation (SMC) while its ultimate parent company is Top Frontier Investments Holdings, Inc. Both companies are incorporated in the Philippines.

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

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 12, 2019.

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		Country of Incorporation
	2018	2017	
Overseas Ventures Insurance Corporation Ltd. (Ovincor)	100.00	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	100.00	100.00	Philippines
Petron Freeport Corporation (PFC)	100.00	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	100.00	100.00	Singapore
Petron Marketing Corporation (PMC)	100.00	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	85.55	40.00	Philippines
Limay Energen Corporation (LEC)	100.00	100.00	Philippines
Petron Global Limited (PGL)	100.00	100.00	British Virgin Islands
Petron Finance (Labuan) Limited (PFL)	100.00	100.00	Malaysia
Petron Oil and Gas Mauritius Ltd. (POGM) and Subsidiaries	100.00	100.00	Mauritius
Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries	100.00	100.00	Hong Kong

Petrogen and Ovincor are both engaged in the business of non-life insurance and re-insurance.

The primary purpose of PFC and PMC is to, among others, sell on wholesale or retail and operate service stations, retail outlets, restaurants, convenience stores and the like.

PSTPL's principal activities are those relating to the procurement of crude oil, ethanol, catalysts, additives, coal and various petroleum finished products; crude vessel chartering and commodity risk management.

NVRC's primary purpose is to acquire real estate and derive income from its sale or lease.

As of December 31, 2018 and 2017, NVRC owns 100% of Las Lucas Construction and Development Corporation (LLCDC), Parkville Estates & Development Corporation (PEDC), South Luzon Prime Holdings, Inc. (SLPHI), Abreco Realty Corporation (ARC) and 60% of Mariveles Landco Corporation (MLC). As of December 31, 2017, NVRC also owns 100% of MRGVeloso Holdings, Inc. (MHI) which was merged with LLCDC as approved by the SEC on May 10, 2018 (Note 13).

The primary purpose of LEC is to build, operate, maintain, sell and lease power generation plants, facilities, equipment and other related assets and engage in the business of power generation.

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, 2018 and 2017, 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, 2018 and 2017, PAHL owns 100% of Robinsons International Holdings Limited (RIHL) which owns 100% of Philippine Polypropylene, Inc. (PPI) and 40% of MLC.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights. For NVRC and PAHL, the basis of consolidation is discussed in Note 4.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss 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 2018 and 2017.

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 profit or loss; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income (OCI) to profit or loss 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 years presented in these consolidated financial statements, except for the changes in accounting policies as explained below.

Certain comparative amounts in the consolidated statements of financial position and consolidated statements of comprehensive income have been reclassified or re-presented, either as a result of changes in the presentation of items or changes in the classification of certain accounts during the current year.

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

The Group has adopted the following new or revised standards, amendments to standards and interpretations starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements:

- *PFRS 9 Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39 *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013).

PFRS 9 includes revised guidance on the classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group has applied the requirements of PFRS 9 cumulatively and has not restated the comparative information. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the expected credit loss model in estimating impairment which resulted to the decrease in the allowance for impairment of receivables and non-controlling interests amounting to P60, before tax, and P2, respectively, and increase in retained earnings by P42 as of January 1, 2018 (Note 8).

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group's financial assets as of January 1, 2018. The effect of adopting PFRS 9 on the carrying amounts of financial assets as of January 1, 2018 relates solely to the new impairment requirements.

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	P17,014	P17,014
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	38,159	38,219
Derivative assets not designated as cash flow hedge	Financial assets at FVPL	Financial assets at FVPL	165	165
Proprietary membership shares	Financial assets at FVPL	Financial assets at FVPL	171	171
Investments in debt instruments	Available-for-sale (AFS) financial assets	Financial assets at FVOCI	330	330
Investments in debt instruments	AFS financial assets	Financial assets at amortized cost	201	201
Noncurrent receivables and deposits	Loans and receivables	Financial assets at amortized cost	318	318

The change in the classification of investment in debt instruments from AFS financial assets to financial assets at amortized cost did not have a material impact on the carrying amount of the financial asset as of January 1, 2018. The change in fair value that would have been recognized in OCI in 2018 if the financial asset had not been recognized is immaterial.

- Applying PFRS 9 Financial Instruments with PFRS 4 *Insurance Contracts (Amendments to PFRS 4)*. The amendments permit to defer application of PFRS 9 in 2018 and continue to apply PAS 39 *Financial Instruments: Recognition and Measurement* if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021.

The amendments also provide an overlay approach to presentation when applying PFRS 9 for designated financial assets where an entity is permitted to reclassify between profit or loss and OCI the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

- PFRS 15 *Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*.

The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the Group expects to be entitled.

PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer.

The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. Except for the required disclosure, the adoption of the new standard has no material impact on the Group's consolidated financial statements (Note 37).

- *Transfers of Investment Property (Amendments to PAS 40 Investment Property)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.
- *Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration.* The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.
- *Annual Improvements to PFRS Cycles 2014 - 2016* contain changes to three standards, of which only the *Amendments to PAS 28 Investments in Associates and Joint Venture* on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at FVPL. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

New and Amended Standards, Interpretation and Framework Not Yet Adopted

A number of new and amended standards, interpretation and framework are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

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

To be Adopted 2019

- *PFRS 16 Leases* supersedes *PAS 17 Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently performing its initial assessment of the impact of adopting PFRS 16 on its consolidated financial statements using Modified Retrospective Approach. The option elected allows the Group to recognize lease liabilities at the present value of outstanding lease obligations at transition date, to recognize corresponding right-of-use assets based on carrying amounts as if the standard has been applied from the beginning of the lease term, and to charge any difference to retained earnings. The option also allows the Group to use its incremental borrowing rate of 5.99% to 8.10% at transition date in determining the present value of lease obligations.

Based on the initial assessment, as of January 1, 2019, the Group is to set up right-of-use assets, recognize corresponding lease liabilities and charge retained earnings for the difference. Prepaid leases are also to be reclassified to right-of-use assets. The resulting right-of-use assets would include leases, which meet the definition of investment property, and would subsequently be reclassified to investment property in 2019.

The actual impact of applying PFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate of the Group as of January 1, 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

- *Philippine Interpretation IFRIC 23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The interpretation can be initially applied retrospectively applying PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

- *Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28 Investments in Associates)*. The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9).* The amendments cover the following areas: (a) Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits).* The amendments clarify that: (a) current service cost and net interest for the period are determined using the actuarial assumptions when amendment, curtailment or settlement occurs; and (b) the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI.

The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which the amendments are first applied, with earlier application permitted.

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- *Annual Improvements to PFRS Cycles 2015 – 2017.* This cycle of improvements contain changes to three standards:
 - *Previously Held Interest in a Joint Operation (Amendments to PFRS 3 Business Combinations and PFRS 11 Joint Arrangements).* The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

- *Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12 Income Taxes).* The amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, OCI or equity.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

- *Borrowing Costs Eligible for Capitalization (Amendments to PAS 23 Borrowing Costs)*. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The amendments are applied to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies the amendments.

To be Adopted 2020

- *Amendments to References to Conceptual Framework* in PFRS Standards sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- *Definition of a Business (Amendments to PFRS 3 Business Combinations)*. The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:
 - confirmed that a business must include inputs and a process, and clarified that:
 - the process must be substantive; and
 - the inputs and process must together significantly contribute to creating outputs;

- narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements, and PAS 8)* refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general-purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

To be Adopted 2021

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

Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2021. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 Financial Instruments and PFRS 15 Revenue from Contracts with Customers on or before the date of initial application of PFRS 17.

Deferral of the local implementation of Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and non-current classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within twelve months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve 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 twelve months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Assets and Financial Liabilities

Date of Recognition. 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. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction costs.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Classification and Subsequent Measurement. Policy Applicable from January 1, 2018

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at FVOCI and financial assets at FVPL. The classification depends on the business model of the Group for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

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 whose objective is to hold 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.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, investments in debt instruments, and noncurrent receivables and deposits are included under this category.

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 OCI. This election is made on an instrument-by-instrument basis.

After initial measurement, financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in OCI.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in profit or loss. 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 profit or loss.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in profit or loss when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of 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 profit or loss.

The Group's investments in debt instruments 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 assets 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, a financial asset may be irrevocably designated 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 profit or loss as incurred. Changes in fair value and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in OCI. Any interest earned from investment in debt instrument is recognized in profit or loss. Any dividend income from investment in equity instrument is recognized in profit or loss when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of investment.

The Group's derivative assets not designated as cash flow hedge and investments in proprietary membership shares are classified under this category.

Classification and Subsequent Measurement. Policy Applicable before January 1, 2018

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and Held to Maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group uses commodity price swaps to protect its margin on petroleum products from potential price volatility of international crude and product prices. It also enters into short-term forward currency contracts to hedge its currency exposure on crude oil importations. In addition, the Parent Company has identified and bifurcated embedded foreign currency derivatives from certain non-financial contracts.

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the consolidated statements of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Unrealized gains and losses from changes in fair value of forward currency contracts, commodity price swaps and embedded derivatives are recognized under "Other expenses - net" in the consolidated statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized as part of "Cost of goods sold" in the consolidated statements of income.

The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current exchange rates for contracts with similar maturity profiles. The fair values of commodity swaps are determined based on quotes obtained from counterparty banks.

The Group's derivative assets and proprietary membership shares are classified under this category.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents, trade and other receivables, due from related parties, long-term receivables and noncurrent deposits are included under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in OCI and presented in the consolidated statements of changes in equity. The effective yield component of AFS debt instruments is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investment in equity and debt instruments included under "Available-for-sale financial assets" account are classified under this category.

HTM Investments. HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial recognition, these investments are measured at amortized cost using the effective interest method, less impairment in value. Any interest earned on the HTM investments is recognized as part of "Interest income" account in the separate statements of comprehensive income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the separate statements of comprehensive income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired.

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. 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 profit or loss.

The Group's derivative liabilities are classified under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified 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 Group's liabilities arising from its short-term loans, liabilities for crude oil and petroleum products, trade and other payables, long-term debt, cash bonds, cylinder deposits and other noncurrent liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

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

Impairment of Financial Assets. Policy Applicable from January 1, 2018

Impairment of Financial Assets

The Group recognizes allowance for impairment losses on receivables, other financial assets at amortized cost and investments in debt instruments at FVOCI.

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

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

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities 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 lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Financial assets are written off when identified to be worthless after exhausting all collection efforts.

Impairment of Financial Assets. Policy Applicable before January 1, 2018

Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses at each reporting date whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

Classification of Financial Instruments between Liability and Equity

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

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

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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

Debt Issue Costs

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.

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 asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Derivative Financial Instruments and Hedge Accounting

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 are discussed below.

The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Changes in fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

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

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

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

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

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 retained until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the cost of non-financial item on initial recognition or, for other cash flow hedges, it is reclassified to profit or loss as a reclassification adjustment in the same period or periods as the hedged cash flows affect profit or loss. 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.

Embedded Derivatives. The Group assess 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 the host contract is not a financial asset and 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.

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.

Inventories

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

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

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

Business Combination

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

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

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

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 profit or loss. 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 profit or loss. Costs related to the acquisition, other than those associated with the issue 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 profit or loss.

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 so 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.

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 of 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 profit or loss.

Business Combinations under Common Control

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

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

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

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

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

Non-controlling Interests

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

Investment in Shares of Stock of an Associate

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but not control over those policies.

The Group's investment in shares of stock of an associate are accounted for using the equity method.

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. Such impairment loss is recognized as part of "Share in net income of an associate" account in the consolidated statements of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in shares of stock of an associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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

Interest in Joint Ventures

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

The Group's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI) and 50.00% joint venture interest in Terminal Bersama Sdn Bhd (TBSB), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, are accounted for under the equity method of accounting. The interest in joint ventures is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in net income (loss) of the joint ventures, less any impairment in value. The consolidated statements of income reflect the Group's share in the results of operations of the joint ventures presented as part of "Other expenses" account. As of December 31, 2018, the Group has capital commitments amounting to P2 and nil for TBSB and PDSI, respectively. The Group has no contingent liabilities in relation to its interest in these joint ventures.

Results of operations as well as financial position balances of PDSI and TBSB were less than 1% of the consolidated balances of the Group and as such are assessed as not material; hence, not separately disclosed.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

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 any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as an expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, depreciation and amortization, which commences when the assets are available for its intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Buildings and improvements and related facilities	7 - 50
Refinery and plant equipment	4 - 33
Service stations and other equipment	2 - 33
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

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

For income tax reporting purposes, depreciation and amortization are computed using the double-declining balance method.

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

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

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

An item of property, plant and equipment is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement or disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Investment Property

Investment property consists of buildings and improvements and land and leasehold improvements 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 is initially measured at cost which is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire the investment property at the time of its acquisition or construction. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. 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.

For financial reporting purposes, depreciation of investment property is computed on a straight-line basis over the estimated useful lives of the assets similar to property, plant and equipment. For income tax reporting purposes, depreciation is computed using the double-declining balance method.

The useful lives and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

	Number of Years
Buildings and improvements	7 - 50
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

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 profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a 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 a 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, 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 as of the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss 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 periods 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 estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Software	5 - 10
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 profit or loss when the asset is derecognized.

As of December 31, 2018 and 2017, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and two flames, Powerburn 2T and Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after creator's death.

The amount of intangible assets is included as part of "Other noncurrent assets - net" in the consolidated statements of financial position.

Expenses incurred for research and development of internal projects and internally developed patents and copyrights are expensed as incurred and are part of "Selling and administrative expenses" account in the consolidated statements of income.

Asset Held for Sale

The Group classifies noncurrent assets as held for sale, if their carrying amounts will be recovered primarily through sale rather than through continuing use. The assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes will be made or that the decision on sale will be withdrawn. Management must be committed to the sale within one year from date of classification.

Equity accounting of equity-accounted investees ceases once classified as held for sale.

Assets held for sale are presented under "Other current assets" account in the consolidated statements of financial position.

Impairment of Nonfinancial Assets

The carrying amounts of property, plant and equipment, 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. 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 of disposal and value in use. The fair value less costs of disposal 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, less costs of disposal. 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 profit or loss 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 profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cylinder Deposits

The Parent Company purchases LPG cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 80% of the acquisition cost of the cylinders.

The Parent Company maintains the balance of cylinder deposits at an amount equivalent to three days' worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in profit or loss.

Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value.

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 in the principal market for the asset or liability or in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, 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, as explained above.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. 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. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. 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.

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 and any excess of the proceeds over the par value of shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

Preferred Shares. Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD.

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 profit or loss as accrued.

Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Stock

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

Capital Securities

Undated Subordinated Capital Securities (USCS) are classified as equity instruments in the consolidated financial statements since there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or liabilities with another person or entity that is potentially unfavorable to the issuer (Note 21).

Senior Perpetual Capital Securities (SPCS) are classified as equity instruments in the consolidated financial statements since SPCS are perpetual securities in respect of which there is no fixed redemption date and the redemption is at the option of the Parent Company. Also, the Parent Company has the sole and absolute discretion to defer payment of any or all of the distribution (Note 21).

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

Retained Earnings

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

Revenue Recognition

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 Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in its revenue arrangements.

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 being 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:

- *Use of Loaned Equipment.* 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 our products and shall, at all times, remain the property of Petron. The Group allocates portion of the revenue to the use of loaned equipment 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.
- *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 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. Revenue is allocated between the consumer loyalty program and the other component of the sale. This allocation is based on the relative stand-alone selling price of the points. The amount allocated to the consumer loyalty program is deducted from revenue at the time points are awarded to the consumer. A deferred liability account is set up until the Group has fulfilled its obligations to supply the discounted products under the terms of the program or when it is no longer probable that the points under the program will be redeemed.

Service Income. Revenue is recognized 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.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend. Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

Rent. Revenue 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 term.

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 recognized upon receipt of goods, utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Group as Lessee. Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

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.

Research and Development Costs

Research costs are expensed as incurred. Product 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 Group's net retirement benefits liability is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit retirement obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

Remeasurements of the net defined retirement obligation or asset, excluding net interest, are recognized immediately in OCI under "Equity reserve for retirement plan". Such remeasurements are also immediately recognized in equity under "Equity reserves" and are not reclassified to profit or loss in subsequent periods. Net defined retirement benefit obligation or asset comprise actuarial gains and losses, the return on plan assets, excluding interest and the effect of the asset ceiling, if any. The Group determines the net interest expense or income on the net defined retirement obligation or asset for the period by applying the discount rate used to measure the defined benefit retirement obligation at the beginning of the annual period to the then-net defined retirement obligation or asset, taking into account any changes in the net defined benefit retirement obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

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 translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, 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, then 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 profit or loss 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 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 profit or loss.

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

Taxes

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in 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 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.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

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

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

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

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

For the purpose of computing diluted EPS, the net income for the period attributable to owners of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive debt or equity instruments.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 37 to the consolidated financial statements. The Chief Executive Officer (the "chief operating decision maker") reviews management reports on a regular basis.

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

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

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 consolidated 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. Significant Accounting 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.

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as lessor or lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P1,403, P1,243 and P1,139 in 2018, 2017 and 2016, respectively (Notes 23 and 26). Revenues from the customers' use of loaned equipment amounted to P1,117 in 2018 (Note 37).

Rent expense recognized in the consolidated statements of income amounted to P1,806, P1,702 and P1,293 in 2018, 2017 and 2016, respectively (Notes 22 and 23).

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.

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 lease of equipment to its customers and allocates the transaction price into these several performance obligations.

Evaluating Control over its Investees. Determining whether the Parent Company has control in an investee requires significant judgment. Although the Parent Company owns less than 50% of the voting rights of NVRC and PAHL, even before the Parent Company acquired the remaining equity interest in PAHL in 2016 and increased its equity interest in NVRC to 85.55% in 2018 (Note 13), management has determined that the Parent Company controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Parent Company has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Parent Company controls NVRC since it is exposed, and has rights, to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Parent Company assessed it has control over PAHL, even prior to the Parent Company's acquisition of the remaining equity interest in 2016, by virtue of the extent of the Parent Company's participation in the BOD and management of PAHL, of which the Parent Company established it has: (i) power over PAHL, (ii) it is exposed and has rights to variable returns from its involvement with PAHL, and (iii) it has ability to use its power over PAHL to affect the amount of PAHL's returns. Accordingly, the Parent Company considered PAHL a subsidiary beginning January 1, 2013. As of December 31, 2018 and 2017, the Parent Company owns 100% of PAHL.

Classification of Financial Instruments. The Group exercises judgment in classifying financial instruments in accordance with PFRS 9. The Group classifies 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 exercises judgment in classifying financial instruments in accordance with PFRS 9. The Group determines the classification at initial recognition. The classification and fair values of financial assets and financial liabilities are presented in Note 35.

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.

Business Model. The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future salary activity.

Cash Flow Characteristics - Payments of Principal and Interest. For the purposes of this assessment, "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basis lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet these conditions. In making this assessment, the Group considers:

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

The Group determines that the business model for financial assets at amortized cost is held to collect contractual cash flows and meets the solely principal and interest criterion as of December 31, 2018. Other financial assets are classified as financial assets at FVPL or FVOCI based on the characteristics of the contractual cash flows of the instruments.

Distinction between Property, Plant and Equipment and Investment Property. The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental 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.

Determining whether an Arrangement Contains a Lease. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change of contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; and
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Taxes. Significant judgment is required in determining current and deferred tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax expenses in the year in which such determination is made.

Beginning July 2008, in the determination of the Group's current taxable income, entities within the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. Entities within the Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2018, 2017 and 2016, majority of the entities within the Group opted to continue claiming itemized standard deductions except for Petrogen and certain subsidiaries of NVRC such as LLCDC and PEDC, as they opted to apply OSD. Starting 2017, certain subsidiaries of NVRC such as MLC, SLPHI and MHI also opted to apply OSD (Note 27).

Contingencies. The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims 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 tax assessments, legal and administrative claims will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Assessment for ECL on Trade and Other Receivables. The Group, applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other receivables. The Group also uses appropriate groupings if its historical credit loss experience show significantly different loss patterns for different customer segments. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer segment to reflect the effects of current and forecasted economic conditions.

The Group adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment. The Group regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience. The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate.

The Group has assessed that the forward-looking default rate component of its ECL on trade and other receivables is not material because substantial amount of receivables are normally collected within one year. Moreover, based on Management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade receivables.

Impairment losses on trade and other receivables amounted to P261, P10 and P68 in 2018, 2017 and 2016, respectively (Notes 8 and 23). Receivables written-off amounted to P68 in 2018, P89 in 2017 and P97 in 2016 (Note 8).

The carrying amount of trade and other receivables amounted to P42,497 and P38,159 as of December 31, 2018 and 2017, respectively (Note 8).

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

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The Group 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 impairment losses on other financial assets at amortized cost was recognized in 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	2018	2017
Cash in banks and cash equivalents	5	P14,143	P14,313
Investments in debt instruments	7	226	-
Long-term receivables - net	14	253	228
Noncurrent deposits	14	94	90
		P14,716	P14,631

Accounting Policy Applicable before January 1, 2018

Allowance for Impairment Losses on Trade and Other Receivables. Allowance for impairment is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of receivables, designed to identify potential changes to allowance, is performed regularly throughout the year. Specifically, in coordination with the Trade Sales divisions, the Finance Division ascertains customers who are unable to meet their financial obligations. In these cases, the Group's management uses sound judgment based on the best available facts and circumstances including but not limited to, the length of relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience. The amount of impairment loss differs for each year based on available objective evidence for which the Group may consider that it will not be able to collect some of its accounts. Impaired accounts receivable are written off when identified to be worthless after exhausting all collection efforts. An increase in allowance for impairment of trade and other receivable would increase the Group's recorded selling and administrative expenses and decrease current assets.

Net Realizable Values of Inventories. In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P63,873 and P56,604 as of the end of 2018 and 2017, respectively (Note 9), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

The Group recognized inventory write-down in 2018 amounting to P742 while nil in 2017 and 2016 (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 2018, 2017 and 2016, the Group provided an additional loss on inventory obsolescence amounting to nil, P81 and P327, respectively (Note 9).

Fair Values of Financial Assets and Financial Liabilities. The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (e.g., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Fair values of financial assets and financial liabilities are discussed in Note 35.

Estimated Useful Lives of Property, Plant and Equipment, Intangible Assets with Finite Useful Lives and Investment Property. The Group estimates the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property 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, intangible assets with finite useful lives and investment property 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, intangible assets with finite useful lives and investment property would increase recorded cost of goods sold and selling and administrative expenses and decrease noncurrent assets.

There is no change in estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on management's review at the reporting date.

Accumulated depreciation and amortization of property, plant and equipment, intangible assets with finite useful lives and investment property amounted to P95,101 and P85,204 as of December 31, 2018 and 2017, respectively (Notes 11, 12 and 14). Property, plant and equipment, net of accumulated depreciation, amounted to P163,984 and P177,690 as of December 31, 2018 and 2017, respectively (Note 11). Investment property, net of accumulated depreciation, amounted to P16,536 and P75 as of December 31, 2018 and 2017, respectively (Note 12). Intangible assets with finite useful lives, net of accumulated amortization, amounted to P138 and P162 as of December 31, 2018 and 2017, respectively (Note 14).

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 P30,420 and P162 as of December 31, 2018 and 2017, 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 3.0% in 2018 and 2017 and discount rates of 7.4% and 6.3% in 2018 and 2017, 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 2018, 2017 and 2016 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, 2018 and 2017.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other expenses - net" in the 2016 consolidated statement of income (Notes 13 and 26).

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 P257 and P207 as of December 31, 2018 and 2017, respectively (Note 27).

Present Value of Defined Benefit Retirement Obligation. The present value of defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 30 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement benefits liability.

Other key assumptions for retirement benefits liability are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement benefits liability.