

Retirement benefits costs recognized in profit or loss amounted to P523, P508 and P579 in 2018, 2017 and 2016, respectively. Remeasurement gains (losses) of the net defined retirement obligation recognized in OCI amounted to (P1,133), (P1,142) and P2,647 in 2018, 2017 and 2016, respectively. The retirement benefits liability amounted to P2,500 and P4,989 as of December 31, 2018 and 2017, respectively (Note 30).

Asset Retirement Obligation (ARO). The Group has ARO arising from the refinery, leased service stations, terminals and blending plant. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 7.542% to 8.295% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P3,592 and P2,681 as of December 31, 2018 and 2017, respectively (Note 19).

5. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	2018	2017
Cash on hand		P3,262	P2,701
Cash in banks		5,026	4,106
Short-term placements		9,117	10,207
	34, 35	P17,405	P17,014

Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn annual interest at the respective short-term placement rates ranging from 0.20% to 7.00% in 2018, 0.05% to 4.50% in 2017 and 0.03% to 4.50% in 2016 (Note 26).

6. Financial Assets at Fair Value

This account consists of:

	<i>Note</i>	2018	2017
Proprietary membership shares		P254	P171
Derivative assets not designated as cash flow hedge		857	165
Derivative assets designated as cash flow hedge		222	-
	34, 35	1,333	336
Less noncurrent portion	14	207	-
		P1,126	P336

The fair values presented have been determined directly by reference to published market prices, except for derivative assets which are based on inputs other than quoted prices that are observable (Note 35).

The noncurrent portion pertains to derivative assets designated as cash flow hedge due after 12 months, which is included in "Other noncurrent assets - net" account in the consolidated statements of financial position (Note 14).

Changes in fair value of assets at FVPL recognized in profit or loss in 2018, 2017 and 2016 amounted to P84, P14 and P10, respectively (Note 26) while changes in fair value of derivative assets designated as cash flow hedge was recognized in OCI.

7. Investments in Debt Instruments

This account consists of:

	Note	2018	2017
Government securities		P196	P201
Other debt instruments		182	330
	34, 35	378	531
Less current portion		40	199
		P338	P332

Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 3.88% to 7.02% in 2018, 2.13% to 5.30% in 2017 and 2.13% to 7.75% in 2016 (Note 26).

Ovincor's outstanding corporate bond as of December 31, 2017 is maintained at the Bank of N. T. Butterfield and carried at fair value with fixed annual interest rate of 6.75% (Note 26). The breakdown of investments in debt instruments by contractual maturity dates as of December 31 follows:

	Note	2018	2017
Due in one year or less		P40	P199
Due after one year through six years		338	332
	34, 35	P378	P531

The breakdown of investments in debt instruments by classification and measurement as of December 31 follows:

	Note	2018	2017
Financial assets at FVOCI		P152	P531
Financial assets at amortized cost		226	-
	34, 35	P378	P531

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

	<i>Note</i>	2018	2017
Financial Assets at FVOCI			
Balance as of January 1, 2018		P531	P479
Reclassification to financial assets at amortized cost		(201)	-
Balance as of January 1, 2018, as adjusted		330	479
Additions		-	131
Disposals		(173)	(70)
Amortization of premium		(2)	(5)
Unrealized fair value losses on assets at FVOCI		(10)	(4)
Currency translation adjustment		7	-
Balance as of December 31, 2018		152	531
Financial Assets at Amortized Cost			
Balance as of January 1, 2018		-	-
Reclassification from AFS		201	-
Balance as of January 1, 2018, as adjusted		201	-
Additions		55	-
Disposal		(30)	-
Balance as of December 31, 2018		226	-
	34, 35	P378	P531

8. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2018	2017
Trade	34	P27,136	P26,199
Related parties - trade	28, 34	1,970	726
Allowance for impairment loss on trade receivables		(1,104)	(776)
		28,002	26,149
Government		10,456	6,151
Related parties - non-trade	28	2,435	5,273
Others		1,837	991
Allowance for impairment loss on non-trade receivables		(233)	(405)
		14,495	12,010
	34, 35	P42,497	P38,159

Trade receivables are non-interest bearing and are generally on a 45-day term. Penalties are charged when the account becomes overdue.

Government receivables pertain to duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism. The amount includes receivables over 30 days but less than one year amounting to P4,714 and P767 as of December 31, 2018 and 2017, respectively. The filing and the collection of claims is a continuous process and is closely monitored.

Related parties - non-trade consists of advances made by the Parent Company to Petron Corporation Employee Retirement Plan (PCERP) and other receivables from SMC and its subsidiaries.

Others mainly consist of receivables from various non-trade customers and counterparties for matured hedging transactions.

A reconciliation of the allowance for impairment losses at the beginning and end of 2018 and 2017 is shown below:

	Note	2018	2017
Balance at beginning of year		P1,271	P1,227
Adjustment due to adoption of PFRS 9	3	(60)	-
Balance at beginning of year, as adjusted		1,211	1,227
Additions	23	261	10
Write off	4	(68)	(89)
Currency translation adjustment		6	123
Balance at end of year		1,410	1,271
Less noncurrent portion for long-term receivables	14	73	90
		P1,337	P1,181

The Group computes impairment loss on trade and other receivables based on past collection experiences, current circumstances and the impact of future economic conditions, if any, available at the reporting period. Loss rates are based on actual credit loss experience over the past three years. Economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of the impact of future economic conditions, if any, over the expected lives of the trade and other receivables are also considered.

The following table provides information about the exposure to credit risk and ECL of trade and other receivables as of December 31, 2018:

	Weighted Average Loss Rate	Gross Carrying Amount	ECL
December 31, 2018			
Retail	1.85%	P5,196	P96
Lubes	1.90%	580	11
Gasul	9.03%	1,273	115
Industrial	3.32%	16,121	536
Others	2.80%	20,664	579
		P43,834	P1,337

As of December 31, 2017, the age of past due but not impaired trade accounts receivable is as follows (Note 34):

	Past Due but not Impaired				Total
	Within 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
December 31, 2017					
Retail	P95	P20	P7	P6	P128
Lubes	40	8	2	40	90
Gasul	67	26	20	-	113
Industrial	69	4	239	140	452
Others	17	27	29	90	163
	P288	P85	P297	P276	P946

As of December 31, 2017, no allowance for impairment losses is necessary as regards the past due but unimpaired trade receivables based on the current status of the receivables. There are no significant changes in credit quality. As such, these amounts are still considered recoverable.

9. Inventories

This account consists of:

	2018	2017
Petroleum	P27,512	P20,359
Crude oil and others	26,765	29,538
Materials and supplies	5,504	4,163
Lubes, greases and aftermarket specialties	4,092	2,544
	P63,873	P56,604

The cost of these inventories amounted to P65,124 and P57,478 as of December 31, 2018 and 2017, respectively.

If the Group had used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have decreased by P942 and increased by P61 as of December 31, 2018 and 2017, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P498,117, P369,695 and P283,169 in 2018, 2017 and 2016, respectively (Note 22).

Research and development costs on these products constituted the expenses incurred for internal projects in 2018, 2017 and 2016 (Note 23).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2018 and 2017 follow:

	Note	2018	2017
Balance at beginning of year		P874	P789
Loss on inventory obsolescence	4	-	81
Loss on inventory write-down	4	742	-
Reversals		(369)	-
Translation adjustment		4	4
Balance at end of year		P1,251	P874

The losses and reversals are included as part of "Cost of goods sold" account in the consolidated statements of income (Note 22).

Reversal of write-down corresponds to inventories sold during the year.

10. Investment in Shares of Stock of an Associate

This account consists of:

	2017
Acquisition Cost	
Balance at beginning of year	P1,405
Disposal/reclassification	(1,405)
Balance at end of year	-
Share in Total Comprehensive Income	
Balance at beginning of year	478
Share in net income during the year	63
Share in OCI	3
Disposal/reclassification	(544)
Balance at end of year	-
	P -

Investment in shares of stock of an associate pertains to 35% investment in Manila North Harbour Port Inc. (MNHPI), a company incorporated in the Philippines, prior to its disposal in October 2017.

On September 21, 2017, the Parent Company signed the Share Purchase Agreement (SPA) with International Container Terminal Services, Inc. (ICTSI) for the sale by the Parent Company of its 10,449,000 shares in MNHPI equal to 34.83% of MNHPI's outstanding shares for a total consideration of P1,750. The completion of the SPA was subject to several conditions.

On October 30, 2017, all conditions for the completion of the sale of the Parent Company's shares in MNHPI had been complied with and accordingly, the purchase price had been paid. As a result of the transaction, the Group recognized loss on disposal of investments amounting to P189 included as part of "Other expenses - net" account in the 2017 consolidated statement of income (Note 26).

The remaining 51,000 shares representing 0.17% interest in MNHPI was also intended to be sold to a related party effectively rendering the remaining MNHPI shares as assets held for sale as of December 31, 2017. The proposed sale is still subject to negotiations as of December 31, 2018. Asset held for sale with carrying amount of P9 is recognized as part of "Other current assets" account in the consolidated statements of financial position as of December 31, 2018 and 2017 (Note 14).

Following are the condensed financial information of MNHPI as of and for the period ended September 30, 2017:

	September 30 2017
Percentage of ownership	35%*
Current assets	P2,098
Noncurrent assets	12,765
Current liabilities	(6,236)
Noncurrent liabilities	(4,078)
Net assets	P4,549
Sales	P2,504
Total comprehensive income	P179

*The remaining 0.17% equity interest in MNHPI was classified as "Asset held for sale" as of December 31, 2018 and 2017 (Note 14).

11. Property, Plant and Equipment

The movements and balances as of and for the years ended December 31 follow:

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
Cost							
January 1, 2017	P28,903	P162,263	P16,172	P4,652	P14,004	P25,319	P251,313
Additions	563	1,307	405	232	237	6,954	9,698
Disposals/reclassifications	2,162	20,628	159	(68)	(315)	(24,983)	(2,417)
Currency translation adjustment	876	1,106	700	135	705	139	3,661
December 31, 2017	32,504	185,304	17,436	4,951	14,631	7,429	262,255
Additions	694	446	424	209	45	8,598	10,416
Disposals/reclassifications	1,661	2,117	(299)	31	131	(3,738)	(97)
Reclassification to investment property (Note 12)	(15,244)	-	-	-	(10,207)	-	(25,451)
Currency translation adjustment	517	370	247	48	218	39	1,439
December 31, 2018	20,132	188,237	17,808	5,239	4,818	12,328	248,562
Accumulated Depreciation and Amortization							
January 1, 2017	18,736	38,251	11,987	3,529	2,204	-	74,709
Additions	1,315	7,200	868	416	162	-	9,961
Disposals/reclassifications	(380)	25	(1,064)	(241)	(342)	-	(2,002)
Currency translation adjustment	532	820	416	93	36	-	1,897
December 31, 2017	20,205	46,296	12,207	3,797	2,060	-	84,565
Additions	861	7,539	948	481	89	-	9,918
Disposals/reclassifications	(396)	(15)	(903)	(101)	(10)	-	(1,426)
Reclassification to investment property (Note 12)	(8,083)	-	-	-	(1,060)	-	(9,143)
Currency translation adjustment	240	259	127	27	12	-	664
December 31, 2018	12,827	54,077	12,379	4,204	1,091	-	84,578
Carrying Amount							
December 31, 2017	P12,299	P139,008	P5,229	P1,154	P12,571	P7,429	P177,690
December 31, 2018	P7,305	P134,160	P5,429	P1,035	P3,727	P12,328	P163,984

Certain property, plant and equipment were reclassified to investment property to reflect the usage of the assets (Note 12). The reclassification did not have an effect on the total noncurrent assets and total assets in the consolidated statements of financial position and in the consolidated statements of comprehensive income.

No interest was capitalized in 2018 and 2017 (Note 18). No impairment loss was required to be recognized in 2018, 2017 and 2016 based on management's assessment of impairment indicators.

Capital Commitments

As of December 31, 2018 and 2017, the Group has outstanding commitments to acquire property, plant and equipment amounting to P17,818 and P10,615, respectively.

12. Investment Property

The movements and balances as of and for the years ended December 31 follow:

	Land	Land and Leasehold Improvements	Buildings and Improvements	Total
Cost				
January 1, 2017	P80	P -	P25	P105
Disposal	(15)	-	-	(15)
December 31, 2017	65	-	25	90
Additions	852	-	-	852
Reclassifications from property, plant and equipment (Note 11)	7,505	2,702	15,244	25,451
December 31, 2018	8,422	2,702	15,269	26,393
Accumulated Depreciation				
January 1, 2017	-	-	14	14
Depreciation	-	-	1	1
December 31, 2017	-	-	15	15
Depreciation	-	58	641	699
Reclassifications from property, plant and equipment (Note 11)	-	1,060	8,083	9,143
December 31, 2018	-	1,118	8,739	9,857
Carrying Amount				
December 31, 2017	P65	P -	P10	P75
December 31, 2018	P8,422	P1,584	P6,530	P16,536

The Group's investment property includes land, land and leasehold improvements, buildings and related improvements and facilities leased out for its service stations (Note 29) which were reclassified from property, plant and equipment to reflect the usage of the assets (Note 11). The carrying amount and fair value of these assets as of December 31, 2017 amounted to P16,308 and P30,104, respectively.

The Group's investment property also includes a property located in Tagaytay with carrying amount of P10 and P11 as of December 31, 2018 and 2017, respectively.

No impairment loss was required to be recognized in 2018, 2017 and 2016 based on management's assessment of impairment indicators.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2018, 2017 and 2016.

The fair value of investment property amounting to P30,420 and P162 as of December 31, 2018 and 2017, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques.

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches below:

Sales Comparison Approach. The market value of land was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Depreciated Replacement Cost Method. The fair value of land and leasehold improvements and buildings and related improvements and facilities were arrived at using the depreciated replacement cost method, which estimates the current replacement cost of new assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

13. Investment in Shares of Stock of Subsidiaries, Goodwill and Non-controlling Interests

Investment in Shares of Stock of Subsidiaries

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

a. PAHL

Although the Group owns less than half of the voting power of PAHL, prior to the acquisition of the remaining equity interest in 2016, management has assessed, in accordance with PFRS 10, that the Group has control over PAHL on a de facto basis. Accordingly, the Group consolidated PAHL beginning January 1, 2013 (Note 4).

On November 17, 2015, the Parent Company subscribed to additional 18,324,889 ordinary shares of PAHL for a total consideration of US\$11,746,724 which effectively increased the Parent Company's ownership interest by 1.40% to 47.25%.

On March 18, 2016, the Parent Company subscribed to additional 43,125,482 ordinary shares of PAHL for a total consideration of US\$27,644,540 which effectively increased the Parent Company's ownership interest from 47.25% to 50.26%.

On August 4, 2016, the Parent Company purchased the remaining 273,000,000 ordinary shares and 102,142,858 "B" ordinary shares in PAHL for a total of 375,142,858 shares owned by PCERP for a total purchase price of P1,921. Petron's ownership interest in PAHL has increased from 50.26% to 100%.

As a result of the foregoing transactions, non-controlling interest in PAHL has been derecognized in 2016.

b. PGL

On various dates in 2015, the Parent Company subscribed to additional common shares of PGL as follows:

Date	No. of Shares	Amount Per Share (in US\$)	Total (in US\$)
March 13, 2015	9,354,136	1.00	9,354,136
April 13, 2015	1,710,231	1.00	1,710,231
May 13, 2015	1,067,462	1.00	1,067,462

PGL has issued an aggregate of 73,559,188 common shares from 2012 to 2014 with a par value of US\$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US\$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US\$1.00 per share. Consequently, non-controlling interest in PGL has been transferred to retained earnings attributable to the equity holders of the Parent Company.

As of December 31, 2018 and 2017, the Parent Company holds a total of 85,691,017 common shares in PGL representing 100% of the voting capital stock of PGL.

c. LLCDC and MHI

On December 19, 2017, the BOD and stockholders of the subsidiaries of NVRC, LLCDC and MHI, approved the merger between LLCDC and MHI effective (to the extent allowed by applicable law or regulation) on the first day of the month following the issuance by the SEC of the certificate of merger, wherein LLCDC will be the surviving entity.

Upon the effective date of merger, all the respective rights, businesses, powers, privileges, immunities, franchises, assets and other properties of MHI including, but not limited to, all real and personal properties, contractual and property rights, licenses, privileges, property rights, claims, bank deposits, stocks, accounts receivable, retained earnings, credit lines, supplies, equipment, investments of whatever nature, including subscriptions to shares, choses in action, goodwill, intangible assets and such other assets, owned or which may have been acquired by MHI shall be conveyed, assigned, and transferred to, possessed and owned by, and vested in LLCDC .

The Plan of Merger was submitted with the SEC in January 2018 and the application for merger was approved by the SEC on May 10, 2018.

d. *NVRC*

On December 17, 2018, the Parent Company acquired additional 2,840,000 common shares of NVRC at P1,000.00 per share for a total consideration of P2,840 which was effected through debt to equity conversion of NVRC's advances from the Parent Company. The transaction effectively increased the Parent Company's ownership interest in NVRC from 40.00% to 85.55%.

Consequently, the proportionate share of the carrying amount of the net assets of NVRC amounting to P11 has been transferred to equity holders of the Parent Company.

Although the Group owns less than half of the ownership interest in NVRC, prior to the acquisition of the additional equity interest in 2018, management has assessed, in accordance with PFRS 10, that the Group has control over NVRC on a de facto basis (Note 4).

e. *Petrogen*

On November 29, 2018, Petrogen issued 15,000 common shares as stock dividends for P1,000.00 per share or a total of P15 in favor of the Parent Company. The Parent Company's ownership interest in Petrogen remains at 100% after the issuance.

Goodwill

The movements and balances of goodwill as of and for the years ended December 31 are as follows:

	2018	2017
Cost		
Balance at beginning of year	P8,277	P7,480
Translation adjustments	255	797
Net carrying amount at end of year	P8,532	P8,277

Impairment of Goodwill from Petron Malaysia

Goodwill arising from the acquisition of Petron Malaysia, which accounts for 99% of total goodwill in the consolidated statements of financial position as of December 31, 2018 and 2017, is allocated at the POGI Group cash generating unit (CGU) instead of each individual acquiree company's CGU as it is expected that the POGI Group CGU will benefit from the synergies created from the acquiree companies in combination.

The Group tested the goodwill for impairment. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the CGU and was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results. Management believes that this five-year forecast period was justified due to the long-term nature of the business.
- A discount rate of 7.4% in 2018 and 6.3% in 2017 was applied based on the weighted average cost of capital using the Capital Asset Pricing Model (CAPM).
- Terminal growth rate of 3.0% in 2018 and 2017 was applied as the Group is in the process of increasing its network of service stations and upgrading its facilities and hence foresees growth in cash flows generated perpetually.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on internal sources (historical data).

For purposes of terminal growth rate sensitivity, terminal growth rate scenarios of 2%, 3% and 4% in 2018 and 2017 are applied on the discounted cash flows analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill to exceed its recoverable amount.

No impairment losses were recognized in 2018, 2017 and 2016 in relation to the goodwill arising from the acquisition of Petron Malaysia.

Impairment of Goodwill from PAHL

For the goodwill allocated to PAHL, the recoverable amount of goodwill has been determined based on fair value less costs to sell. The fair value was calculated using market approach which has been categorized as Level 3 in the fair value hierarchy.

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 (Note 26).

Non-controlling Interests

The following table summarizes the financial information relating to each of the Group's subsidiaries that has material non-controlling interests:

	December 31, 2018		December 31, 2017	
	NVRC	PMRMB	NVRC	PMRMB
Non-controlling Interests Percentage	14.45%	26.60%	60.00%	26.60%
Carrying amount of non-controlling interest	P605	P6,102	P558	P5,406
Current assets	P433	P23,694	P350	P19,595
Noncurrent assets	6,297	16,000	5,521	13,844
Current liabilities	(251)	(16,754)	(237)	(13,274)
Noncurrent liabilities	(2,156)	(1,812)	(4,229)	(1,599)
Net assets	P4,323	P21,128	P1,405	P18,566
Net income attributable to non-controlling interests	P58	P793	P84	P1,264
Other comprehensive income attributable to non-controlling interests	P -	P142	P -	P473
Sales	P685	P157,380	P584	P121,701
Net income	P97	P2,979	P141	P4,754
Other comprehensive income	-	5	-	28
Total comprehensive income	P97	P2,984	P141	P4,782
Cash flows provided by (used in) operating activities	P353	(P818)	P292	P4,271
Cash flows used in investing activities	(852)	(2,940)	(82)	(389)
Cash flows provided by (used in) financing activities	607	4,083	(213)	(4,519)
Effects of exchange rate changes on cash and cash equivalents	-	2	-	(2)
Net increase (decrease) in cash and cash equivalents	P108	P327	(P3)	(P639)

14. Other Assets

This account consists of:

	Note	2018	2017
Current:			
Input VAT		P17,562	P12,337
Prepaid taxes		16,664	19,025
Prepaid expenses	28	1,477	1,383
Special-purpose fund		154	147
Asset held for sale	10	9	9
Tax recoverable		145	1
Others - net		1,070	276
		P37,081	P33,178
Noncurrent:			
Prepaid rent		P3,038	P2,600
Input VAT		1,507	1,832
Catalyst - net		437	503
Derivative assets designated as cash flow hedge	6, 34, 35	207	-
Long-term receivables - net	34, 35	253	228
Noncurrent deposits	34, 35	94	90
Others - net	4	949	706
		P6,485	P5,959

The "Others - net" under "Noncurrent" account pertains to software, marketing assistance to dealers, other prepayments, franchise fees, licenses and other intangible assets amounting to P915 and P693 as of December 31, 2018 and 2017, respectively, net of amortization amounting to P260, P282 and P349 in 2018, 2017 and 2016, respectively.

The amortization of prepaid rent amounted to P245, P195 and P207 in 2018, 2017 and 2016, respectively.

Amortization of software, marketing assistance to dealers, other prepayments, franchise fees, other intangibles and prepaid rent included as part of "Depreciation and amortization" under "Selling and administrative expenses" account in the consolidated statements of income amounted to P97, P138 and P214 in 2018, 2017 and 2016, respectively (Notes 23 and 25).

Amortization of catalyst, licenses and other prepayments included as part of "Depreciation and amortization" under "Cost of goods sold" account in the consolidated statements of income amounted to P584, P684 and P837 in 2018, 2017 and 2016, respectively (Notes 22 and 25).

15. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 3 to 181 days and annual interest ranging from 2.65% to 7.00% in 2018, 2.35% to 6.02% in 2017 and 2.85% to 6.22% in 2016 (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 9) and working capital requirements.

Interest expense on short-term loans amounted to P3,165 in 2018 and P2,323 both in 2017 and 2016 (Note 26).

16. Liabilities for Crude Oil and Petroleum Products

This account pertains to liabilities to suppliers of crude oil, petroleum and other products that are non-interest bearing and generally settled on a 30-day term. Details of the supply agreements in relation to importations of crude oil requirements of the Group are disclosed in Note 31.

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

	Note	2018	2017
Third parties		P25,908	P36,895
Related parties	28	83	25
	34, 35	P25,991	P36,920

17. Trade and Other Payables

This account consists of:

	Note	2018	2017
Trade		P19,856	P5,540
Specific taxes and other taxes payable		3,262	1,358
Accrued payroll		52	52
Due to related parties	28	831	774
Accrued interest		917	533
Accrued rent		833	817
Dividends payable	33	206	239
Insurance liabilities		58	78
Retention payable		845	641
Deferred liability on consumer loyalty program		1,183	1,024
Retirement benefits liability	30	67	104
Others	39	361	444
	34, 35	P28,471	P11,604

Trade payables are liabilities to haulers, contractors and suppliers that are non-interest bearing and are generally settled on a 30-day term.

Others include provisions (Note 39), accruals of selling and administrative expenses, and advances which are normally settled within a year.

18. Long-term Debt

This account consists of:

	Note	2018	2017
Unsecured Peso-Denominated (net of debt issue costs)			
Fixed rate corporate notes of 6.3212% due until 2018 and 7.1827% due until 2021	(a)	P2,696	P3,369
Term loan of 5.4583% due until 2022	(b)	3,991	4,986
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	(c)	19,870	19,835
Term loan of 5.5276% due quarterly until 2024	(e)	12,259	14,380
Term loan of 5.7584% due until 2022	(f)	9,965	9,950
Fixed rate retail bonds of 7.8183% due in 2024 and 8.0551% due in 2025	(g)	19,768	-
Unsecured Foreign Currency-Denominated (net of debt issue costs)			
Floating rate dollar loan - US\$1,000 million due until 2022	(d)	49,451	49,185
	33, 34, 35	118,000	101,705
Less current portion		17,799	3,789
		P100,201	P97,916

- a. The Parent Company issued Fixed Rate Corporate Notes (FXCN) totaling P3,600 on October 25, 2011. The FXCNs consisted of Series A Notes amounting to P690 having a maturity of up to 7 years from issue date and Series B Notes amounting to P2,910 having a maturity of up to 10 years from issue date. The FXCNs are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements. On October 28, 2018, the outstanding balance of Series A notes matured and was paid in full.
- b. On October 13, 2015, the Parent Company drew P5,000 from a P5,000 term loan which was signed and executed on October 7, 2015. The facility is amortized over 7 years with a 2-year grace period and is subject to a fixed rate of 5.4583% per annum. The net proceeds from the issuance were used to repay currently maturing obligations and for general corporate requirements. In 2018, the Parent Company settled matured interim principal payments aggregating to P1,000.
- c. On October 27, 2016, the Parent Company issued P20,000 retail bonds (the "Bonds") divided into Series A (P13,000) and Series B (P7,000). Series A Bonds is due on October 27, 2021 with interest rate of 4.0032% per annum. Series B Bonds will mature on October 27, 2023 with interest rate of 4.5219% per annum. Interests on these Bonds are payable quarterly on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance of the Bonds were used to partially settle the US\$475 million and US\$550 million Term Loan facilities, to repay short-term loans and for general corporate requirements. The Bonds were listed with the Philippine Dealing & Exchange Corp. on October 27, 2016.

- d. On June 16, 2017, the Parent Company signed and executed a US\$1,000 million term facility and has initially drawn US\$600 million on June 28, 2017. The proceeds were used to pay in full the outstanding balances of US\$115 million and US\$470 million loans under the US\$475 million (executed on September 29, 2014) and US\$550 million (executed on July 20, 2015) term loan facilities, respectively. On October 10, 2017, the Parent Company drew the remaining US\$400 million from the facility. The proceeds of which were used to settle the P20,000 Peso-denominated Notes issued on November 10, 2010 which matured on November 10, 2017. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a spread. On November 29, 2018, the Parent Company made a partial payment of US\$30 million and US\$20 million against the US\$600 million and US\$400 million drawdowns, respectively.
- e. On July 25, 2017, the Parent Company drew P15,000 from a P15,000 term loan facility which was signed on July 14, 2017 and executed on July 17, 2017. The facility is amortized over 7 years and is subject to a fixed interest rate of 5.5276% per annum. The proceeds were used to refinance the bridge loan availed on December 23, 2016 for the acquisition of the Refinery Solid Fuel-Fired Power Plant (the "Power Plant") as discussed in Note 28. As of December 31, 2018, the P2,679 portion of the facility has already been paid.
- f. On December 29, 2017, the Parent Company drew P10,000 from a P10,000 bilateral facility which was signed and executed on December 28, 2017. The facility is amortized quarterly for five years beginning on the fifth quarter and is subject to a fixed rate of 5.7584% per annum. The proceeds were used to fund permanent working capital requirements.
- g. On October 19, 2018, the Parent Company offered P20,000 fixed retail bonds (the "Offer Bonds") divided into Series C (P13,200) bearing interest at 7.8183% per annum and Series D (P6,800) bearing interest at 8.0551% per annum. The Series C Offer Bonds will mature on April 19, 2024 (5.5-year term) while the Series D Offer Bonds is due on October 19, 2025 (7-year term). Interests on these Offer Bonds are payable quarterly, commencing on January 19, 2019, and thereafter, on April 19, July 19, October 19 and January 19 of each year. The net proceeds from the issuance of the Offer Bonds were used primarily to settle short-term loans availed by the Parent Company to fund crude oil purchases and redeem a portion of the Parent Company's remaining USCS (Note 21), and the balance for general corporate purposes. The Offer Bonds were listed with the Philippine Dealing & Exchange Corp. on October 19, 2018.

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

The Group is required to comply with two financial covenants, net leverage ratio and consolidated gross debt to consolidated net worth not to exceed 6.50 and 2.75, respectively. As of December 31, 2018 and 2017, the Group has complied with the covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P5,198, P5,140 and P4,155 for the years ended 2018, 2017 and 2016, respectively (Note 26). No interest was capitalized in 2018 and 2017 (Note 11).

Movements in debt issue costs follow:

	Note	2018	2017
Balance at beginning of year		P1,073	P915
Additions		237	978
Amortization for the year	26	(331)	(820)
Balance at end of year		P979	P1,073

Repayment Schedule

As of December 31, 2018 and 2017, the annual maturities of long-term debt are as follows (Note 34):

2018

Year	Gross Amount	Debt Issue Costs	Net
2019	P18,066	P267	P17,799
2020	20,695	197	20,498
2021	36,314	195	36,119
2022	13,154	30	13,124
2023	9,143	57	9,086
2024 and beyond	21,607	233	21,374
	P118,979	P979	P118,000

2017

Year	Gross Amount	Debt Issue Costs	Net
2018	P3,820	P31	P3,789
2019	19,938	602	19,336
2020	19,938	234	19,704
2021	35,557	150	35,407
2022	12,775	41	12,734
2023 and beyond	10,750	15	10,735
	P102,778	P1,073	P101,705

19. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	2018	2017
Balance at beginning of year		P2,681	P2,324
Additions		40	74
Effect of change in discount rate		404	98
Accretion for the year	26	189	182
Effect of change in lease term		295	7
Settlement		(17)	(4)
Balance at end of year		P3,592	P2,681

20. Other Noncurrent Liabilities

This account consists of:

	<i>Note</i>	2018	2017
Cylinder deposits		P573	P577
Cash bonds		434	400
Derivative liabilities designated as cash flow hedge		188	-
Others		79	60
	34, 35	P1,274	P1,037

"Others" account includes liability to a contractor and supplier.

21. Equity

a. Capital Stock

Common Shares

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Parent Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2018 and 2017, the Parent Company had 143,272 and 144,316 stockholders with at least one board lot at the PSE, respectively, for a total of 9,375,104,497 (P1.00 per share par value) issued and outstanding common shares.

Preferred Shares

On January 21, 2010, the SEC approved the Parent Company's amendment to its articles of incorporation to reclassify 624,895,503 unissued common shares into preferred shares with a par value of P1.00 per share, as part of its authorized capital stock. On February 12, 2010, the SEC issued an order permitting the Parent Company's offer and sale of 50,000,000 peso-denominated, cumulative, non-participating and non-voting preferred shares, with an oversubscription option of 50,000,000 preferred shares (collectively, the "2010 Preferred Shares") to the public at an issue price of P100.00 per share. Proceeds from issuance in excess of par value less related transaction costs amounting to P9,764 was recognized as additional paid-in capital. Dividend rate of 9.5281% per annum computed in reference to the issue price was payable every March 5, June 5, September 5 and December 5 of each year, when declared by the Parent Company's BOD. The 2010 Preferred Shares were listed with PSE on March 5, 2010.

On October 17, 2014, the SEC issued an order permitting the Parent Company's public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") at an issue price of P1,000.00 per share.

On November 3, 2014, the Parent Company issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two (2) sub-series, (i) 7,122,320 Series 2A preferred shares (the "Series 2A Preferred Shares") and (ii) 2,877,680 Series 2B preferred shares (the "Series 2B Preferred Shares"). Proceeds from issuance in excess of par value less related transaction costs amounting to P9,889 was recognized as additional paid-in capital.

The Series 2A Preferred Shares may be redeemed by the Parent Company starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the Parent Company's BOD.

All shares rank equally as regards to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On March 5, 2015, the Parent Company redeemed the 2010 Preferred Shares at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company's articles of incorporation. On July 6, 2015, the SEC approved the amendment of the articles of incorporation of the Parent Company to provide a re-issuability feature of its preferred shares.

As of December 31, 2018 and 2017, the Parent Company had 10,000,000 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2017 and 2016 are as follows:

	2018	2017
Series 2A Preferred Shares	47	48
Series 2B Preferred Shares	30	31
	77	79

b. Retained Earnings

i. Declaration of Cash Dividends

On various dates in 2016, 2017 and 2018, the Parent Company's BOD approved the declaration of cash dividends for common and preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
2016				
Common	P0.10000	March 15, 2016	March 31, 2016	April 14, 2016
Series 2A	15.75000	March 15, 2016	April 15, 2016	May 3, 2016
Series 2B	17.14575	March 15, 2016	April 15, 2016	May 3, 2016
Series 2A	15.75000	March 15, 2016	July 15, 2016	August 3, 2016
Series 2B	17.14575	March 15, 2016	July 15, 2016	August 3, 2016
Series 2A	15.75000	August 8, 2016	October 14, 2016	November 3, 2016
Series 2B	17.14575	August 8, 2016	October 14, 2016	November 3, 2016
Series 2A	15.75000	August 8, 2016	January 13, 2017	February 3, 2017
Series 2B	17.14575	August 8, 2016	January 13, 2017	February 3, 2017
2017				
Common	P0.10000	March 14, 2017	March 28, 2017	April 12, 2017
Series 2A	15.75000	March 14, 2017	April 12, 2017	May 3, 2017
Series 2B	17.14575	March 14, 2017	April 12, 2017	May 3, 2017
Series 2A	15.75000	March 14, 2017	July 18, 2017	August 3, 2017
Series 2B	17.14575	March 14, 2017	July 18, 2017	August 3, 2017
Series 2A	15.75000	August 8, 2017	October 16, 2017	November 3, 2017
Series 2B	17.14575	August 8, 2017	October 16, 2017	November 3, 2017
Series 2A	15.75000	August 8, 2017	January 16, 2018	February 5, 2018
Series 2B	17.14575	August 8, 2017	January 16, 2018	February 5, 2018
2018				
Common	P0.15000	March 13, 2018	March 27, 2018	April 18, 2018
Series 2A	15.75000	March 13, 2018	April 12, 2018	May 3, 2018
Series 2B	17.14575	March 13, 2018	April 12, 2018	May 3, 2018
Series 2A	15.75000	March 13, 2018	July 16, 2018	August 3, 2018
Series 2B	17.14575	March 13, 2018	July 16, 2018	August 3, 2018
Series 2A	15.75000	August 7, 2018	October 10, 2018	November 5, 2018
Series 2B	17.14575	August 7, 2018	October 10, 2018	November 5, 2018
Series 2A	15.75000	August 7, 2018	January 11, 2019	February 4, 2019
Series 2B	17.14575	August 7, 2018	January 11, 2019	February 4, 2019

Total cash dividends declared by the Parent Company amounted to P2,052 in 2018 and P1,584 both in 2017 and 2016.

ii. Appropriation for Capital Projects

On May 11, 2011, the Parent Company's BOD approved the proposal to revise the current level of appropriated retained earnings of P15,372 to P25,000 for the Parent Company's Refinery Master Plan 2 (RMP-2) project. On January 1, 2016, RMP-2 Project commenced commercial operation, thus, on May 5, 2016, the Parent Company's BOD approved the reversal of P25,000 appropriation for the Parent Company's RMP-2 and the re-appropriation of retained earnings amounting to P15,000 for capital projects in 2016 and 2017 which are expected to be completed within five years from the date of the approval.

On August 23, 2016, LLCDC's BOD approved the reversal of appropriation made in 2010 amounting to P5 (P3 - attributable to non-controlling interest) which was aimed to fund its construction management service. On September 29, 2015, NVRC's BOD approved the appropriation of retained earnings of P200 (P120 - attributable to non-controlling interest) and on December 20, 2016, an additional appropriation of P200 (P120 - attributable to non-controlling interest) was approved, both for the programmed lot acquisitions which are expected to be completed in 2019.

The appropriated retained earnings attributable to the equity holders of the Parent Company as of December 31, 2018 and 2017 amounted to P15,160.

- c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint ventures and an associate amounting to P26,800, P20,539 and P15,040 as of December 31, 2018, 2017 and 2016, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

- d. Equity reserves comprise of the following:

Reserve for retirement plan pertains to the cumulative remeasurements of the Group's defined benefit retirement plan.

Other reserves comprise the net loss on cash flows hedges, unrealized fair value losses on investments in debt instruments, exchange differences on translation of foreign operations, effect of redemption of USCS and others with details as follows:

	2018	2017	2016
Balance at beginning of year	(P3,025)	(P5,859)	(P5,563)
Net loss on cash flow hedges, net of tax	(77)	-	-
Changes in fair value of investment in debt instruments	(8)	(3)	(1)
Cumulative translation adjustment	1,231	2,838	784
Share in other comprehensive loss of an associate and a joint venture	-	(1)	-
Redemption of USCS	(9,223)	-	-
Changes in ownership interests in subsidiaries	11	-	(1,079)
Balance at end of year	(P11,091)	(P3,025)	(P5,859)

- e. USCS

In February 2013, the Parent Company issued US\$500 million USCS at an issue price of 100% ("Original Securities"). In March 2013, the Parent Company issued under the same terms and conditions of the Original Securities an additional US\$250 million at a price of 104.25% ("New Securities"). The New Securities constituted a further issuance of, were fungible with, and were consolidated and formed a single series with the Original Securities (the "Original Securities" and, together with the "New Securities", the "Securities"). Proceeds were applied by the Parent Company for capital and other expenditures of RMP-2 as well as for general corporate purposes.

The Securities were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, each sale of the Securities was considered an exempt transaction for which no confirmation of exemption from the registration requirements of the Securities Regulation Code (SRC) was required to be filed with the SEC. In compliance with the amended rules of the SRC, notices of exemption for the issuances of the Securities were filed with the SEC on February 12, 2013 for the Original Securities and on March 19, 2013 for the New Securities.

Holders of the Securities are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 7.5% per annum, subject to a step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The Securities have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid or deferred distributions at the Parent Company's option on or after August 6, 2018 or on any distribution payment date thereafter or upon the occurrence of certain events.

On January 8, 2018, the Parent Company announced a tender offer to holders of its US\$750 million USCS with expiration deadline on January 16, 2018. Tenders amounting to US\$402 million (P21,309) were accepted by the Parent Company and settled on January 22, 2018. The USCS purchased pursuant to the tender offer were cancelled. Accrued distributions and premiums paid related to the redemption amounted to US\$13.901 million (P1,010) and US\$12.059 million (P876), respectively. On August 6, 2018, the Parent Company redeemed the remaining US\$348 million (P18,460) of the US\$750 million USCS. The difference in the settlement amount and the carrying amount of USCS in 2018 was recognized as part of "Equity reserves" account in the consolidated statements of financial position.

Payments of distributions pertaining to USCS were made on the following dates: US\$28.125 million each on February 5, 2016 (P1,918), August 5, 2016 (P1,889), February 3, 2017 (P2,000) and August 4, 2017 (P2,024); US\$13.901 million on January 22, 2018 (P1,010); and US\$13.052 million each on February 5, 2018 (P963) and August 6, 2018 (P988).

f. SPCS

On January 19, 2018, the Parent Company issued US\$500 million SPCS with an issue price of 100% for the partial repurchase and redemption of the Parent Company's existing US\$750 million USCS, the repayment of indebtedness and general corporate purposes including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018. The SPCS were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, the sale of SPCS was considered an exempt transaction for which no confirmation of exemption from the registration requirements of the SRC was required to be filed with the SEC.

Holders of the SPCS are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 4.6% per annum, subject to a step-up rate. The Parent Company has a right to defer the distribution under certain conditions.

The SPCS have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at the Parent Company's option on or after July 19, 2023 or on any distribution payment date thereafter or upon the occurrence of certain other events.

Distributions on SPCS were made on July 19, 2018 amounting to US\$11.500 million (P878).

22. Cost of Goods Sold

This account consists of:

	Note	2018	2017	2016
Inventories	9	P498,117	P369,695	P283,169
Depreciation and amortization	25	8,277	8,043	6,153
Materials and supplies		5,498	4,873	1,397
Purchased services and utilities		2,211	2,339	10,486
Personnel expenses	24	1,979	1,925	1,647
Others	31	6,742	5,094	3,273
		P522,824	P391,969	P306,125

Distribution or transshipment costs included as part of inventories amounted to P10,076, P10,438 and P10,711 in 2018, 2017 and 2016, respectively.

Others include manufacturing and overhead costs such as maintenance and repairs, taxes and licenses, insurance and rent.

23. Selling and Administrative Expenses

This account consists of:

	Note	2018	2017	2016
Depreciation and amortization	25	P3,266	P2,936	P3,352
Purchased services and utilities		4,457	3,762	3,004
Personnel expenses	24	4,092	4,021	3,373
Maintenance and repairs		1,285	1,276	1,108
Advertising		746	1,524	1,460
Materials and office supplies		605	546	754
Rent - net	29, 31	413	464	154
Taxes and licenses		368	342	415
Impairment losses on trade and other receivables	4, 8	261	10	68
Others	9	148	136	230
		P15,641	P15,017	P13,918

Selling and administrative expenses include research and development costs amounting to P86, P65 and P66 in 2018, 2017 and 2016, respectively (Note 9). Rent is shown net of rental income amounting to P1,340, P1,180 and P1,139 in 2018, 2017 and 2016, respectively.

24. Personnel Expenses

This account consists of:

	Note	2018	2017	2016
Salaries, wages and other employee costs	28	P5,446	P5,345	P4,348
Retirement benefits costs - defined benefit plan	28, 30	523	508	579
Retirement benefits costs - defined contribution plan	28	102	93	93
		P6,071	P5,946	P5,020

The above amounts are distributed as follows:

	Note	2018	2017	2016
Costs of goods sold	22	P1,979	P1,925	P1,647
Selling and administrative expenses	23	4,092	4,021	3,373
		P6,071	P5,946	P5,020

25. Depreciation and Amortization

This account consists of:

	Note	2018	2017	2016
Cost of goods sold:				
Property, plant and equipment	11	P7,693	P7,359	P5,316
Other assets	14	584	684	837
	22	8,277	8,043	6,153
Selling and administrative expenses:				
Property, plant and equipment	11	2,225	2,602	2,930
Investment property	12	699	1	1
Intangible assets and others	14	342	333	421
	23	3,266	2,936	3,352
	37	P11,543	P10,979	P9,505

26. Interest Expense and Other Financing Charges, Interest Income and Other Income (Expenses)

This account consists of:

	Note	2018	2017	2016
Interest expense and other financing charges:				
Long-term debt	18	P4,867	P4,320	P3,657
Short-term loans	15	3,165	2,323	2,323
Bank charges		1,133	839	999
Amortization of debt issue costs	18	331	820	498
Accretion on ARO	19	189	182	76
Others		4	3	4
	37	P9,689	P8,487	P7,557
Interest income:				
Advances to related parties	28	P212	P211	P261
Short-term placements	5	416	236	163
Investments in debt instruments	7	24	22	18
Trade receivables	8	47	49	50
Cash in banks	5	7	16	14
Others		-	1	1
	37	P706	P535	P507
Other income (expenses) - net:				
Foreign currency gains (losses) - net	34	(P3,476)	P1,192	(P2,236)
Changes in fair value of financial assets at FVPL	6	84	14	10
Hedging gains (losses) - net		218	(373)	(152)
Marked-to-market gains (losses) - net	35	4,326	(1,692)	824
Others - net	10, 13	(635)	(48)	(881)
		P517	(P907)	(P2,435)

The Group recognized its share in the net income (loss) of PDSI amounting to (P1), P2 and (P3) in 2018, 2017 and 2016, respectively, and its share in the net income of TBSB amounting to P4 both in 2018 and 2017 and P6 in 2016. These were recorded as part of "Others - net" under "Other expenses - net" account in the consolidated statements of income.

Also included in "Others - net" were the following: (i) loss on disposal of investment in MNHPI amounting to P189 in 2017 (Note 10); (ii) rental income amounting to P63 in 2018 and 2017 (Note 23); and (iii) impairment loss on goodwill in PAHL in 2016 amounting to P298 (Note 13).

27. Income Taxes

Deferred tax assets and liabilities are from the following:

	2018	2017
Net retirement benefits liability	P1,617	P1,337
Various allowances, accruals and others	1,085	1,116
Unrealized foreign exchange losses (gains) - net	523	(264)
ARO	415	487
Rental	192	188
Unutilized tax losses	-	220
Fair market value adjustments on business combination	(32)	(33)
Inventory differential	(150)	199
Capitalized taxes and duties on inventories deducted in advance	(863)	(288)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	(4,818)	(5,140)
Excess of double-declining over straight-line method of depreciation and amortization	(6,162)	(5,012)
	(P8,193)	(P7,190)

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

	2018	2017
Deferred tax assets - net	P257	P207
Deferred tax liabilities - net	(8,450)	(7,397)
	(P8,193)	(P7,190)

The movements of deferred tax assets and liabilities are accounted for as follows:

	2018	2017
Balance at beginning of year	(P7,190)	(P5,532)
Amounts recognized in profit or loss	(1,317)	(2,001)
Amounts recognized in OCI	375	347
Cumulative translation adjustment and others	(61)	(4)
	(P8,193)	(P7,190)

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation.

The components of income tax expense are shown below:

	2018	2017	2016
Current	P2,069	P2,754	P3,289
Deferred	1,317	2,001	267
	P3,386	P4,755	P3,556

The following are the amounts of deferred tax expense (benefit), for each type of temporary difference, recognized in the consolidated statements of income:

	2018	2017	2016
Excess of double-declining over straight-line method of depreciation and amortization	P1,150	P1,425	P805
Capitalized taxes and duties on inventories deducted in advance	575	77	(34)
Inventory differential	349	417	258
Unutilized tax gains (losses)	220	(23)	(13)
ARO	72	(114)	(78)
Various allowances, accruals and others	31	(222)	(480)
MCIT	-	6	468
NOLCO	-	-	2
Rental	(4)	29	38
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	(322)	(535)	(441)
Unrealized foreign exchange losses (gains) - net	(787)	1,055	(118)
Others	33	(114)	(140)
	P1,317	P2,001	P267

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the consolidated statements of income is as follows:

	Note	2018	2017	2016
Statutory income tax rate		30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	36	(5.14%)	(3.05%)	(9.63%)
Interest income subjected to lower final tax		(0.57%)	(0.13%)	(0.13%)
Nontaxable income		(11.13%)	(3.52%)	(2.36%)
Nondeductible expense		1.32%	0.91%	1.85%
Nondeductible interest expense		0.20%	0.06%	0.06%
Changes in fair value of financial assets at FVPL	26	(0.24%)	(0.02%)	(0.02%)
Excess of optional standard deduction over deductible expenses		(0.10%)	(0.06%)	(0.05%)
Others, mainly income subject to different tax rates		18.04%	1.04%	5.01%
Effective income tax rate		32.38%	25.23%	24.73%

OSD

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made (Note 4).

28. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint ventures and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/to be settled in cash. The balances and transactions with related parties as of and for the years ended December 31 follow:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	8, 30, a	2018	P211	P -	P2,399	P -	On demand;	Unsecured;
		2017	211	-	5,188	-	long-term;	no impairment
		2016	261	-	5,042	-	interest bearing	
Intermediate Parent	b, e	2018	12	1,026	7	25	On demand;	Unsecured;
		2017	10	650	4	27	non-interest bearing	no impairment
		2016	7	173	5	24		
Under Common Control	14, b, c, d, i, j	2018	6,523	4,904	2,097	889	On demand;	Unsecured;
		2017	3,233	10,670	870	768	non-interest bearing	no impairment
		2016	6,473	30,773	1,096	5,850		
Associate	b	2017	153	-	-	-	On demand;	Unsecured;
		2016	154	-	33	-	non-interest bearing	no impairment
Joint Ventures	c, f	2018	7	59	1	-	On demand;	Unsecured;
		2017	1	43	-	4	non-interest bearing	no impairment
		2016	-	42	-	3		
		2018	P6,753	P5,989	P4,504	P914		
		2017	P3,608	P11,363	P6,062	P799		
		2016	P6,895	P30,988	P6,176	P5,877		

- As of December 31, 2018 and 2017, the Parent Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" in the consolidated statements of financial position, for some investment opportunities (Notes 8 and 30).
- Sales relate to the Parent Company's supply agreements with the Intermediate Parent, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.
- The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rate of P6. The lease, which commenced on June 1, 2014, is for a period of one year and was subsequently renewed on a yearly basis in accordance with the written agreement of the parties.
- The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.

- f. TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.
- g. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.
- h. Amounts owed to related parties consist of trade and non-trade payables.
- i. In 2016, the Parent Company acquired the Power Plant from SMC Powergen, Inc. The Power Plant is presented as part of "Refinery and plant equipment" category in the "Property, plant and equipment" account in the consolidated statements of financial position (Note 11). Amounts owed to related party arising from the transaction has been fully settled as of December 31, 2017.
- j. In 2015, NVRC leased out certain parcels of its land to SMC Consolidated Power Corporation for a period of 25 years.
- k. The compensation and benefits of key management personnel of the Group, by benefit type, included in the "Personnel expenses" account as follows (Note 24):

	2018	2017	2016
Salaries and other short-term employee benefits	P998	P906	P754
Retirement benefits costs - defined benefit plan	135	166	133
Retirement benefits costs - defined contribution plan	35	33	31
	P1,168	P1,105	P918

29. Operating Lease Commitments

Group as Lessee

The Group entered into commercial leases on certain parcels of land for its refinery and service stations (Notes 23 and 31). The leases' life ranges from one to forty two years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Future minimum rental payables under the non-cancellable operating lease agreements as of December 31 are as follows:

	2018	2017
Within one year	P1,917	P1,561
After one year but not more than five years	6,741	5,103
After five years	16,743	11,224
	P25,401	P17,888

Group as Lessor

The Group has entered into lease agreements on its service stations and other related structures (Note 23). The non-cancellable leases have remaining terms of between three to ten years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

Future minimum rental receivables under the non-cancellable operating lease agreements as of December 31 follow:

	2018	2017
Within one year	P127	P91
After one year but not more than five years	251	115
After five years	1,265	12
	P1,643	P218

30. Retirement Plan

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plans recognized in profit or loss and the funding status and amounts of retirement plans recognized in the consolidated statements of financial position. The Parent Company has a funded, noncontributory, defined benefit retirement plan while several subsidiaries have unfunded, noncontributory, defined benefit retirement plans. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is as of December 31, 2018. Valuations are obtained on a periodic basis.

The Parent Company's Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT), as appointed by the BOD of the Parent Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the Parent Company, while one of the BOT is also a BOD. The retirement plan's accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Present Value of			Fair Value of Plan Assets			Net Defined Benefit		
	Defined Benefit Obligation	Retirement Asset (Liability)		Retirement Asset (Liability)		Retirement Asset (Liability)		Retirement Asset (Liability)	
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Balance at beginning of year	(P5,872)	(P5,344)	(P5,603)	P883	P1,952	P12	(P4,989)	(P3,392)	(P5,591)
Recognized in Profit or Loss									
Current service cost	(337)	(313)	(285)	-	-	-	(337)	(313)	(285)
Past service cost - plan amendment	-	-	(2)	-	-	-	-	-	(2)
Interest expense	(333)	(289)	(278)	-	-	-	(333)	(289)	(278)
Interest income	-	-	-	147	94	(14)	147	94	(14)
	(670)	(602)	(565)	147	94	(14)	(523)	(508)	(579)
Recognized in Other Comprehensive Income									
Remeasurements:									
Actuarial gains (losses) arising from:									
Experience adjustments	(592)	(555)	(398)	-	-	-	(592)	(555)	(398)
Changes in financial assumptions	584	105	173	-	-	-	584	105	173
Changes in demographic assumptions	17	43	302	-	-	-	17	43	302
Return on plan asset excluding interest	-	-	-	(1,142)	(735)	2,570	(1,142)	(735)	2,570
	9	(407)	77	(1,142)	(735)	2,570	(1,133)	(1,142)	2,647
Others									
Benefits paid	777	571	753	(677)	(528)	(651)	100	43	102
Contributions	-	-	-	4,068	100	35	4,068	100	35
Transfer to other accounts payable	-	(4)	-	-	-	-	-	(4)	-
Transfers from other plans/subsidiaries	-	-	(16)	-	-	-	-	-	(16)
Transfers to other plans/subsidiaries	-	-	16	-	-	-	-	-	16
Translation adjustment	(23)	(86)	(6)	-	-	-	(23)	(86)	(6)
	754	481	747	3,391	(428)	(616)	4,145	53	131
Balance at end of year	(P5,779)	(P5,872)	(P5,344)	P3,279	P883	P1,952	(P2,500)	(P4,989)	(P3,392)

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

	Note	2018	2017
Trade and other payables	17	P67	P104
Retirement benefits liability (noncurrent portion)		2,433	4,885
		P2,500	P4,989

Retirement benefits costs recognized in the consolidated statements of income by the Parent Company amounted to P410, P408 and P485 in 2018, 2017 and 2016, respectively.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P113, P100 and P94 in 2018, 2017 and 2016, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2018 and 2017.

Plan assets consist of the following:

	2018	2017
Shares of stock:		
Quoted	52%	84%
Unquoted	6%	5%
Government securities	5%	7%
Cash and cash equivalents	12%	1%
Receivables	21%	1%
Others	4%	2%
	100%	100%

Investment in Shares of Stock. As of December 31, 2018, the Parent Company's plan assets include 459,156,097 common shares of Petron with fair market value per share of P7.71, 1,950,000 common shares of SMC with fair market value per share of P147.00, 2,000,000 Series "2", Subseries "B" preferred shares of SMC with fair market value per share of P75.

The Parent Company's plan recognized a gain (loss) on the investment in marketable securities of Petron and SMC amounting to (P675), (P577) and P2,169 in 2018, 2017 and 2016, respectively, mainly as a result of marked-to-market remeasurements.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P122 in 2018 and P85 both in 2017 and 2016.

On July 25, 2016, the Group plan's investment in 375,142,858 ordinary shares of PAHL was sold to Petron for a total consideration of P1,921 (Note 13). Accordingly, the plan recognized gain on sale of investment amounting to P503.

On December 18, 2018, out of the plan's 731,156,097 investment in common shares of Petron, 272,000,000 shares were sold to SMC Retirement Plan (SMCRP) for a total consideration of P2,350. Accordingly, the plan recognized loss on sale of investment amounting to P147.

Investment in trust account represents funds entrusted to financial institutions for the purpose of maximizing the yield on investible funds.

Receivables which earn interest include the uncollected balance as of December 31, 2018 of the plan's sale of investment in shares of Petron to SMCRP.

Others include investment in pooled funds and Petron bonds amounting to P128 and P28 as of December 31, 2018, respectively.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Parent Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Parent Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Parent Company expects to contribute P838 to its defined benefit retirement plan in 2019.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The retirement plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Risk. The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

Longevity and Salary Risks. The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2018	2017	2016
Discount rate	5.50% to 7.48%	5.50% to 5.73%	5.38% to 5.53%
Future salary increases	5.00% to 7.00%	5.00% to 7.00%	5.00% to 8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation is from 5.54 to 20.20 years and 5.90 to 22.50 years as of December 31, 2018 and 2017, respectively.

The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit assets/liabilities by the amounts below:

	Defined Benefit Liabilities	
	1 Percent Increase	1 Percent Decrease
2018		
Discount rate	(P329)	P378
Salary increase rate	384	(340)
	Defined Benefit Liabilities	
	1 Percent Increase	1 Percent Decrease
2017		
Discount rate	(P356)	P435
Salary increase rate	366	(322)

The Parent Company has advances to PCERP amounting to P2,399 and P5,188 as of December 31, 2018 and 2017, respectively, included as part of "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 28). The advances are subject to interest of 5% in 2018, 2017 and 2016 (Note 28).

In 2018, portion of the Parent Company's interest bearing advances to PCERP were converted into contribution to the retirement plan (Note 28).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2018 and 2017 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Parent Company has not recognized any impairment losses relating to the receivables from retirement plan for the years ended December 31, 2018, 2017 and 2016.

31. Significant Agreements

Supply Agreements. The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 while the contract with KPC is from January 1, 2015 to December 31, 2015, both with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the consolidated statements of financial position as of December 31, 2018 and 2017 (Note 16).

Toll Service Agreement with Innospec Limited (Innospec). PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement, PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P109 in 2018 and P130 both in 2017 and 2016.

Hungry Juan Outlet Development Agreement with San Miguel Foods, Inc. (SMFI) PFC entered into an agreement with SMFI for a period of three years and paid a one-time franchise fee. The store, which started operating in November 2012, is located at Rizal Blvd. cor. Argonaut Highway, Subic Bay Freeport Zone. The agreement expired in November 2018.

Lease Agreements with Philippine National Oil Company (PNOC). On September 30, 2009, the Parent Company through NVRC, entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2018 and 2017, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 39).

32. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts are computed as follows:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	P6,218	P12,739	P10,100
Dividends on preferred shares for the year	(646)	(646)	(646)
Distributions to the holders of capital securities	(2,971)	(4,024)	(3,807)
Net income attributable to common shareholders of the Parent Company (a)	P2,601	P8,069	P5,647
Weighted average number of common shares outstanding (in millions) (b)	9,375	9,375	9,375
Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	P0.28	P0.86	P0.60

As of December 31, 2018, 2017 and 2016, the Parent Company has no potential dilutive debt or equity instruments.

33. Supplemental Cash Flow Information

a. Changes in operating assets and liabilities:

	2018	2017	2016
Decrease (increase) in assets:			
Trade and other receivables	(P6,523)	(P6,593)	(P230)
Inventories	(7,161)	(12,531)	(13,029)
Other current assets	(5,049)	(1,511)	954
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	(14,071)	7,837	11,842
Trade and other payables and others	16,597	(165)	4,922
	(16,207)	(12,963)	4,459
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, goodwill and others	591	(80)	91
	(P15,616)	(P13,043)	P4,550

b. Changes in liabilities arising from financing activities:

	Dividends Payable	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2018	P239	P69,583	P101,705	P171,527
Changes from financing cash flows				
Proceeds from availment of loans	-	319,818	19,763	339,581
Payments of loans	-	(306,124)	(6,440)	(312,564)
Dividends and distributions declared	6,128	-	-	6,128
Dividends and distributions paid	(6,160)	-	-	(6,160)
Total changes from financing cash flows	(32)	13,694	13,323	26,985
Effects of changes in foreign exchange rates	-	(230)	2,640	2,410
Other charges	(1)	(50)	332	281
Balance as of December 31, 2018	P206	P82,997	P118,000	P201,203
	Dividends Payable	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2017	P218	P90,366	P79,852	P170,436
Changes from financing cash flows				
Proceeds from availment of loans	-	223,862	74,807	298,669
Payments of loans	-	(244,722)	(53,477)	(298,199)
Dividends and distributions declared	5,794	-	-	5,794
Dividends and distributions paid	(5,773)	-	-	(5,773)
Total changes from financing cash flows	21	(20,860)	21,330	491
Effects of changes in foreign exchange rates	-	77	(297)	(220)
Other charges	-	-	820	820
Balance as of December 31, 2017	P239	P69,583	P101,705	P171,527

34. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include cash and cash equivalents, debt and equity securities, bank loans and derivative instruments. The main purpose of bank loans is to finance working capital relating to importation of crude and petroleum products, as well as to partly fund capital expenditures. The Group has other financial assets and liabilities such as trade and other receivables and trade and other payables, which are generated directly from its operations.

It is the Group's policy not to enter into derivative transactions for speculative purposes. The Group uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into forward currency and option contracts to hedge its currency exposure on crude oil importations and long-term dollar loan, respectively.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. The BOD regularly reviews and approves the policies for managing these financial risks. Details of each of these risks are discussed below, together with the related risk management structure.

Risk Management Structure

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

The Group's risk management process is a bottom-up approach, with each risk owner mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As the Group's operation is an integrated value chain, risks emanate from every process, while some could cut across groups. The results of these activities flow up to the Management Committee and, eventually, the BOD through the Group's annual business planning process.

Oversight and technical assistance is likewise provided by corporate units and committees with special duties. These groups and their functions are:

- a. The Risk and Insurance Management Group, which is mandated with the overall coordination and development of the enterprise-wide risk management process.
- b. The Treasurers Department, which is in charge of foreign currency hedging transactions.
- c. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.
- d. The Corporate Technical and Engineering Services Group, which oversees strict adherence to safety and environmental mandates across all facilities.
- e. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.
- f. The Commodity Risk Management Department (CRMD), which sets new and updates existing hedging policies by the BOD, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.
- g. PSTPL executes the hedging transactions involving crude and product imports on behalf of the Group.

The BOD also created separate positions and board-level entities with explicit authority and responsibility in managing and monitoring risks, as follows:

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

The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

- b. The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Group to ensure its functionality and effectiveness.
- c. The Compliance Officer, who is a senior officer of the Parent Company reports to the BOD chairperson. Among other functions, he monitors compliance with the provisions and requirements of the Corporate Governance Manual and relevant laws and regulations and determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual and other relevant rules and regulations of the SEC.

Foreign Currency Risk

The Parent Company's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The Group's exposures to foreign currency risk arise mainly from US dollar-denominated sales as well as purchases principally of crude oil and petroleum products. As a result of this, the Group maintains a level of US dollar-denominated assets and liabilities during the year. Foreign currency risk occurs due to differences in the levels of US dollar-denominated assets and liabilities.

In addition, starting March 31, 2012, the Group's exposure to foreign currency risks also arise from US dollar-denominated sales and purchases, principally of crude oil and petroleum products, of Petron Malaysia whose transactions are in Malaysian ringgit, which are subsequently converted into US dollar before ultimately translated to equivalent Philippine peso amount using applicable rates for the purpose of consolidation.

The Group pursues a policy of mitigating foreign currency risk by entering into hedging transactions or by substituting US dollar-denominated liabilities with peso-based debt. The natural hedge provided by US dollar-denominated assets is also factored in hedging decisions. As a matter of policy, currency hedging is limited to the extent of 100% of the underlying exposure.

The Group is allowed to engage in active risk management strategies for a portion of its foreign currency risk exposure. Loss limits are in place, monitored daily and regularly reviewed by management.

The Group assesses the existence of an economic relationship between the hedged item and the hedging instrument based on the currency, amount, and timing of their respective cash flows. For derivatives designated in a hedging relationship, the Group determines whether the derivatives are expected to be highly effective in offsetting the changes in the cash flows of the hedged item using the cumulative dollar-offset method. The dollar-offset method approximates the changes in the fair value of the hedged item using a hypothetical derivative which mirrors the terms of the derivative used as hedging instrument.

For currency hedges, the Group maintains a 1:1 hedge ratio since a similar amount of hedging instrument is expected to offset the changes in the cash flows of the hedged item. The main sources of ineffectiveness are:

- a. the effect of the counterparty and the Group's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in the exchange rates; and
- b. changes in the timing of the hedged transactions.

The Group is exposed to foreign currency risk of its short-term loans and US dollar-denominated sales and purchases. On the other hand, both foreign currency and interest rate risks arise in the Group's long-term debts. The Group determined that foreign currency risk is a separately identifiable and measurable risk component eligible for designation since it is caused by fluctuations in US dollar to Philippine peso exchange rates and benchmark closing prices used to measure the fluctuations are available in the market.

Information on the Group's US dollar-denominated financial assets and liabilities and their Philippine peso equivalents are as follows:

	2018		2017	
	US Dollar (in millions)	Phil. Peso Equivalent	US Dollar	Phil. Peso Equivalent
Assets				
Cash and cash equivalents	217	11,397	19	952
Trade and other receivables	316	16,635	118	5,891
Other assets	27	1,426	3	126
	560	29,458	140	6,969
Liabilities				
Short-term loans	285	14,977	1	30
Liabilities for crude oil and petroleum products	480	25,243	515	25,747
Long-term debts (including current maturities)	950	49,951	1,000	49,930
Other liabilities	346	18,202	35	1,733
	2,061	108,373	1,551	77,440
Net foreign currency-denominated monetary liabilities	(1,501)	(78,915)	(1,411)	(70,471)

The Group incurred net foreign currency gains (losses) amounting to (P3,476), P1,192 and (P2,236) in 2018, 2017 and 2016, respectively (Note 26), which were mainly countered by marked-to-market and realized hedging gains (losses) (Note 26). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of December 31 are shown in the following table:

	PhP to US\$
December 31, 2018	52.580
December 31, 2017	49.930
December 31, 2016	49.720

Managing of foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign currency movements affect reported equity through the retained earnings and equity reserves arising from increases or decreases in unrealized and realized foreign currency gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of December 31, 2018 and 2017:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
2018				
Cash and cash equivalents	(P99)	(P187)	P99	P187
Trade and other receivables	(122)	(327)	122	327
Other assets	(12)	(24)	12	24
	(233)	(538)	233	538
Short-term loans	150	240	(150)	(240)
Liabilities for crude oil and petroleum products	210	480	(210)	(480)
Long-term debts (including current maturities)	950	665	(950)	(665)
Other liabilities	285	408	(285)	(408)
	1,595	1,793	(1,595)	(1,793)
	P1,362	P1,255	(P1,362)	(P1,255)

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
2017				
Cash and cash equivalents	(P10)	(P144)	P10	P144
Trade and other receivables	(81)	(263)	81	263
Other assets	(3)	(12)	3	12
	(94)	(419)	94	419
Short-term loans	1	-	(1)	-
Liabilities for crude oil and petroleum products	326	789	(326)	(789)
Long-term debts (including current maturities)	1,000	700	(1,000)	(700)
Other liabilities	33	193	(33)	(193)
	1,360	1,682	(1,360)	(1,682)
	P1,266	P1,263	(P1,266)	(P1,263)

Exposures to foreign currency rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates mainly to long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings prior to deployment of funds to their intended use in operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term volatility on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

Managing interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity through the retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P500 and P499 in 2018 and 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table. As of December 31, 2018 and 2017, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2018	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P5,672	P5,672	P21,291	5,643	P9,143	P21,607	P69,028
Interest rate	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	5.5% - 5.8%	4.5% - 5.5%	5.5% - 8.1%	
Floating Rate							
US\$ denominated (expressed in PhP)	12,394	15,023	15,023	7,511	-	-	49,951
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	-	-	
	P18,066	P20,695	P36,314	P13,154	P9,143	P21,607	P118,979

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

2017	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate Philippine peso denominated Interest rate	P3,820 5.5% - 7.2%	P5,672 5.5% - 7.2%	P5,672 5.5% - 7.2%	P21,291 4.0% - 7.2%	P5,643 5.5% - 5.8%	P10,750 4.5% - 5.5%	P52,848
Floating Rate US\$ denominated (expressed in PHP) Interest rate*	-	14,266 1, 3, 6 mos. Libor + margin	14,266 1, 3, 6 mos. Libor + margin	14,266 1, 3, 6 mos. Libor + margin	7,132 1, 3, 6 mos. Libor + margin	-	49,930
	P3,820	P19,938	P19,938	P35,557	P12,775	P10,750	P102,778

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

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by Trade Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statements of financial position or in the notes to the consolidated financial statements, as summarized below:

	Note	2018	2017
Cash in banks and cash equivalents	5	P14,143	P14,313
Derivative assets	6	1,079	165
Investments in debt instruments	7	378	531
Trade and other receivables - net	8	42,497	38,159
Long-term receivables - net	14	253	228
Noncurrent deposits	14	94	90
		P58,444	P53,486

Cash and Cash Equivalents, Derivative Assets and Noncurrent Deposits

Cash and cash equivalents, derivative assets and noncurrent deposits are held with counterparties with high external credit ratings. The credit quality of these financial assets is considered to be high grade. Impairment on cash and cash equivalents, derivative assets and noncurrent deposits has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents, derivative assets and noncurrent deposits have low credit risk based on the external credit ratings of its counterparties.

Investments in Debt Instruments and Proprietary Membership Shares

The Group limits its exposure to credit risk by investing only in liquid debt instruments and proprietary membership shares and only with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

Trade and Other Receivables and Long-Term Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 37.

Credit Quality. In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

Class A "*High Grade*" are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B "*Moderate Grade*" refers to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

Class C "*Low Grade*" are accounts with high probability of delinquency and default.

Below is the credit quality profile of the Group's trade accounts receivable as of December 31, 2018 and 2017:

Trade Accounts Receivables Per Class				
	Class A	Class B	Class C	Total
December 31, 2018				
Retail	P1,183	P3,760	P253	P5,196
Lubes	255	273	52	580
Gasul	693	413	167	1,273
Industrial	7,788	6,697	1,636	16,121
Others	1,707	3,096	1,133	5,936
	P11,626	P14,239	P3,241	P29,106

Trade Accounts Receivables Per Class				
	Class A	Class B	Class C	Total
December 31, 2017				
Retail	P846	P3,207	P404	P4,457
Lubes	358	1,023	181	1,562
Gasul	533	447	142	1,122
Industrial	5,440	4,093	992	10,525
Others	4,067	4,267	925	9,259
	P11,244	P13,037	P2,644	P26,925

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 8). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P9,204 and P4,927 as of December 31, 2018 and 2017, respectively. These securities may only be called on or applied upon default of customers.

Credit Risk Concentration. The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

The table below presents the summary of the Group's exposure to credit risk and shows the credit quality of the assets by indicating whether the assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	2018					Total
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired			
Cash in banks and cash equivalents	P14,143	P -	P -	P -	P -	P14,143
Trade and other receivables	-	42,497	1,337	-	-	43,834
Derivative assets not designated as cash flow hedge	-	-	-	857	-	857
Derivative assets designated as cash flow hedge	-	-	-	-	222	222
Proprietary membership shares	-	-	-	254	-	254
Investments in debt instruments	226	-	-	-	152	378
Long-term receivables - net	-	253	73	-	-	326
Noncurrent deposits	94	-	-	-	-	94
	P14,463	P42,750	P1,410	P1,111	P374	P60,108

The credit risk exposure of the Group based on trade accounts receivable as of December 31, 2017 as shown below:

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
December 31, 2017				
Retail	P4,284	P128	P45	P4,457
Lubes	1,412	90	60	1,562
Gasul	894	113	115	1,122
Industrial	9,605	452	468	10,525
Others	9,008	163	88	9,259
	P25,203	P946	P776	P26,925

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives in managing its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2018 and 2017.

2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P17,405	P17,405	P17,405	P -	P -	P -
Trade and other receivables	42,497	42,497	42,497	-	-	-
Derivative assets (including non-current portion)	1,079	1,079	872	61	146	-
Proprietary membership shares	254	254	254	-	-	-
Investments in debt instruments	378	394	-	136	258	-
Long-term receivables - net	253	253	-	-	253	-
Noncurrent deposits	94	94	-	-	3	91
Financial Liabilities						
Short-term loans	82,997	83,402	83,402	-	-	-
Liabilities for crude oil and petroleum products	25,991	25,991	25,991	-	-	-
Trade and other payables*	23,189	23,189	23,189	-	-	-
Derivative liabilities (including non-current portion)	802	802	614	115	73	-
Long-term debts (including current maturities)	118,000	138,128	23,649	25,503	66,861	22,115
Cash bonds	434	434	-	416	3	15
Cylinder deposits	573	573	-	-	-	573
Other noncurrent liabilities**	77	78	-	33	25	20

*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

**excluding cash bonds, cylinder deposits and derivative liabilities

2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P17,014	P17,014	P17,014	P -	P -	P -
Trade and other receivables	38,159	38,159	38,159	-	-	-
Derivative assets	165	165	165	-	-	-
Proprietary membership shares	171	171	171	-	-	-
Investments in debt instruments	531	577	204	64	309	-
Long-term receivables - net	228	228	-	-	-	228
Noncurrent deposits	90	90	-	-	9	81
Financial Liabilities						
Short-term loans	69,583	69,879	69,879	-	-	-
Liabilities for crude oil and petroleum products	36,920	36,920	36,920	-	-	-
Trade and other payables*	7,917	7,917	7,917	-	-	-
Derivative liabilities	1,791	1,791	1,791	-	-	-
Long-term debts (including current maturities)	101,705	117,024	7,812	23,619	74,308	11,285
Cash bonds	400	404	-	385	2	17
Cylinder deposits	577	577	-	-	-	577
Other noncurrent liabilities**	57	57	-	14	20	23

*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

**excluding cash bonds and cylinder deposits

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For consumer (buy) hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost. While for producer (sell) hedges, if prices go down, hedge positions may show marked-to-market gains; however, any gain in the marked-to-market position is offset by the resulting lower selling price.

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from risks of downward price and squeezed margins. Hedging policy (including the use of commodity price swaps, time-spreads, put options, collars and 3-way options) developed by the CRMD is in place. Decisions are guided by the conditions set and approved by the Group's management.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (FVPL and certain debt instruments at FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The Group's capital management policies and programs aim to provide an optimal capital structure that would ensure the Group's ability to continue as a going concern while at the same time provide adequate returns to the shareholders. As such, it considers the best trade-off between risks associated with debt financing and relatively higher cost of equity funds.

An enterprise resource planning system is used to monitor and forecast the Group's overall financial position. The Group regularly updates its near-term and long-term financial projections to consider the latest available market data in order to preserve the desired capital structure. The Group may adjust the amount of dividends paid to shareholders, issue new shares as well as increase or decrease assets and/or liabilities, depending on the prevailing internal and external business conditions.

The Group monitors capital via carrying amount of equity as shown in the consolidated statements of financial position. The Group's capital for the covered reporting period is summarized below:

	2018	2017
Total assets	P358,154	P338,030
Total liabilities	271,968	238,411
Total equity	86,186	99,619
Debt to equity ratio	3.2:1	2.4:1
Assets to equity ratio	4.2:1	3.4:1

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally-imposed capital requirements.

35. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31:

		2018		2017	
	Note	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	5	P17,405	P17,405	P17,014	P17,014
Trade and other receivables	8	42,497	42,497	38,159	38,159
Investments in debt instruments	7	226	226	-	-
Long-term receivables - net	14	253	253	228	228
Noncurrent deposits	14	94	94	90	90
FA at amortized cost		60,475	60,475	55,491	55,491
Investments in debt instruments	7	152	152	531	531
Derivative assets designated as cash flow hedge	6	222	222	-	-
FA at FVOCI		374	374	531	531
Financial assets at FVPL	6	254	254	171	171
Derivative assets not designated as cash flow hedge	6, 14	857	857	165	165
FA at FVPL		1,111	1,111	336	336
Total financial assets		P61,960	P61,960	P56,358	P56,358

		2018		2017	
	Note	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	15	P82,997	P82,997	P69,583	P69,583
Liabilities for crude oil and petroleum products	16	25,991	25,991	36,920	36,920
Trade and other payables*	17	23,189	23,189	7,917	7,917
Long-term debt including current portion	18	118,000	118,000	101,705	101,705
Derivative liabilities designated as cash flow hedge	20	332	332	-	-
Cash bonds	20	434	434	400	400
Cylinder deposits	20	573	573	577	577
Other noncurrent liabilities**	20	77	77	57	57
Other FL		251,593	251,593	217,159	217,159
Derivative liabilities not designated as cash flow hedge		470	470	1,791	1,791
Total financial liabilities		P252,063	P252,063	P218,950	P218,950

*excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others

**excluding cash bonds, cylinder deposits and derivative liabilities

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables, Long-term Receivables and Noncurrent Deposits. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables and noncurrent deposits, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Marked-to-market valuation of commodity hedges are based on forecasted crude and product prices by third parties. The fair values of derivative instruments designated as cash flow hedges are computed by discounting the future cash flows and using the option valuation model based on applicable market rates of similar instruments.

Financial Assets at FVPL and Certain Investments in Debt Instruments at FVOCI. The fair values of publicly traded instruments and similar investments are based on published market prices. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

Long-term Debt - Floating Rate. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities. Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2018 and 2017 are 9.00% and 5.82%, respectively.

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

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

Derivative Instruments Accounted for as Cash Flow Hedges

The Group enters into various currency derivative contracts to manage its exposure on foreign currency risk (Note 34).

Call Spread Swaps (CSS). In 2018, the Parent Company entered into four CSS contracts designated as cash flow hedges with an aggregate notional amount of US\$207 million with a weighted average strike rate range of P53.93 to P57.15. These derivative contracts are designed to partially hedge the foreign currency risk pertaining to the US\$207 million bottom layer out of the US\$1,000 million term loan of the Parent Company (Note 18d). As of December 31, 2018, the net negative fair value of these CSS amounted to P110.