

26 February 2019

**Securities & Exchange Commission**  
Secretariat Building, PICC Complex  
Roxas Blvd, Metro Manila

**Philippine Stock Exchange**  
Disclosure Department  
3/F PSE Plaza, Ayala Triangle Plaza  
Makati City, Metro Manila

**Philippine Dealing & Exchange Corporation**  
37th Floor, Tower 1, The Enterprise Center  
6766 Ayala Ave. corner Paseo de Roxas  
Makati, 1226 Metro Manila, Philippines

**Attention:**     **Hon. Vicente Graciano P. Felizmenio, Jr.**  
Director, Market and Securities Regulation Department  
Securities & Exchange Commission

**Ms. Janet Encarnacion**  
Head - Disclosure Department  
Philippine Stock Exchange

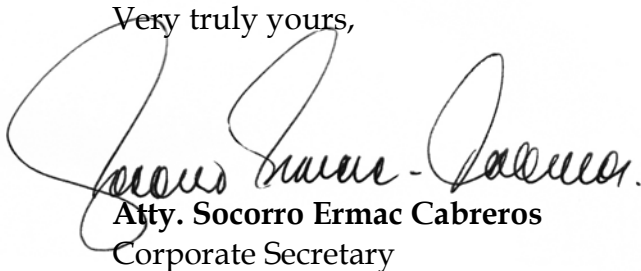
**Atty. Joseph B. Evangelista**  
Head - Issuer Compliance and Disclosure Department  
(ICDD)

*Ladies and Gentlemen:*

We are herewith submitting the attached Definitive Information Statement (SEC Form 20-IS) of our company for your consideration and approval.

Thank you and warm regards.

Very truly yours,



**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION**  
**SEC FORM 20-IS**  
**INFORMATION STATEMENT PURSUANT TO SECTION 20**  
**OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:  
[ ] Preliminary Information Statement  
[ / ] Definitive Information Statement
2. Name of Company as specified in its charter: **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**
3. Country of Incorporation: **Philippines**
4. SEC Identification Number: **A200207283**
5. BIR Tax Identification Code: **006-036-274**
6. Address of principal office: **Stella Hizon Reyes Road, Bo. Pampanga Lanang, Davao City 8000**
7. Company's telephone number, including area code: **(082) 235-8888**
8. Date, time and place of the meeting of security holders:

**March 15, 2019, 2:00 p.m.**  
**Phoenix Petroleum Corporate Headquarters**  
**Stella Hizon Reyes Rd. Bo. Pampanga,**  
**Lanang, Davao City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **February 21, 2019**
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the SRC:

<u>Title of Each Class</u>	<u>Number of Shares</u>
Common Shares, Php1.00 par value	1,403,304,232
Preferred Shares, Php 1.00 par value	20,000,000

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

Yes   X   No           

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange, 1,403,304,232 Common Shares  
20,000,000 Preferred Shares

*To be an indispensable partner in the journey of everyone  
whose life we touch.*



### **NOTICE AND AGENDA**

The Annual Stockholders' Meeting of P-H-O-E-N-I-X Petroleum Philippines, Inc. will be held on the following date and place:

**Friday, March 15, 2019, 2:00 PM**  
**Phoenix Petroleum Corporate Headquarters**  
**Stella Hizon Reyes Rd. Bo. Pampanga,**  
**Lanang, Davao City**

The agenda for the Meeting shall be, as follows:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held last March 15, 2018
4. Report of the President and Chief Executive Officer
5. Approval of the 2018 Audited Financial Statements and 2018 Annual Report
6. Approval of Corporate Actions:
  - A. Proposed Authority for the Corporation or any of its subsidiaries to enter into a Joint Venture Agreement or cooperation with China National Offshore Oil Corporation (CNOOC) to operate and establish various LNG related trade and services under the LNG Integrated Hub Project which includes the operation of an LNG import terminal and gas-fired power plant;
    - a. Proposed Authority to form and organize a new corporation, a wholly-owned subsidiary of the Company to manage the Corporation's LNG interest in the LNG Integrated Hub Project;
    - b. Proposed Authority to invest corporate funds in the initial amount of Php250,000,000.00 for the LNG Integrated Hub Project which shall include the formation of a new corporation.
  - B. Ratification of the Company's corporate actions:
    - a. increase investments in the following wholly-owned subsidiaries:

<u>Name of Subsidiary</u>	<u>Amount of Investment</u>
Subic Petroleum Trading and Transport Inc. (SPTT)	Php 55,800,000.00
Phoenix Global Mercantile, Inc. (PGMI)	22,500,000.00
P-F-L Petroleum Management, Inc.	429,625,000.00
<b>TOTAL</b>	<b>Php 507,925,000.00</b>

**HEAD OFFICE:** Phoenix Bulk Depot, Lanang, Davao City 8000, Philippines  
Telephone: +63 (82) 235-8188  
Fax: +63 (82) 235-8188

**MANILA OFFICE:** 25/F Fort Legend Towers, 3rd Avenue corner 31st St., Fort Bonifacio Global City, Taguig City 1894, Philippines  
Telephone: +632-403-4013  
Fax: +632-403-4009

**CEBU OFFICE:** Phoenix Bulkway Gasoline Station, M.C. Briones Rd., National Highway, Maguikay, Marikina City, Cebu 6014, Philippines  
Tel. No.: +63 (32) 236-8188 / 235-8188

**[www.phoenixfuels.ph](http://www.phoenixfuels.ph)**



- b. investment of corporate funds through acquisition of shares in Action.Able, Inc. and think.able, Limited.
  - c. formation and organization of a new wholly-owned subsidiary in Singapore, **PNX Energy International Holdings, Pte. Ltd. (PEIH)**, to manage the Company's international investments, including expansion of related business activities and operation in the Asia Pacific Region, and the Company's initial investment of USD10,000 intended for PEIH's initial operations.
- 7. Ratification and Confirmation of all Acts and Resolutions of the Board and Management executed in the normal course of business covering the period of 01 Feb 2018 until 31 January 2019
  - 8. Election of the Members of the Board of Directors
  - 9. Appointment of External Auditor
  - 10. Other Matters
  - 11. Adjournment

All stockholders as of **14 February 2019** shall be entitled to participate and vote in the said annual meeting.

  
**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

## PART I.

### INFORMATION REQUIRED IN INFORMATION STATEMENT

#### **A. GENERAL INFORMATION**

##### **Item 1. Date, time and place of meeting of security holders**

- (a)     Date                :     **March 15, 2019**  
          Time                :     **2:00 p.m.**  
          Place                :     **Phoenix Petroleum Corporate Headquarters**  
                                      **Stella Hizon Reyes Rd.**  
                                      **Davao City**
- Mailing                **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**  
          Address:               **Office of the Corporate Secretary**  
                                      **Phoenix Petroleum Corporate Headquarters**  
                                      **Stella Hizon Reyes Road, Bo. Pampanga**  
                                      **Lanang, Davao City 8000**
- (b)     Approximate date on which the Information Statement is first to be sent or given to security holders: **February 21, 2019.**

##### **Item 2. Dissenter's Right of Appraisal**

##### **Procedure for the exercise of Appraisal Right**

Pursuant to Section 81 of the Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in case of any amendment to the articles of incorporation that, (1) in case of amendment to the articles of incorporation, has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (2) in case of lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code, and (3) in case of merger or consolidation. Such appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action by making a written demand on the Company within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares. Failure to make the demand within such period shall be deemed a waiver of the appraisal right.

Within ten (10) days after demanding payment for his shares, a dissenting stockholder shall submit the certificate(s) of stock representing his shares to the Company for notation thereon that such shares are dissenting shares **and proof that such dissenting shareholder has voted against the proposed corporation action in order to exercise his appraisal right.** His failure

to do so shall, at the option of the Company, terminate his appraisal rights. No demand for payment as aforesaid may be withdrawn by the dissenting stockholder unless the Company consents thereto.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Company cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Company and third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment: Provided, further, that upon payment by the Company of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Company.

**THERE ARE NO MATTERS THAT WILL BE PRESENTED FOR SHAREHOLDERS' APPROVAL DURING THE ANNUAL MEETING THAT MAY OCCASION THE EXERCISE OF THE RIGHT OF APPRAISAL.**

**Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

- (a) No director or officer of the Company since the beginning of the last fiscal year, nominee for election as director of the Company, nor any of their associates, have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon during the Annual Meeting, other than election to office.
- (b) No director of the Company has informed the Company in writing that he intends to oppose any action to be taken by the Company during the meeting.

**B. CONTROL AND COMPENSATION INFORMATION**

**Item 4. Voting Securities and Principal Holders Thereof**

- (a) Voting Securities

As of **31 January 2019**, the total number of shares outstanding and entitled to vote on all corporate matters to be acted upon during the Annual Meeting are 1,403,304,232 common shares.

- (b) Record Date

The record date for purposes of determining the stockholders entitled to notice of and to vote at the Annual Meeting is **February 14, 2019**.



(c) Voting Rights and Trust

In the matters to be voted upon in the Annual Meeting, stockholders of record as of **February 14, 2019** shall be entitled to one vote per share in person or by proxy. If he will vote thru a proxy, the By-Laws of the Company requires the submission of the accomplished proxy form to the Corporate Secretary for validation and authentication at least ten (10) days before the date of the Annual Meeting.

The validation of proxies chaired by the Corporate Secretary or Assistant Corporate Secretary and attended by the Stock and Transfer Agent shall be convened at least five (5) days before the Annual Meeting. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be raised during said forum and resolved by the Corporate Secretary. The Corporate Secretary's decision shall be final and binding upon the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the Annual Meeting.

With respect to the election of the members of the Board of Directors, cumulative voting is allowed. A stockholder may vote such number of shares for as many persons as there are directors to be elected; or he may cumulate his shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares; or he may distribute these shares on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

(d) Security Ownership of Certain Record and Beneficial Owners and Management as of **January 31, 2019**.

(1) Security Ownership of Certain Record and Beneficial Owners

As of **January 31, 2019**, the following are the owners of the Company's common stock in excess of five percent (5%) of the total outstanding shares:

Title of Class of Securities	Name/Address of Record Owners and Relationship with Phoenix	Name of Beneficial Owners/Relationship with Record Owner	Citizenship	No. of Shares Held	% of Ownership
Common	Phoenix Petroleum Holdings, Inc. Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City	Record Owner is the direct beneficial owner	Filipino	588,945,630	41.97%
	Majority Shareholder				

Common	ES Consultancy Group, Inc. Unit 1506, 15th/F The Centerpoint Bldg., Julia Vargas cor., Garnet Road, Ortigas Center Pasig City	Record Owner is the direct beneficial owner	Filipino	340,270,980	24.25%
Common	Top Direct Investments Limited	Record Owner is the direct beneficial owner	Filipino	142,000,000	10.12%
Common	Udenna Corporation Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City Shareholder	Record Owner is the direct beneficial owner	Filipino	117,245,918	8.35%
Common	PCD Nominee Corporation (Filipino) 37/F Tower 1, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas, Makati City Shareholder	Record Owner is the indirect beneficial owner	Filipino	138,605,668	9.87%
Common	PCD Nominee Corporation (Non-Filipino) 37/F Tower 1, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas, Makati City Shareholder	Record Owner is the indirect beneficial owner	Filipino	223,221,490	15.90%

As of **January 31, 2019**, there are no beneficial owners under the PCD Nominee Corp. of the Company's common stock in excess of five percent (5%) of the total outstanding shares.

There are NO voting trust agreement entered into by the Company or any of the major stockholders of the Company.

However, the persons are authorized for purposes of this annual meeting to vote for and in behalf of the following stockholders are as follows:

<b>Name of Stockholders</b>	<b>Representative</b>
1. Phoenix Petroleum Holdings, Inc.	Domingo T. Uy
2. Udenna Corporation	Cherylyn C. Uy
3. Udenna Management & Resources Corp.	Igna S. Braga IV
4. PCD Nominees/ Trading Participants	<i>Ultimate Beneficial Owners representing the trading participants shall be made</i>



*available after lapse of the  
Record Date and only after  
submission of their respective  
proxy forms for validation*

## Security Ownership of Management

As of **January 31, 2019**, the security ownership of Management is as follows:

### Common

Title of Class of Securities	Name/Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	% of Ownership
<b>Directors:</b>				
Common	Dennis A. Uy Stella Hizon Reyes Rd., Bo. Pampanga, Lanang, Davao City	4,858,811  direct beneficial owner	Filipino	0.35%
Common	Dennis A. Uy &/or Cherylyn C. Uy Stella Hizon Reyes Rd., Bo. Pampanga, Lanang, Davao City	1,098,099  direct beneficial owner	Filipino	0.08%
Common	Domingo T. Uy Insular Village Phase II, Lanang, Davao City	645,919  direct beneficial owner	Filipino	0.05%
Common	Romeo B. De Guzman Hillsborough, Alabang Village, Muntinlupa City	1,325,746  direct beneficial owner	Filipino	0.09%
Common	J.V. Emmanuel A. De Dios 95 A. Melchor St., Loyola Heights, Quezon City	1,300,819  direct beneficial owner	Filipino	0.09%
Common	Joseph John L. Ong 80 Pola Bay, Southbay Gardens, Paranaque City	596,836  direct beneficial owner	Filipino	0.04%
Common	Consuelo Ynares Santiago Santiago Cruz & Associates Law Office Unit 1702 East Tower PSE Center, Pasig City	1  direct beneficial owner	Filipino	0.00%

Common	Monico V. Jacob 7 <sup>th</sup> flr Philippine First Bldg, 6764 Ayala Ave., Makati City	1 direct beneficial owner	Filipino	0.00%
Common	Frederic C. DyBuncio	1 direct beneficial owner	Filipino	0.00 %
Common	Carolina Inez Angela S. Reyes 135 F. Manalo St., Brgy. Kabayanan, San Juan	1 direct beneficial owner	Filipino	0.00 %
Common	Stephen T. CuUnjieng	1 direct beneficial owner	Filipino	0.00 %

#### Senior Management

Common	Socorro T. Ermac Cabrereros 223 V. Mapa St., Davao City	153,316 direct beneficial owner	Filipino	0.01%
Common	Reynaldo A. Phala Block 5 Lot 20 Pioneers Village	24,830 direct beneficial owner	Filipino	0.00%

#### **Preferred**

Title of Class of Securities	Name/Address of Beneficial Owner	Amount and Nature of Beneficial Ownership			% of Ownership
		Number of Shares			
Directors:		PNX3A	PNX3B	Total	% to total I/O shares
Preferred	<b>Domingo T. Uy*</b> Ph2 Blk 07 Insular Village Phase II, Lanang, Davao City	-	10,000  direct beneficial owner	10,000	0.05%
Preferred	<b>Romeo B. De Guzman*</b> Hillsborough, Alabang	25,000	-	25,000	0.13%

	Village, Muntinlupa City Bacaca, Davao City	Indirect beneficial owner thru Spouse			
Preferred	<b>Consuelo Ynares Santiago</b> Santiago Cruz & Associates Law Office Unit 1702 East Tower PSE Center, Pasig City	-	10,000	10,000	0.05%
			direct beneficial owner		
Preferred	<b>Joseph John L. Ong*</b> 80 Pola Bay, Southbay Gardens, Paranaque City	-	30,000	30,000	0.15%
			direct beneficial owner		

\*named directors are likewise officers of the Company or Corporation per By-Laws

The other executive officers of the Company, Alan Raymond T. Zorrilla – SVP for External Affairs, Business Development and Security; Ericson Inocencio-General Manager for Retail Business; Joselito De Jesus-General Manager for Business Development, Strategies and Portfolio Unit; William M. Azarcon – Vice President for Business Development for Terminal and Depot; Ma. Rita A. Ros – Asst. Vice President for CME; Richard Tiansay-General Manager for Supply & Pricing and Demand, Roy Jimenez-General Manager for Commercial and Industrial Business; Celina I. Matias-AVP for Brand and Marketing, Celeste Marie G. Ong-AVP for Human Resources; Jonarest Z. Sibog, Asst. Vice President for Comptrollership; Debbie A. Uy-Rodolfo, General Manager for Shared Services and Joven Jesus G. Mugar-General Manager for Lubricant Sales and Distribution Business own common shares in scripless form through the Company's Employees Stock Option Plan (ESOP) as of October 31, 2018 as follows:

<b>Names</b>	<b>No. of Shares</b>
Alan Raymond T. Zorrilla	178,000
Ericson S. Inocencio	100,000
Joselito G. De Jesus	112,000
William M. Azarcon	132,000
Ma. Rita A. Ros	114,000
Richard R. Tiansay	124,000
Roy O. Jimenez	96,000
Ma. Celina I. Matias	100,000
Celeste Marie G. Ong	75,000
Jonarest Z. Sibog	57,000
Debbie A. Uy-Rodolfo	60,000
Joven Jesus G. Mugar	44,000

However, some of the officers have disposed their shares through their respective brokers.

The numbers of aggregate shares for all directors and executive officers is ELEVEN MILLION

ONE HUNDRED NINETY-SIX THOUSAND THREE HUNDRED EIGHTY-ONE (11,196,381) for common shares and Seventy Five Thousand (75,000 ) for preferred shares.

Other than those mentioned above, there are no persons holding more than five percent (5%) of a class under a voting trust or any similar agreements as of the date of this Report.

(e) **Change in Control**

On 22 May 2017, the Corporation was informed by its major stockholders, Udenna Corporation (UC) and Udenna Management & Resources Corp. (UMRC) of a joint block sale, using the Philippine Stock Exchange's (PSE) facilities, of a total of 340,270,958 common shares of the Corporation in favor of a certain ES Consulting Group, Inc. (ESGI), a consulting firm that is focused on financial strategy, capital mergers and acquisitions as well as joint ventures. This consists of about 23.77% of the Corporation's outstanding capital stock.

On 04 January 2018, the Corporation received a copy of SEC Form 18-A from a certain Top Direct Investments Limited (Top Direct Investments), a foreign corporation organized in the British Virgin Islands with registered office in Hongkong, SAR through a reporting person identified as Miguel Jose C. Valencia who is holding office at the PSE Center in Ortigas, Metro Manila. The form indicated that Top Direct Investments acquired about 142,000,000 shares in the Corporation representing about 9.92% of the total outstanding capital stock, through a special block sale crossed at the PSE at the price of Php15.00 per share. It further disclosed that the purpose of the acquisition of equity interest in the Corporation is for investment purposes in the petroleum industry and it does not intend to acquire shares of the Corporation for purposes of taking over the same.

**Item 5. Directors and Executive Officers**

- (a) The incumbent members of the Board of Directors and the executive officers of the Company are as follows:

Office	Name	Age	Citizenship
<b>Directors</b>			
Chairman	Domingo T. Uy	72	Filipino
Director/President and Chief Executive Officer	Dennis A. Uy	45	Filipino
Director/Vice-Chairman	Romeo B. De Guzman	69	Filipino
Director/Treasurer and Head of Corporate Finance	Joseph John L. Ong	59	Filipino
Director	Cherylyn C. Uy	39	Filipino
Director	Frederic C. DyBuncio	58	Filipino
Director	Jose Victor Emmanuel A. de Dios	54	Filipino
Director	Stephen T. CuUnjieng	59	Filipino
Independent Director	Carolina Inez Angela S. Reyes	57	Filipino
Independent Director	Consuelo Ynares Santiago	79	Filipino
Director	Monico V. Jacob	73	Filipino

Corporate Secretary/Vice President for Corporate Legal	Socorro T. Ermac Cabreros	54	Filipino
<b>Other Executive Officers</b>			
Chief Operating Officer	Henry Albert R. Fadullon	51	Filipino
Chief Finance Officer	Ma. Concepcion de Claro	61	Filipino
Senior Vice President for Corporate Affairs, Business Development and Security	Alan Raymond T. Zorrilla	49	Filipino
General Manager for Shared Services	Debbie A. Uy-Rodolfo	39	Filipino
Vice President for Business Development for Terminals and Depot	William M. Azarcon	72	Filipino
Asst. Vice President for Engineering	Ignacio Raymund Ramos, Jr.	56	Filipino
General Manager for Supply, Pricing and Demand	Richard C. Tiansay	55	Filipino
General Manager for Retail Sales	Ericson S. Inocencio	44	Filipino
General Manager for Business Development, Strategies and Portfolio	Joselito G. De Jesus	63	Filipino
General Manager for Lubricants Sales and Distribution Business	Joven Jesus G. Mugar	48	Filipino
General Manager for Commercial and Industrial Business	Roy O. Jimenez	56	Filipino
General Manager for Joint Ventures	Joriz B. Tenebro	40	Filipino
Asst. Vice President for CME	Ma. Rita A. Ros	59	Filipino
Asst. Vice President for Treasury	Reynaldo A. Phala	52	Filipino
Asst. Vice President for Comptrollership	Jonarest Z. Sibog	38	Filipino
Asst. Vice President for Brand and Marketing	Celina I. Matias	54	Filipino
Asst. Vice President for Human Resources	Celeste Marie G. Ong	51	Filipino
Asst. Vice President for Retail Operations and NFRB, Network Development & Capital Investments	Arnel G. Alban	51	Filipino
Asst. Vice President for Technical Services and QAPD	Jaime T. Diago, Jr.	63	Filipino
Asst. Corporate Secretary	Gigi Q. Fuensalida-Ty	42	Filipino

***Since the last Stockholder's Meeting, NO officer or director has resigned because of a disagreement with the Company on any matter relating to the Company's issuance, operations, policies or practices.***

## **Directors**

The members of the Board of Directors of the Company are elected during the annual stockholders' meeting to hold office until the next succeeding annual stockholders' meeting and until their successors have been appointed or elected and qualified. The following is the list of the incumbent members of the Board of Directors, and their business experiences during the past five (5) years:

**Domingo T. Uy**  
**Chairman**

Mr. Domingo T. Uy, Filipino, 72 years old, is a co-founder and has been a member of the Board of Directors of the Company since 2002. Mr. Uy was elected Chairman of the Board of Directors of the Company on February 15, 2007. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development. Mr. Uy is actively involved in socio-civic programs and is a Director of the Philippine National Red Cross, Davao Chapter. He is also a Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association - Davao Chapter.

**Dennis A. Uy**  
**Director, President and Chief Executive Officer**

Mr. Dennis A. Uy, Filipino, 45 years old, is the founder of the Company and has served as President and Chief Executive Officer since inception. He is the Chairman and President of Udenna Corporation, the parent company, which has businesses in the shipping, logistics, distribution, real estate, and service industries. Among the subsidiaries of Udenna Corporation are Phoenix Petroleum Holdings, Inc. (PPHI), Udenna Management & Resources Corp. (UMRC), Chelsea Logistics Corp., Udenna Investments BV, and Udenna Trade Corporation. The subsidiaries of Phoenix Petroleum Philippines are Phoenix Global Mercantile, Inc., Subic Petroleum Trading & Transport Philippines, Inc., and PFL Petroleum Management. The subsidiaries of Udenna Management & Resources Corp. (UMRC) are Udenna Development Corporation (UDEVCO), Global Synergy Trade and Distribution Corp., Value Leases, Inc., Udenna Capital, PNX-Udenna Insurance Brokers, Udenna Environmental Services, Udenna Energy Corporation, and F2 Logistics. Under UDEVCO are Phoenix Petroterminals & Industrial Park Corp. (PPIPC), Udenna Tower Corporation, and GoHotels Davao. The Chelsea Logistics Corp. has the shipping businesses Chelsea Shipping Corp. and Trans-Asia Shipping Lines. Mr. Uy is also Chairman of Phoenix Philippines Foundation and Udenna Foundation. He is director of shipping and logistics provider 2Go Group, Inc. through his Udenna Investments BV subsidiary KGLI-NM Holdings Inc. He also serves as independent director of Apex Mining Corp. Mr. Uy is a member of the Young Presidents Organization's Philippine chapter and the Philippine Business for Social Progress. Since November 2011, Mr. Uy has been the Honorary Consul of Kazakhstan to the Philippines. In 2016, he was appointed as the Presidential Adviser on Sports. He is a graduate of De La Salle University with a degree in Business Management.

**Romeo B. De Guzman**  
**Director, Vice Chairman**

Mr. Romeo B. De Guzman, Filipino, 69 years old, was elected Director of the Company in 2009. He is the Vice Chairman and Senior Strategic Adviser, and previously was Chief Operating Officer of the Company, bringing over 40 years of outstanding experience in the

oil industry. Before joining the Company, he was with Pilipinas Shell Petroleum Corporation, where he was Vice President for External Affairs for Asia Pacific and a member of the Board of Directors up to December 2006. He was with the said company holding various management and executive positions. Prior to that, he worked at Getty Oil Philippines Inc. for 10 years. Mr. De Guzman is also the Chairman of the Board of Directors of Mirait Philippines, Inc. He holds a Marketing Management and MBA degrees from San Sebastian College – Manila.

**Atty. Jose Victor Emmanuel A. De Dios**  
**Director**

Atty. J.V. Emmanuel A. De Dios, Filipino, 54 years old, was elected Director of the Company on February 15, 2007 and regular director on March 7, 2008. He is the CEO of GE Philippines, and prior to that was President and CEO of Nido Petroleum Pty Ltd., an Australian Stock Exchange-listed oil and gas company. He was Managing Director of Merritt Advisory Partners, Inc. and was a member of the Board of Directors of Davies Energy Systems, Inc. He also served as Chairman of the Board of the Philippine National Oil Company Exploration Corporation and was former Undersecretary of the Philippine Department of Energy. Atty. De Dios obtained his Master of Laws degree from Harvard Law School and completed his Bachelor of Laws at the Ateneo School of Law.

**Joseph John L. Ong**  
**Director, Treasurer**

Mr. Joseph John L. Ong, Filipino, 59 years old, is the Treasurer of the Company. He is also a member of the Board of Directors of South Pacific, Inc., an affiliate of the Company. Prior to his employment in the Company, he spent almost 10 years at Primeworld Digital Systems, Inc. (Pacific Internet Phils.) initially as Vice President and CFO and eventually as Executive Vice President – Operations and Chief Finance Officer from 2008 - 2009. He also worked for 12 years with Ginebra San Miguel, Inc., then known as La Tondeña Distillers, Inc., the country's second largest beverage company at the time and a listed subsidiary of San Miguel Corporation. He was its Vice President for Treasury from 1995 – 1999, at which time he headed the team that took the company public in 1994 and was primarily responsible for institutional-investor relations. Prior to the San Miguel Group, he held various positions at the Bank of the Philippine Islands and Ayala Investment & Development Corp. (before it merged with BPI) from 1980-1986. He received his Bachelor of Science in Commerce from De La Salle University in 1980.

**Frederic C. DyBuncio**  
**Director**

Mr. Frederic C. DyBuncio, Filipino, 58 years old, was elected as a Director of the Company on May 27, 2017. He is the President of SM Investments Corporation. He is a Director of



Atlas Consolidated Mining and Development Corporation, Premium Leisure Corp., 2GO Group, Inc., and Pacific Online Systems Corporation. Prior to holding the post, he was a career banker who spent over 20 years with JP Morgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Business Management and completed a Master's degree in Business Management from the Asian Institute of Management.

**Cherylyn C. Uy**

**Director**

Ms. Cherylyn Chiong-Uy, Filipino, 39 years old, is a graduate of Business and Finance from Ateneo de Davao University. Ms. Uy is one of the pioneers/incorporators of Udenna Corporation, the ultimate parent company of Phoenix Petroleum, and which has subsidiaries engaged in the petroleum, shipping, logistics, services, and real estate businesses, among others. She is the Corporate Treasurer of Udenna Corporation. Ms. Uy is also one of the Executive Directors of Phoenix Philippines Foundation, Inc., the corporate social responsibility arm of the Company. She is the Corporate Treasurer of Udenna Management and Resources Corporation and Chelsea Shipping Corp.

**Carolina Inez Angela S. Reyes\***

**Independent Director**

Carolina Inez Angela S. Reyes, Filipino, 57 years old, is the owner and Co-Chief Executive Officer of Reyes Barbecue, a popular chain of more than 50 barbecue-focused restaurants founded by her husband, Francisco Reyes. Before taking charge at Reyes Barbecue in 2008, Ms. Reyes spent 20 years as a corporate marketing executive, where she distinguished herself by revitalizing and energizing brands. From 1994 to 1999, she held the following positions in La Tondeña Distillers, Inc.: Vice-President Marketing Services; Vice-President Marketing and Sales Non-Liquor (Bottled Water & Juices), Assistant Vice-President and Area Sales Director. From 1999 to 2002, Ms. Reyes also worked in The Coca-Cola Export Corporation as its Division Marketing Director of Non-Carbonated Beverages Business Unit and Director for Alternative Beverages. From July 2002 to October 2007, Ms. Reyes served as the Vice-President for Marketing of Jollibee Foods Corporation. She took her Masters in Business Administration from De La Salle University Graduate School of Business, graduated from the University of the Philippines (Diliman) with a degree in A.B. Economics, and took a short course at the Culinary Institute of America in New York.

**Stephen T. CuUnjieng**  
**Director**

Stephen T. CuUnjieng, Filipino, 59 years old, was elected as a Director of the Company on January 15, 2018, after being a long-time adviser to the Board. He is Chairman of Evercore Asia Limited, and has substantial and wide experience in investment banking. He has acted as Financial Adviser to several financial transactions of companies involving initial public offerings, major and strategic acquisitions, and mergers of various companies from various industries. He is a member of the Executive Advisory Board for Asia of the Wharton School of Business, and an Independent Director of Century Properties Group and Aboitiz Equity Ventures. He has received several awards and distinctions, such as the Best Independent Advisory Firm in Asia in 2016 for Evercore, and Deals of the Year for various acquisitions. He graduated from Ateneo de Manila University and Ateneo School of Law, and completed an MBA in Finance from the Wharton School of Business.

**Consuelo Yñares-Santiago\***  
**Independent Director**

Ms. Consuelo Ynares-Santiago, Filipino, 79 years old, is a Retired Justice of the Philippine Supreme Court. Justice Santiago (Ret) is currently an independent director of Anchor Insurance Brokerage Corp., a leading insurance brokerage company based in New York, USA, SMC Global Power Holdings, Inc., one of the country's leading power companies which is the power generation unit of San Miguel Corporation, South Luzon Tollway Corp., and Top Frontier Investment Holdings, Inc. She is the Chair Advisory Council of the Office of Alternative Dispute Resolution under the Department of Justice. She earned her Law Degree at the University of the Philippines. After being admitted to the bar, she started her career as a Legal Officer of the Securities and Exchange Commission (SEC). After 5 years of legal practice, she decided to enter the Judiciary and spent 36 years of her career as Municipal Judge, Metropolitan Trial Court judge, Regional Trial Court judge, and Associate Justice of Court of Appeals, before becoming an Associate Justice of the highest court of the country, the Supreme Court. During her time in the Supreme Court, she became the chairperson of the Supreme Court's 3rd Division and also joined various committees, among them the Justice on Wheels Program as Chairperson, the Foreign Travel Committee as Chairperson, the House of Representative Electoral Tribunal (HRET) as Chairperson, and member of the Presidential Electoral Tribunal. She was also a consultant of the Judicial and Bar Council (JBC) and a Bar Examiner of Labor Law and Social Legislation during the 1996 Bar Examination and Taxation Law in the 1998 Bar Examination.

**Monico V. Jacob**  
**Director**

Monico V. Jacob, Filipino, 73 years old, has been a Director of the Company since March 7, 2008. He is President and Chief Executive Officer of the STI Education Systems

Holdings, Inc., a publicly listed company; of STI Education Services Group, Inc.; and of West Negros University. He is also the Chairman of Philplans First, Inc., a pre-need company; of Philippine Life Financial, Inc., a life insurance company, and of Republic Surety and Insurance Co., a non-life insurance Company. He likewise sits as an independent director of Jollibee Foods, Inc., Century Properties, Lopez Holdings, Inc. and 2GO Shipping. He sits as Director of Asian Terminals, Inc., Philhealthcare Systems, Inc., an HMO, Philippine Women's University and IAcademy.

*\* Independent director – the Company is compliant with the Guidelines set forth by the Securities Regulation Code (SRC)) Rule 38 regarding the Nomination and Election of Independent Director. The Company's By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule.*

### **Period of Directorship in the Company**

<b><u>Name</u></b>	<b><u>Period of Service</u></b>	<b><u>Term of Office</u></b>
Dennis A. Uy	since incorporation to present	1 year
Domingo T. Uy	since incorporation to present	1 year
Romeo B. De Guzman	since 2009 to present	1 year
J.V. Emmanuel De Dios	2007 to present	1 year
Cherylyn C. Uy	2004 to 2006, 2013 to present	1 year
Joseph John L. Ong	2013 to present	1 year
Monico V. Jacob	2008 to present	1 year
Consuelo Ynares Santiago	2013 to present	1 year
Carolina Inez A. S. Reyes	2016 to present	1 year
Stephen T. CuUnjieng	January 15, 2018 to present	1 year
Frederic C. DyBuncio	May 27, 2017 to present	1 year

### **Directorships in Other Reporting Companies**

The following are directorships held by the directors and executive officers in other reporting companies during the last five (5) years:

<b>Name of Director</b>	<b>Name of Reporting Company</b>	<b>Position Held</b>
Consuelo Ynares Santiago	Top Frontier Investment Holdings, Inc.	Independent Director
Carolina Inez A. S. Reyes	La Tondeña Distillers, Inc. Coca-Cola Export Corporation Jollibee Foods Corporation	Independent Director

and the following candidates for Independent Directors for 2019-2020 have held directorships in other reporting companies for the last five (5) years:

<b>Name of Director</b>	<b>Name of Reporting Company</b>	<b>Position Held</b>
Nicasio I. Alcantara	ACR Mining Corporation.	Chairman & President
Minoru Takeda	Showa Shell Sekiyu K.K.	Chairman

#### Certificate of Qualification of the Independent Directors

The Company will submit an updated Certificate of Qualification of all independent directors pursuant to the October 20, 2006 notice of the Commission on or before the Company's distribution of the Definitive Information Statement to the security holders on February 21, 2019.

#### Executive Officers

The following is a list of other executive officers and their business experiences during the past five (5) years:

**Henry Albert R. Fadullon**, Filipino, 51 years of age, was appointed Chief Operating Officer of the Company on April 17, 2017. Prior to this, he served Shell Shared Services (Asia) B.V. as General Manager for its global businesses. He has over 25 years of experience in the petroleum industry, having held various roles at Pilipinas Shell Petroleum Corp., a decade of which were spent overseas with postings in Malaysia, Oman, and London. He has a wealth of experience in Retail and B2B performing a variety of frontline and functional roles leading into General Management positions. He completed his BS Industrial Management Engineering, minor in Mechanical Engineering, from De La Salle University.

**Ma. Concepcion F. De Claro**, Filipino, 61 years of age, holds a Bachelor of Science degree in Commerce, Major in Accounting from the Colegio de San Juan de Letran. She has been the Company's Chief Financial Officer since March 2018. She was Director of Alsons Prime Investment Corporation and Alsons Power Holdings Corporation and the Vice-President and Chief Operating officer of Alsons Corporation. She also served as the Director of Limay Energen Corporation and Manila North Harbour Port, Inc. Ms. de Claro also worked with Petron Corporation for several years. She was a Consultant for M&A Projects and a member of the Board of Trustees of Petron Corporation Employees Retirement Fund. She also served as Petron's Vice President for Corporate Planning & Services, Controller for the company and its subsidiaries, and held various positions in

Corporate Planning. In addition, Ms. De Claro also served as a Director of New Ventures Realty Corporation, Las Lucas Development Corporation, Petron Marketing Corporation and Petron Freeport Corporation.

**Alan Raymond T. Zorrilla**, Filipino, 49 years of age, is the Senior Vice President for External Affairs, Business Development, and Security of the Company. Prior to his employment with the Company, he was Chief Legal Counsel of the Unioil Group of Companies where he headed the Legal, Human Resources, and Administrative Departments. He also served as Director for Freeport Services Corporation, a 100% subsidiary of Subic Bay Metropolitan Authority and was once a Legal Consultant of the Department of Environment and Natural Resources. Atty. Zorrilla was engaged in litigation practice with Pangilinan, Britanico, Sarmiento and Franco Law Offices before he entered corporate practice. He formerly worked as Corporate Legal Counsel of publicly-listed Fil-Estate Group of Companies in its Litigation and Labor Department. Atty. Zorrilla completed his law studies at the San Beda College of Law in 1994 and was admitted to the Philippine Bar in 1995. He also took up his masteral studies at the Ateneo Graduate School of Business. He is an Army Reservist and a concurrent Commander (Lt. Colonel) of the Philippine Coast Guard Auxiliary.

**William M. Azarcon**, Filipino, 72 years old, is currently the Vice President for Business Development for Terminals and Depots. Mr. Azarcon has twenty-six (26) years experience in the oil industry, covering engineering operations, retail and distribution of bulk & packed products nationwide. Mr. Azarcon used to work for Pilipinas Shell Petroleum Corporation and served as Field Engineer in Operations nationwide constructing depots & related facilities, i.e, jetties, submarine pipelines, bulk storage tanks, among others. He likewise served as Head of Operations of North Luzon and transferred to Retail Engineering as Retail Engineering Manager nationwide. He also served as RVI (Retail Visual Identity) Manager. After retiring from Shell, Mr. Azarcon engaged in business as Retail Engineering Contractor of Shell. He holds a degree in Bachelor of Science in Mechanical Engineering from Mapua.

**Socorro T. Ermac-Cabrerros**, Filipino, 54 years old, is concurrently the Asst. Vice President for Corporate Legal and Corporate Secretary of the Company. She is also the Corporate Secretary Phoenix Petroleum Holdings, Inc. Prior to joining the Company, she was a Legal Counsel of Philippine National Bank in Davao City. She has worked for the government such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She finished her law degree at the Ateneo de Davao University College of Law. She was President for the Davao City Chapter of the Integrated Bar of the Philippines, Davao City Chapter from 2009-2011 and President of the Davao Lady Lawyers Association from 2000-2002.

**Jonarest Z. Sibog**, Filipino, 38 years old, is the Asst. Vice President for Comptrollership. She joined the company in 2006, starting her career in Procurement which she headed for seven years before moving to Finance. She is a graduate of Ateneo de Davao University with a degree in Bachelor of Science in Accountancy. She finished her Masters in Business Administration at the University of Mindanao where she also earned a few units

in LLB. She is a Certified Public Accountant and is currently a Board of Director of the Association of CPAs in Commerce and Industry (ACPACI) - Davao City Chapter

**Richard C. Tiansay**, Filipino, 55 years old, is the General Manager for Pricing and Demand. Mr. Tiansay has more than 22 years of experience in the oil industry covering domestic and international operations. His last position in Royal Dutch Shell is as Global SAP IT Order to Cash Team Lead in London, U.K. This after being assigned to various key managerial positions not limited in the Philippines but as well as in a number in Asia Pacific and other countries. Mr. Tiansay completed his Bachelor of Science in Mechanical Engineering degree from the University of San Carlos, Cebu City.

**Roy O. Jimenez**, Filipino, 56 years of age is currently the General Manager for Commercial and Industrial Business. Prior to joining the Company he was connected with Chevron Phil. Inc for almost 30 years and handled various National and District Managerial positions, as well as supervisory positions for various trades such as Retail, Commercial/Industrial, Marketing Support, Liquefied Petroleum Gas and Lubricants. He also handled regional position as a Programs Manager and have been the team lead for Philippines in various Chevron Regional projects. He was assigned as a District Manager covering various areas like North Metro Manila/North Luzon, Visayas and Mindanao. He is a licensed Mechanical Engineer and graduated in University of Santo Tomas. He has MBA units in De La Salle University and attended various Leadership and Management programs in Asian Institute of Management, as well as in-house training programs of Chevron in Asia Pacific and South Africa.

**Joselito G. de Jesus**, Filipino, 63 years old, is the General Manager for Business Development, Strategies and Portfolio Unit. Prior to joining the Company, Mr. de Jesus was the Assistant Vice-President for Reseller Trade of Petron Corporation. He joined the oil industry in late 1970's when became a Corporate Planning Analyst, then later on Corporate Planning Manager/Coordinator, of the Philippine National Oil Company (PNOC). Mr. de Jesus also became a Manager in the Corporate Planning Department of PNOC Shipping and Transport Corporation and at the same time, he was also an assistant to the Chairman of PNOC. In the late 90's, Mr. de Jesus transferred to Petron Corporation and stayed with said Company for almost 17 years. He is a graduate of Bachelor of Science in Business Administration Major in Marketing and Finance from the University of the Philippines and holds a Masters in Business Administration from the Ateneo Graduate School of Business.

**Ericson S. Inocencio**, Filipino, 44 years old, is the General Manager for Retail Business. Eric has more than 20 years of extensive experience in the petroleum industry. Prior to joining the Company, he was connected with Chevron Phils. where he held various positions primarily leading the Commercial and Industrial business as District Sales Manager for more than five(5) years and as concurrent National Fleet Cards Sales Manager. He has exposure in marketing support function in charge of developing and executed local & global process/programs which includes profitability modelling. He is a certified Mechanical Engineer from De La Salle University and attended his MBA at Ateneo Graduate School of Business.

**Joven Jesus G. Muja**r, Filipino, 48 years of age, is the General Manager for Lubricants Sales and Distribution Business. He joined Phoenix last May 4, 2015. He brought with Him twelve and a half years of pure lubricant experience from a major petroleum company holding various positions in sales, business development and marketing handling both B2C and B2B. Within those years, he had 2 years assignment in the Asia Pacific Region doing Channel Development Specialist work.

**Maria Rita A. Ros**, Filipino, 59 years old, is the Asst. Vice President for CME. Ms. Ros has more than thirty (30) years of experience in the oil industry covering materials management, supply chain management, production planning, imports-exports, warehousing and logistics. She held various positions in Petron Corporation from 1981 up to 2011 when she handled Biofuels and Special Projects, and Supply Optimization. Ms. Ros set up a personal business before joining Phoenix Petroleum Philippines, Inc. in November 2013. She is a graduate of B.S. Chemical Engineering from the University of the Philippines, and is a licensed Chemical Engineer, and took up Basic Management at the Asian Institute of Management.

**Celina I. Matias**, Filipino, 54 years old, is presently the Asst. Vice President for Brand and Marketing Group of the Company. Ms. Matias has more than 25 years of expertise on strategic marketing and client servicing. She honed her skills from Ogilvy & Mather and McCann Erickson and had worked with local Ad Agency as partner. She handled over 25 local and global brands across different product categories from petroleum, telecoms, real estate, automotive, pharmaceutical and a lot more. She finished Communication Arts major in Advertising & Public Relations in Assumption College.

**Debbie A. Uy-Rodolfo**, Filipino, 39 years old, is presently the General Manager for Shared Services of the Company. Ms. Uy-Rodolfo is currently heading the Company's transition so that it could effectively provide shared administrative services such as Human Resources, Customer Service and others, to the Company and its subsidiaries, and later on its affiliates. She graduated with a degree in Computer Science major in IT from De La Salle University, and finished her Masters in Journalism at Ateneo de Manila University.

**Reynaldo A. Phala**, Filipino, 52 years old, is the Asst. Vice President for Treasury. He joined the Company in 2008 as its Credit and Collection Manager. Before joining the Company, he led a progressive banking career for 17 years, which he started at UCPB. He also worked with the Department of Trade and Industry as Municipal Trade and Industry Officer for a year. He graduated from Mindanao State University-General Santos City with the degree Bachelor of Science in Civil Engineering as a consistent academic scholar and passed the licensure examinations for Civil Engineers in May 1989. He recently finished his Master in Business Administration (MBA) under the Regis Program at the Ateneo Graduate School of Business.

**Celeste Marie G. Ong**, Filipino, 51 years old, is currently the Asst. Vice President for Human Resources. Ms. Ong has more than 20 years of solid human resources management experience from local and multinational companies (Concrete Aggregates



Inc., Van Melle Phils., Fujitsu Computer Products and Optodev, Inc.) Her expertise includes compensation management, talent acquisition, training and development, employee relations/engagement, benefits administration and HRIS. She finished A.B. Psychology from Pamantasan ng Lungsod ng Maynila and took her M.A. in Psychology at University of Santo Tomas. She completed Essilor Management Training course in Singapore & France.

**Gigi Q. Fuensalida-Ty**, Filipino, 42 years old, is presently the Asst. Corporate Secretary of the Company. Prior to her employment with the Company, she was one of the Senior Associates of the Villaraza Cruz Marcelo and Angangco Law Office. For six (6) years, Atty. Fuensalida specialized in Civil, Commercial and Criminal Litigation wherein she developed strategies for complex litigation and actively participated in the prosecution and defense of criminal cases before the regular trial courts, quasi-judicial bodies and the appellate courts. Atty. Fuensalida holds a degree in Bachelor of Arts Major in Political Science from the Ateneo de Manila University. She further obtained her Juris Doctor degree from the same institution and graduated with honors in 2002. Atty. Fuensalida is a member of the Integrated Bar of the Philippines since 2003.

**Ignacio Raymund S. Ramos, Jr.**, Filipino, 56 years old, is the AVP for Engineering. He has more than 25 years of specialized practice in the fuel industry. He previously worked with Shell Philippines (1985 to 2003) and worked his way up to key positions like Special Projects Manager, Head Retail Construction, Retail Engineering Manager and Field Facilities Engineering Manager. He also worked in Enmar Construction Inc. (2004-2009) where his role as General Manager propelled the business in the field of construction and maintenance of bulk oil terminal facilities and equipment for major petroleum companies. Among the projects he managed from 2006-2017 were: SMART Pigging (Intelligent Inspection of Pipelines) Shell Guam Inc.; In Indonesia: Pulau Laut Terminal bulk storage & distribution and jetty facility' PT Banten Energy for the construction of Refrigerated LPG Terminal, New IBT Barge Fuel Loading facility and in Singapore the construction of Lube Oil & Grease Manufacturing Plant. He finished Civil Engineering from the University of the Philippines.

**Arnel G. Alban**, Filipino, 51 years old, has been recently appointed as the Asst. Vice President for Network Development, Non-Fuels Retailing Business and Capital Investment, while concurrently handling the position the Asst. Vice President for Retail Operations. He joined Phoenix in April 2018, moving from Total (Philippines) Corporation as Asst. Vice President for Retail Development and Compliance. He has a solid 25 years experience in the oil industry, starting out as a Business Counselor (or Retail Territory Manager) in 1993 at Caltex (Philippines), Inc. where he stayed for 5 years. In 1998, he moved to Total where he stayed for 20 years, moving in various Sales positions, including a stint as AVP for Retail Development and Compliance. Arnel is a licensed Civil Engineer and graduated from the University of the Philippines.

**Jaime T Diago Jr.**, Filipino, 63 years old, joined Phoenix Petroleum in September 2018 as AVP Technical Service and QAPD. Prior to joining the company, he was connected with

Pilipinas Shell where he served for 32 years holding the following key roles: Fuels Product Quality (PQ) Lead (PH & HK), Fuels PQ Manager (MEA), Fuels Technical Manager, Head Trading & Economics, Marketing Sales Manager, Commercial Development Manager and Lubricants Assistant Supply. Prior to his employment with Pilipinas Shell, Jaime also had six years with Mobil Philippines where he served as Marketing Representative and Technical Service Engineer. He finished BSME from Silliman University and is a licensed Mechanical Engineer.

**Joriz Tenebro**, Filipino, 40 years old, is the General Manager for Joint Ventures. Prior to joining Phoenix in November 2018, he has 15 years of combined business and commercial finance experience with Shell in retail, trading, upstream and integrated gas covering Asia Pacific, Middle East, and Europe. Role includes retail territory management; reporting, planning and economics; finance management; M&A and New Business Development; and internal audit. He was based in Davao, Manila and a combined 10 years in Singapore and Dubai. Prior to joining Shell, he spent a total of 3 years as P&G distributor Finance Manager and PwC Finance Auditor. Most of his key development trainings were in Shell Headquarter in Netherlands and INSEAD France. He graduated from Ateneo de Davao University.

#### Period of Service in the Company

<u>Name</u>	<u>Period of Service</u>
Henry Albert R. Fadullon	April 17, 2017 to present
Ma. Concepcion F. De Claro	May 1, 2018 to present
Joseph John L. Ong	November 3, 2010 to present
Socorro Ermac Cabrerros	July 2, 2006 to present
Jonarest Z. Sibog	March 27, 2006 to present
Reynaldo A. Phala	October 16, 2008 to present
Alan Raymond T. Zorrilla	April 1, 2009 to present
William M. Azarcon	June 1, 2009 to present
Joselito G. De Jesus	March 15, 2011 to present
Richard C. Tiansay	March 1, 2013 to present
Ericson S. Inocencio	February 15, 2014 to present
Roy O. Jimenez	May 11, 2015 to present
Joven Jesus Mugar	May 4, 2015 to present
Ma. Rita A. Ros	November 1, 2013 to present
Celeste Marie G. Ong	July 2, 2012 to present
Debbie A. Uy-Rodolfo	February 1, 2008 to present
Celina I. Matias	July 2, 2012 to present
Gigi Q. Fuensalida	June 1, 2008 to present
Ignacio Raymund Ramos, Jr.	January 16, 2018 to present
Arnel G. Ablan	April 16, 2018 to present
Jaime T. Diago, Jr.	September 3, 2018 to present
Joriz B. Tenebro	November 5, 2018 to present

### Nominations of Directors and Independent Directors for the term 2019-2020

The following are the final nominees who were duly screened by the nomination committee for election to the Board of Directors for the following fiscal year 2019 at the forthcoming Annual Meeting:

1. Domingo T. Uy
2. Dennis A. Uy
3. Romeo B. De Guzman
4. J.V. Emmanuel A. de Dios
5. Minoru Takeda (Independent Director)
6. Cherylyn C. Uy
7. Nicasio I. Alcantara (Independent Director)
8. Consuelo Ynares-Santiago (Independent Director)
9. Monico V. Jacob
10. Frederic C. DyBuncio
11. Stephen T. CuUnjieng

Minoru Takeda, Nicasio I. Alcantara and Consuelo Ynares-Santiago are nominated as Independent Directors based on following qualifications:

1. They have no transaction, affiliations or relations with the Issuer/Corporation
2. Their current business activities are different from the current business activities of the Corporation. Thus, their credentials add diversity in the business backgrounds of the Board of Directors
3. They have and will maintain independent judgment and views with the Board of Directors
4. Except for the 1 share each, they do not own any shares in the Corporation
5. Prior to initially being elected as Directors of the Company, they have not, at any time, rendered any service to the Company.
6. They possess none of the disqualifications of an Independent Director.

Retired Supreme Court Justice Consuelo Ynares-Santiago was nominated as Independent Director by Atty. J.V. Emmanuel A. de Dios. On the other hand, Mr. Nicasio I. Alcantara and Mr. Minoru Takeda were nominated by Ms. Cherylyn C. Uy. Atty. de Dios and Ms. Cherylyn C. Uy or any of the nominated directors are not related to either Retired Justice Santiago, Mr. Alcantara or Mr. Takeda by consanguinity or affinity and has no professional or business dealings with them. Retired Justice Santiago, Mr. Takeda and Mr. Alcantara are neither officers nor substantial stockholders of the Company. They possess the qualifications and none of the disqualifications of independent directors. Retired Justice Santiago, Mr. Alcantara and Mr. Takeda hold only one (1) share each in the Company. Prior to being elected as Director of the Company, they have not, at any time, rendered any service to the Company.

The members of the Nomination Committee are: Justice Consuelo Ynares Santiago (Chairman), Carolina Inez Angela S. Reyes, J.V. Emmanuel A. De Dios and Cherylyn C. Uy.

For the scheduled Annual Meeting, the Committee has screened and evaluated the candidates for Independent Directors based on the Rule 38 of the Securities Regulation Code ("SRC") and the Company's amended By-laws and New Code of Corporate Governance. Amendments to the By-laws of the Company incorporating the provisions of SRC Rule 38 were approved by the SEC on February 19, 2007.

**Nicasio I. Alcantara**

**Nominee-Independent Director**

Nicasio I. Alcantara, Filipino, 76 years old, is the Chairman and President of ACR Mining Corporation and Chairman of Conal Corporation. He currently serves as the Chairman of the Corporate Governance Committee of BDO Private Bank, Inc. and is a member of the Bank's Audit Committee and Related Party Transactions Committee. He is currently a Director of Alsons Corporation, Alsons Development and Investment Corporation and several other prestigious corporations. Prior to this, Mr. Alcantara also held the position of Chairman and President in various corporations, namely, Petron Corporation, Alsons Consolidated Resource Inc., Iligan Cement Corporation, Alsons Cement Corporation, Northern Mindanao Power Corporation, Refractories Corporation of the Philippines, and Alsons Insurance Brokers Corporation. He was also the Chairman of Alsons Prime Investments Corporation. Mr. Alcantara holds a Masters degree in Business Administration (MBA) from Sta. Clara University, California, and a Bachelor of Science degree in Business Administration from Ateneo de Manila University.

**Minoru Takeda**

**Nominee-Independent Director**

Minoru Takeda, Japanese, 65 years old is the Chairman of aNew Energy (an advisory company for Renewables/LNG), Senior Advisor of GLX LNG (LNG Trading Platform Company), Director of Oxalis Chemicals KK, and Sr. Advisor of Uyeno Kosan KK. Mr. Takeda was with ExxonMobil for 22 years and with Royal Dutch Shell group for 14 years. He was the Chairman of the Board of Showa Shell KK, Country Chairman of Shell Group of Companies in Japan, and GM of Shell Upstream International in charge of the ASEAN/India LNG Market Development. For Mobil Oil Corporation, in addition to holding key positions in Japan, he was Director of Mobil Oil New Zealand, and has experience in Global HQ Downstream Corporate Planning. He also spent over 4 years in Deloitte, as Partner of Deloitte Tohmatsu Consulting and served as CEO of Deloitte Tohmatsu Corporate Finance. He holds BS and MS from Keio University and MS from MIT Sloan School of Management. He was a Visiting Researcher at Harvard University, Energy and Environmental Policy Center.

*(For the individual write-ups of the other nominees, please refer to item 5 of this Information.)*

(b) Significant Employees

No single person is expected to make a significant contribution to the Company's business since the Company considers the collective efforts of all its employees as instrumental to the overall success of the Company's performance.

(c) Family Relationships

With the exception of Messrs. Domingo T. Uy and Dennis A. Uy who are related to each other by consanguinity within the first civil degree, Debbie Uy-Rodolfo and Mr. Dennis Uy, who are related to each other by consanguinity within the second civil degree, Cherylyn C. Uy and Dennis A. Uy, who are spouses and related to each other by affinity, Domingo T. Uy and Cherylyn C. Uy who are related to each other by affinity, and Domingo T. Uy and Debbie Uy-Rodolfo who are related to each other by consanguinity within the first civil degree, and Cherylyn C. Uy and Debbie Uy-Rodolfo, who are related to each other by affinity, there are no other family relationships either by consanguinity or affinity up to the fourth civil degree among the directors, executive officers, and persons nominated and chosen by the Company to become directors and executive officers of the Company.

(d) Involvement in Certain Legal Proceedings

The Company's Independent Director, Monico V. Jacob, in his capacity as then Chairman of Petron Corporation, was impleaded in a case together with some government officials for Violation of Republic Act 3019 otherwise known as the Anti-Graft and Corrupt Practices Act involving tax credit payments. The case have been **dismissed** by the Sandiganbayan, Fourth Division, Quezon City in a Resolution dated March 2, 2017.

The Department of Justice (DOJ) filed twenty-five (25) Informations against Dennis A. Uy, President and CEO of the Company, for alleged violations of the Tariff and Customs Code of the Philippines, twenty-two (22) of which were filed with the Regional Trial Court of Davao City, and three (3) Informations filed with the Regional Trial Court of Batangas City.

With respect to the Informations filed with the Regional Trial Court of Batangas City, upon filing by Mr. Uy on September 2, 2013 of an *Omnibus Motion for the Determination of Lack of Probable Cause*, the Regional Trial Court of Batangas City granted said motion on September 17, 2013 and DISMISSED all three (3) Informations. The DOJ filed a *Motion for Reconsideration with Motion for Inhibition* of Judge Ruben A. Galvez, which was subsequently denied on December 6, 2013. On July 7, 2014, the Regional Trial Court of Batangas City issued a Certificate of Finality certifying that its Order dated December 6, 2013, which denied the Motion for Reconsideration and affirmed the Order dated September 17, 2013 which dismissed the 3 Informations filed against Mr. Uy for lack of probable cause, has already become final and executory since no appeal was filed therefrom.

With respect to the Informations filed with the Regional Trial Court of Davao City, on October 4, 2013, the Regional Trial Court of Davao City ordered the DISMISSAL of the criminal cases against Mr. Uy. The subsequent Motion for Reconsideration of the Plaintiff, People of the Philippines, was also denied in an Order dated August 18, 2014. Hence, the People of the Philippines ("Petitioner") filed on October 27, 2014 with the Court of Appeals (CA), Cagayan de Oro City a *Petition for Certiorari* under Rule 65 of the Rules of Court docketed as **CA G.R. SP No. 06500-MINm CA, CDO, 23<sup>rd</sup> Division**. On October 24, 2016, Mr. Uy received a copy of the Decision of the CA dated October 12, 2016 DENYING the Petition for Certiorari. On November 10, 2016, Mr. Uy received a copy of the Motion for Reconsideration filed with the CA.

As of January 25, 2017, the Court of Appeals has DENIED the Petitioner's Motion for Reconsideration and upheld the decision the Court on October 12, 2016.

On 4 April 2017, we received a copy of the Petition for Review on Certiorari dated 27 March 2017 filed by petitioner docketed as GR No. 229705, SC, Manila, 3<sup>rd</sup> Division. To date, we are still awaiting for the Supreme Court to issue a resolution directing us to file COMMENT to the PETITION FOR REVIEW.

Several cases of Grave Coercion, Robbery and Libel were filed against the Sales Team of South Mindanao and other officers, including all the members of the Board of Directors except for Domingo T. Uy, Paul G. Dominguez and Carolina Inez Angela S. Reyes, in relation to the Company's closure and take-over of six (6) Phoenix Fuel Stations in Davao City. To date, the cases have been dismissed by the City Prosecutor's office of Davao City.

Other court cases typical and customary in the course of the business operations of the Company such as those, among others, involving collection, qualified theft, breach of contract and reckless imprudence have been filed by and against the Company, by and against its employees and/or third parties. The results of which will not significantly affect the financial standing of the Company. Other than the above stated, no other significant cases were filed by and against the Company and its subsidiaries.

Except for the above, to the best of the Company's knowledge there has been no occurrence during the past five (5) years up to the date of this Prospectus of any of the following events which are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer, or control person of the Company:

- Any insolvency or bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the insolvency or within two years prior to that time;
- Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

- Any final and executory order, judgment, or decree or any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and
- Any final and executory judgment by a domestic or foreign court or competent jurisdiction (in a civil action), the Commission, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

**There are no other pending significant legal cases as far as records of the Company is concerned.**

(e) **Certain Relationships and Related Transactions**

The Group's related parties include the ultimate parent company, parent company, subsidiaries, stockholders, the Group's key management and others as described below.

The Company has an operating lease agreement with its ultimate parent company, Udenna Corporation, for the use of various properties for its operations and for office space. Furthermore, the Company regularly charters the use of marine tankers from its affiliate, CSC, for the hauling of its fuel products from suppliers' terminals and from its own depots to Company depots and to its customers. These contracted services are made on reasonable arms-length terms as would be obtainable from third party providers. The following are the transactions with related parties:

a.) **Rentals**

The Group has an operating lease agreement with Udenna Corporation, the ultimate parent company. The total rent expense of the Company is presented as follows:

2015	2016	2017	2018	<b>TOTAL</b>
70,723,717.38	75,198,160.90	68,093,074.22	7,106,448.53	221,121,401.03

b.) **Contract of Affreightment**

The Company entered into a Contract of Affreightment with CSC, an affiliate to haul the Company's petroleum supplies for both regional and domestic markets.

c.) **Due to and Due from Related Parties**

The breakdown of due from related parties as of December 31, 2017 and 2018 is as follows:



	2017	2018
<b>PPHI</b>		
Balance at beginning of year		
Additions	-	-
Collections		
	-	-
<b>Balance at end of year</b>		
<b>UMRC</b>		
Balance at beginning of year		
Additions		
Collections		
	-	-
<b>Balance at year-end</b>		
<b>UDEVCO</b>		
Additions		-
Collections		
		-
<b>Balance at end of year</b>		
<b>CISC ( formerly PPIPC)</b>		
Additions		
Reclassification	(496,816,099)	
	-	-
<b>Balance at end of year</b>		

<b>CSC Group Inc.</b>		
Additions	951,417	
Reclassifications		(951,417)
<b>Balance at end of year</b>	<b>500,951,417</b>	<b>500,000,000</b>

#### **PPFI**

Balance beginning of the year	13,256,329	<b>20,239,982</b>
Additions	10,748,633	
Collections	(3,764,980)	(20,181,865)
<b>Balance at end of year</b>	<b>20,239,982</b>	<b>58,117,80</b>

#### **PAPI**

Balance beginning of the year		<b>5,241,249</b>
Additions		
Collections		
<b>Balance at end of year</b>	<b>-</b>	<b>5,241,249</b>

#### **TOTAL**

Balance beginning of the year	1,506,977,925	518,913,926
Additions	211,697,447	5,241,249
Collections/Reclassifications	(1,199,761,452)	(518,855,810)
<b>Balance at end of year</b>	<b>518,913,926</b>	<b>5,299,365</b>

The Group's advances to related parties are presented as Due from Related Parties in the consolidated balance sheet.

### 23.3 Key Management Compensations.

The compensations of key management personnel are broken down as follows:

	2017	2018
Salaries	59,621,546	117,509,743
Honoraria and Allowances	15,072,788	50,361,318
13th Month and Bonuses	5,488,660	9,792,478
SSS, PHIC, HDMF and Others	268,512	1,895,874
	<b>80,451,506</b>	<b>179,559,413</b>

#### Item 6. Compensation of Directors and Executive Officers

The Company's executives are regular employees and are paid a compensation package of twelve (12)-months pay. They also receive performance bonuses similarly to those of the managerial, supervisory and technical employees.

The members of the Board of Directors who are not employees of the Company are elected for a period of one (1) year. The Company pays its non-executive directors a per diem of P30,000.00 for each meeting. There are no other arrangements for which the members of the Board of Directors are compensated.

The members of the Board of Directors are elected for a period of one (1) year.

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the executive officers of the Company are as follows:

#### *Summary of Compensation Table*

##### Projected Compensation of Executive Officers and Directors (in thousand Pesos)

Year ended December 31, 2019

Name	Principal Position	Salaries (in P)	Bonuses / 13 <sup>th</sup> Month / Other Income (in P)	Total (in P)
Dennis A. Uy	President and Chief Executive Officer	48,898	4,074	52,972
Henry Albert R. Fadullon	Chief Operating Officer			
Ma. Concepcion F. De Claro	Chief Finance Officer			
Alan Raymond T. Zorrilla	VP – External Affairs, Business Development and Security			

William M. Azarcon	VP – Business development for terminals and depots			
All other officers and directors as a group unnamed		80,363	6,697	87,060

**Compensation of Executive Officers and Directors (in thousand Pesos)**

**Year ending December 31, 2018**

<b>Name</b>	<b>Principal Position</b>	<b>Salaries (in P)</b>	<b>Bonuses / 13<sup>th</sup> Month / Other Income (in P)</b>	<b>Total (in P)</b>
Dennis A. Uy	President and Chief Executive Officer	<b>44,453</b>	<b>3,704</b>	<b>48,157</b>
Henry Albert R. Fadullon	Chief Operating Officer			
Joseph John L. Ong	Chief Finance Officer			
Alan Raymond T. Zorrilla	VP – External Affairs, Business Development and Security			
William M. Azarcon	VP – Business development for terminals and depots			
All other officers and directors as a group unnamed		<b>73,057</b>	<b>6,088</b>	<b>79,145</b>

**Compensation of Executive Officers and Directors (in thousand Pesos)**

**Year ending December 31, 2017**

<b>Name</b>	<b>Principal Position</b>	<b>Salaries (in P)</b>	<b>Bonuses / 13<sup>th</sup> Month / Other Income (in P)</b>	<b>Total (in P)</b>
Dennis A. Uy	President and Chief Executive Officer	<b>40,412</b>	<b>3,368</b>	<b>43,779</b>
Henry Albert R. Fadullon	Chief Operating Officer			
Joseph John L. Ong	Chief Finance Officer			
Alan Raymond T. Zorrilla	VP – External Affairs, Business Development and Security			
William M. Azarcon	VP – Business development for terminals and depots			
All other officers and directors as a group unnamed		<b>25,452</b>	<b>2,121</b>	<b>27,573</b>

The Directors and Officers of the Company hold no Outstanding Warrants and Options.

Generally, a typical employment contract executed between the Company and its named executive officers has the following terms:

1. Specification of job title, commencement date of employment, work assignment and possible need for reassignment of work or location as the need may arise;
2. A probation period of six months probationary period from commencement of employment. If the job performance is found to be satisfactory, employment shall be converted to regular basis.
3. Salary & Benefits: specifies that the executive shall receive his monthly salary and a guaranteed 13<sup>th</sup> month pay less the necessary government deductions allowed by law such as but not limited to SSS premium, Philhealth, Pag-IBIG contributions. The same section likewise provides that the executive's salary shall be subject to annual review which shall take into consideration his performance and the achievement of a mutually-agreed goals.
4. Exclusivity: The employment contract provides that the executive shall render exclusive service to the Company and the prohibition to work with other companies regardless of whether such work is done outside office hours, without the consent of the Company.
5. Confidentiality: The executive/employee is duty bound to keep all information, materials and records which he or she may access in the course of his/her employment with the Company are confidential in nature and he or she may not disclose or reproduce the same without the consent of the Company.
6. Professional Conduct: The executive concerned is expected to comply with all the policies and procedures which the Company may issue from time to time. It is specifically prohibited to accept any or all kinds of gifts from suppliers and customers without the consent of the Company

### **Compensation Committee**

The Company's Compensation Committee shall be composed of at least three (3) members of the Board, one of whom shall be an Independent Director. It is tasked with establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provides oversight over remuneration of senior management and other key personnel.

The following are the members of the Compensation Committee:

Justice (Ret) Consuelo Ynares Santiago	Chairperson
Dennis A. Uy	Member
Romeo B. de Guzman	Member
Carolina Inez Angela S. Reyes	Member

## Item 7. Independent Public Accountants

The financial statements of the Company were audited by Punongbayan & Araullo for the years ended December 31, 2018, 2017, and 2016. Said external auditor has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and the Professional Regulation Commission.

Punongbayan & Araullo will be recommended for re-appointment at the scheduled Annual Meeting.

Representatives of the firm are expected to be present at the Annual Meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Punongbayan & Araullo was first appointed external auditor of the Company in 2006. The Company is compliant with SRC Rule 68, paragraph 3(b)(IV) (Rotation of External Auditors) and the two year cooling off period. The certifying partner for the examination of the Company's financial statements for the year 2018 is Mr. Ramilito Nañola. The last of the Company's Financial Statement that Mr. Nañola certified was the Company's 2016 and 2017 Financial Statements.

### Audit Fees

The following table sets out the aggregate fees billed for each of the last three (3) fiscal years for professional services rendered by the Company's external auditors.

#### Audit and Related Fees

		Amount in Thousands Php		
Particulars	Nature	2016	2017	2018
Punongbayan and Araullo	Audit of FS for the year 2008 - Parent and Subsidiaries			
Punongbayan and Araullo	Audit of FS for the year 2009 - Parent			

Punongbayan and Araullo	and Subsidiaries Audit of FS for the year 2010 –Parent and Subsidiaries			
Punongbayan and Araullo	Audit of FS for the year 2011 - Parent and Subsidiaries			
Punongbayan and Araullo	Audit of FS for the year 2012 - Parent and Subsidiaries			
Punongbayan and Araullo	Audit of FS for the year 2013 - Parent and Subsidiaries			
Punongbayan and Araullo	Audit of FS for the year 2014 - Parent and Subsidiaries			
Punongbayan and Araullo	Audit of FS for the year 2015 - Parent and Subsidiaries	<b>1,638.18</b>		
Punongbayan and Araullo	Audit of FS for the year 2016 - Parent and Subsidiaries	<b>2,608.84</b>	<b>1,920.00</b>	
Punongbayan and Araullo	Audit of FS for the year 2017 - Parent and Subsidiaries		<b>2,728.00</b>	<b>3,460.80</b>
Punongbayan and Araullo	Audit of FS for the year 2018 - Parent and Subsidiaries			<b>1,904.17</b>
<b>Sub-total</b>		<b>4,247.02</b>	<b>4,648.00</b>	<b>5,364.97</b>
<b>Tax Advisory Services</b>				
Sycip, Gorres and Velayo	Tax Consultancy	155.07	120.18	120
<b>Sub-total</b>		<b>155.07</b>	<b>120.18</b>	<b>120</b>
<b>All Other Fees</b>				
Entia Accounting Office	Professional Fee for BOI Registration of Depot Facilities	187.5	1,526.63	2,885.8



Punongbayan and Araullo	Professional Fee for Special Audit, Transfer Pricing, tax Compliance for PLPI and Due Diligence Engagement		5,557.75	
<b>Sub-total</b>		<b>187.5</b>	<b>7,084.38</b>	<b>2,885.80</b>
<b>GRAND TOTAL</b>		<b>4,589.59</b>	<b>11,852.56</b>	<b>8,370.77</b>

## Audit Committee and Policies

Under the Company's By-laws, the Audit Committee is responsible for, among others, the setting-up of an internal audit department and considers the appointment of an internal auditor as well as the independent external auditor, the audit fees and any question of resignation or dismissal, and the review of the quarterly, half-year and annual financial statements before their submission to the Board of Directors.

In accordance with the Company's By-laws and Manual of Corporate Governance, in 2007, the Company formed its Audit Committee. The Company's Audit Committee shall be composed of at least three (3) members of the Board, preferable with accounting and finance background, one of whom shall be an Independent Director and another should have related audit experience. The chairman of the Audit Committee should be an independent director and he should be responsible for inculcating in the minds of the members of the Board the importance of management responsibilities in maintaining a sound system of internal control and the Board's oversight responsibility.

The following are the members of the Audit Committee: Carolina Inez Angela S. Reyes (Independent Director) as Chairman, Consuelo Ynares Santiago, Domingo T. Uy as members.

The Internal Audit systems of the Company are in place since 2008 but these auditing tools are strengthened this year. The Internal Audit's role and responsibilities are defined in the Audit Charter approved by the Board of Directors. Primarily, it assists the Audit Committee of the Board in fulfilling its oversight responsibility to the shareholders by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and internal control processes.

Internal Audit, in fulfilling its role, performs the following general functions: 1.) evaluating the Company's governance processes including ethics-related programs; 2.) performing an objective assessment of the effectiveness of risk management and internal control framework, identifying risk exposures and recommending strategies to mitigate them; 3.) evaluating the reliability and integrity of financial statements and the financial reporting process; 4.) analyzing and evaluating business processes and associated controls; 5.) determining compliance with applicable laws and regulations.

## Changes In and Disagreements With Accountants

The Company has not had any disagreement with its previous and current external auditor/independent public accountant on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

## Item 8. Compensation Plans

No action is to be taken by the Company with respect to any compensation plans.

### Employee's Stock Options Plan

On June 22, 2011, the Commission has approved the application for exemption from the registration requirement of the Securities Regulations Code of the Company for the proposed issuance of 24,493,620 common shares for the Company's Employees Stock Options Plan (ESOP).

On May 14, 2014, the Philippine Stock Exchange (the Exchange) has approved the listing of 24,493,620 Common shares pertaining to the Company's Employee Stock Option Plan (ESOP);

On July 26, 2017, the Company, through its Stock Transfer Agent, implemented for the first time the Corporation's ESOP after its vesting period for 1 year. For the first tranche, the Company issued additional 2,160,000 PNX Common shares to qualified employees pursuant to the Employee Stock Option Plan (ESOP) in scripless form and on November 15, 2017, the company issued additional 601,000 PNX Common shares at the price of Php5.68 per share.

As of January 31, 2019, a total of 4,720,800 ESOP shares have been exercised and subscribed by the company's grantees.

As of February 20, 2019, the Company's closing share price is at Php 11.80, with a market capitalization of approximately Php 16,558,989,937.60.

The ESOP was granted to the following persons:

- a) Dennis A. Uy, Chief Executive Officer
- b) top 4 executives
- c) all current executive officers as a group
- d) there are no directors who were granted any ESOP shares of the Corporation since ESOP shares are granted only to regular employees
- e) there are no persons who receive or is to receive 5% of the ESOP
- f) there are no current directors who are not executive officers who received or was granted any ESOP shares
- g) all other employees as a group

<b>ESOP Grantee</b>	<b>No. of Shares</b>
Top 5 Executives:	1,318,000
Other Executive Officers	1,104,000
All qualified employees	2,298,800
<b>TOTAL</b>	<b>4,720,800</b>

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities Other than for Exchange**

There are no authorization or issuance of securities other than for exchange for outstanding securities for the registrant.

### **Item 10. Modification or Exchange of Securities**

No action is to be taken by the Company with respect to the modification of any class of securities of the Company or the issuance or authorization for issuance of one class of securities of the Company in exchange for outstanding securities of another class.

### **Item 11. Financial and Other Information**

The Management Report is attached herein as **Annex B** and the Annual Financial Statements for Period ended December 31, 2018 is attached herein as **Annex “C”**;

### **Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

There are no transactions to be taken up by the Company with respect to any transaction involving mergers, consolidations, acquisitions, and similar matters.

### **Item 13. Acquisition or Disposition of Property**

#### **Acquisition of 74.9% share in Action.Able, Inc. and think.able, Limited.**

For ratification is the Company’s acquisition of 748,749 common shares or 74.9% of Action.Able, Inc. (AA) from Wildlemon, Inc. and other individual shareholders; and 13,410 shares or 74.9% of think.able, Limited (TA), from Seawood Prime Limited, for a total consideration of Seventy-One Million Nine Hundred Ninety Five Thousand Six Hundred Fifty One Pesos and Sixty Two Centavos (Php 71,995,651.62). The Company used the Discounted Cash Flow Method in determining the value of the acquisition of shares.

Action.Able, Inc. is a three year old, Philippines based, digital payment platform which enables and facilitates financial transactions between a merchant, who avails and uses the service, and his customers, who uses the platform to purchase, buy, or pay all kinds of prepaid loads, bills, and money remittances through a single Point of Sale device. Think.able, Limited on the other hand is a Hong Kong based entity that owns and holds the trademarks and copyrights used by Action.Able, Inc. in its operations and devices, including the trademark for “Pos!ble.net”, the more popular name for which the devices are known.

The acquisition of Pos!ble.net, through AA and TA, shall support the business operations of the Company as an online payment platform, aside from synergies on its retail network development for its various fuel and petroleum products, as well as its subsidiaries and affiliates, such as Philippine FamilyMart CVS, Inc. and Phoenix LPG Philippines, Inc.

#### **Item 14. Reclassification of Accounts**

*(Please refer to Note 2 of the Notes to the Financial Statements found in the Company's Audited Financial Statements, included herein as Annex C).*

#### **D. OTHER MATTERS**

#### **Item 15. Action with Respect to Reports and Other Proposed Action**

1. Approval of the Minutes of the Annual Stockholders' Meeting held last 15 March 2018.
2. Report of the President and Chief Executive Officer
3. Approval of the 2018 Audited Financial Statements and 2018 Annual Report
4. Corporate Actions:
  - A. Proposed Authority for the Corporation or any of its subsidiaries to enter into a Joint Venture Agreement or cooperation with China National Offshore Oil Corporation (CNOOC) to operate and establish various LNG related trade and services under the LNG Integrated Hub Project which includes the operation of an LNG import terminal and gas-fired power plant;
  - a. Proposed Authority to form and organize a new corporation, a wholly-owned subsidiary of the Company to manage the Corporation's LNG interest in the LNG Integrated Hub Project;
  - b. Proposed Authority to invest corporate funds in the initial amount of Php250,000,000.00 for the LNG Integrated Hub Project which shall include the formation of a new corporation.

- B. Ratification of the Company's corporate actions:
- a. increase investments in the following wholly-owned subsidiaries:

<b>Name of Subsidiary</b>	<b>Amount of Investment</b>
Subic Petroleum Trading and Transport Inc. (SPTT)	Php 55,800,000.00
Phoenix Global Mercantile, Inc. (PGMI)	22,500,000.00
P-F-L Petroleum Management, Inc. (PPMI)	429,625,000.00
<b>TOTAL</b>	<b>Php 507,925,000.00</b>

- b. investment of corporate funds through acquisition of shares in Action.Able, Inc. and think.able, Limited.
- c. formation and organization of a new wholly-owned subsidiary in Singapore, **PNX Energy International Holdings, Pte. Ltd. (PEIH)**, to manage the Company's international investments, including expansion of related business activities and operation in the Asia Pacific Region, and the Company's initial investment of USD10,000 intended for PEIH's initial operations.

5. Ratification and Confirmation of all Acts and Resolutions of the Board and Management executed in the normal course of business covering the period of 01 February 2018 until 31 January 2019 as set forth in **Annex "A."**
6. Election of the Members of the Board of Directors
7. Election of External Auditor.

Aside from the Election of the Members of the Board of Directors, election and appointment of the External Auditor, Approval of the 2018 Financial Statements and Annual Report, the approval Minutes of the Minutes of the previous year's Annual Stockholders' Meeting, and the items of Corporate action mentioned above, there are no other items that was discussed and approved by the Stockholders in the 2018 Annual Stockholders' Meeting.

Below was the agenda of the 2018 Annual Stockholders' Meeting held in the Company's Corporate Headquarters in Davao City.

## NOTICE AND AGENDA

(Amended)

The Annual Stockholders' Meeting of P-H-O-E-N-I-X Petroleum Philippines, Inc. will be held on the following date and place:

**Thursday, March 15, 2018, 2:00 PM**  
**Phoenix Petroleum Corporate Headquarters**  
**Stella Hizon Reyes Rd.**  
**Lanang, Davao City**

The agenda for the Meeting shall be, as follows:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held last March 15, 2017
4. Report of the President and Chief Executive Officer
5. Approval of the 2017 Audited Financial Statements and 2017 Annual Report
6. Corporate Actions:

- a) Proposed Amendment of Articles of Incorporation particularly Article II on Secondary Purpose to include and read as follows:

"SECOND: That the purposes for which the corporation is formed are as follows:

### "PRIMARY PURPOSE

X x x x x x x x x

### SECONDARY PURPOSE

1. X x x x x x x
2. X x x x x x
3. X x x x x
4. X x x x x
5. To enter into any lawful arrangements for sharing of profits, union of interest, utilization or such other paramount agreements, reciprocal concession, or cooperation with any corporation, association, partnership, syndicate, entity, person or government, municipal or public authority, domestic or foreign, including execution of management contracts with and for its subsidiaries, affiliates and other corporations, in the carrying on of any transaction as may deemed necessary, convenient, or incidental in the carrying out of any of the purpose of the corporation.
6. X x x x x

7. To aid in any lawful manner, by loan, subsidy, guaranty or otherwise, any corporation whose stocks, bonds, notes, debentures or other securities or obligations are held or controlled, directly or indirectly, by the Corporation, and to do any and all lawful acts or things necessary or desirable to protect, preserve, improve or enhance the value of such stocks, bonds, securities or other obligations or evidences of indebtedness, and to guarantee the performance of any contract or undertaking of any person, partnership, association or corporation in which the Corporation is or becomes interested.

B. X x x x x

- b) Proposed approval and authority to enter into and execute Management Contracts with its corporate subsidiaries, ie., **Phoenix LPG Philippines, Inc., PNX Petroleum Singapore PTE Ltd. and Philippine FamilyMart CVS, Inc.** and other subsidiaries;
- c) Proposed Investment of Corporate Funds consisting of Php110,000,000.00 of the Authorized Capital Stock of the Joint Venture Corporation with TIPCO Asphalt\*Public Company Limited and Carlito B. Castrillo of PhilAsphalt Development\*Corp. for the manufacture, storage and distribution of bitumen and bitumen-related products;
- d) Ratification of the acquisitions of 100% shares in the following corporation:
- Petronas Energy Philippines, Inc. (PEPI), Duta Inc. (Duta) and Kaparangan Inc. (Kaparangan)
  - Philippine FamilyMart CVS, Inc. (PFM)
7. Ratification and Confirmation of all Acts and Resolutions of the Board and Management executed in the normal course of business covering the period of 01 Feb 2017 until 31 January 2018
8. Election of the Members of the Board of Directors
- a) In the event of re-election of Atty. Monica V. Jacob, proposed approval to elect him from Independent Director to regular director
9. Appointment of External Auditor
10. Other Matters
11. Adjournment

All stockholders as of **14 February 2018** shall be entitled to participate and vote in the said annual meeting.

  
Atty. Socorro Ermac Cabreros  
Corporate Secretary

**Item 16. Matters Not Required to be Submitted**

There are no actions to be taken with respect to any matter, which are not required to be submitted to a vote by security holders.

**Item 17. Amendment of Articles of Incorporation, By-laws or Other Documents**

There are no proposed amendment to the Articles of Incorporation or By-Laws of the Corporation that will be submitted to the stockholders for approval.

**Item 18. Other Proposed Action**

**Authority for the Company or any if of its subsidiaries to enter into a Joint Venture with China National Offshore Oil Corporation (CNOOC), establishment of a new Corporation to manage the Company's interest in the said Joint Venture and to invest an initial amount of Php 250,000,000.00 for the Project.**

For Stockholders' approval is the proposed authority of the Company or any of its current or future subsidiaries to enter into a Joint Venture Agreement or Cooperation with CNOOC for the establishment and operation of various Liquefied Natural Gas (LNG) related trade and services under the LNG Integrated Hub Project which includes the operation of an LNG import terminal and gas-fired power plant.

In line with the objectives stated above, for stockholders' approval is the proposed authority to form and organize a new corporation, a wholly-owned subsidiary of the Company to manage the Corporation's LNG interest in the LNG Integrated Hub Project. Also, the proposed authority to invest corporate funds in the initial amount of Php 250,000,000.00 for the LNG Integrated Hub Project which includes the formation of the new corporation stated above.

CNOOC is the largest offshore oil and gas company in China and also one of the largest independent oil and gas exploration and production companies in the world. CNOOC has the breadth of expertise and experience in the industry. It has over 7,000 employees globally and assets close to US\$25 billion. In China, it has built nine LNG receiving terminals, 5,043km of long distance pipeline networks, and six natural gas fired power plants. It also has stakes in major LNG projects in Australia with partners such as Chevron, Shell, BP, and Mitsui.

In the proposed Joint Venture, the Company's to be established wholly owned subsidiary shall acquire 40% of the shares in Tanglawan Philippine LNG Inc., the entity granted by the Department of Energy the "Notice to Proceed" for the construction of an LNG Integrated Hub here in the Philippines. The subsidiary also intends to acquire 60% share in the property holding company for the LNG Integrated Hub, Liwanag Philippine Property Management, Inc. In addition the Company also intends to acquire a share when the Joint Venture establishes a LNG Powered Power Plant.



The Joint Venture Project marks the Company's foray into the LNG sector. Liquefied Natural Gas (LNG) is the cleaner and more environmentally friendly alternative to other sources of fuel such as coal, diesel or industrial fuel oil used by conventional power plants. This LNG facility will help support the demand for clean, low-cost, and environment-friendly energy source in the Philippines, and contribute to the sustainable development of the Philippine economy.

**Increase investments in the Company's wholly-owned subsidiaries, Subic Petroleum Trading and Transport, Inc. (SPTT), Phoenix Global Mercantile, Inc. (PGMI) and P-F-L Petroleum Management, inc. (PPMI).**

For ratification is the Company's additional investment in its wholly-owned subsidiaries as follows:

<b>Name of Subsidiary</b>	<b>Amount of Investment</b>
Subic Petroleum Trading and Transport Inc. (SPTT)	Php 55,800,000.00
Phoenix Global Mercantile, Inc. (PGMI)	22,500,000.00
P-F-L Petroleum Management, Inc. (PPMI)	429,625,000.00
<b>TOTAL</b>	<b>Php 507,925,000.00</b>

*Subic Petroleum Trading and Transport Phils., Inc. (SPTT)* incorporated on February 20, 2007 and is a wholly owned subsidiary of PPPI. It is engaged in the buying and selling, supply and distribution, import and export, storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use. Its primary function to date is to service the aviation fuel importation of PPPI for Cebu Pacific which makes use of the SBMA Freeport to avail of tax incentives.

SPTT imports fuel via Letter of Credit utilizing the shared credit facilities of PPPI with some of its banks. Due to the capital deficiencies on SPTT's balance sheet, banks increase the interest cost or cause the temporary unavailability of the credit facility to SPTT. The additional investment shall be utilized to correct the capital deficiencies thus reducing interest costs and increase the availability of credit facilities.

*Phoenix Global Mercantile Inc. (PGMI)* was incorporated on July 31, 2006 and is a wholly-owned subsidiary of PPPI. It is engaged in the sale and distribution of all kinds of transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation.

The additional investment shall be utilized to correct capital deficiencies and to support the expansion of its distribution network.

*PFL Petroleum Management Inc. (PPMI)* was incorporated in January 31, 2007 and is a wholly-owned subsidiary of PPPI. Its primary purpose is to engage in and carry on the business of organizing, managing, administering, running and supervising the operations and marketing of various kinds of services-oriented companies such as petroleum service stations, hauling companies and such other companies desirous of strengthening and establishing their operation processes, except management of funds, securities and portfolio and similar assets of managed utilities.

The additional investment shall be utilized to correct capital deficiencies and to support the expansion and establishment of additional stations under its management.

### **Formation of a wholly-owned subsidiary, PNX Energy International Holdings, Pte. Ltd. (PEIH)**

For ratification is the establishment and organization of a new wholly-owned subsidiary in Singapore, PNX Energy International Holdings, Pte. Ltd., to manage, the Company's international investments, including expansion of related business activities and operation and the Company's initial investment of USD 10,000.00.

The Company is currently exploring investments in regional markets such as Vietnam, Indonesia, Myanmar, Thailand and Australia. As the company expands regionally, it requires an appropriate corporate structure to ensure tax efficiency, a stable and fair legal environment, world class infrastructure, and access to high quality international skills, thus the need to establish PEIH.

Singapore was the preferred location because of the following advantages:

- a. Excellent financial and IT infrastructure and pro-business environment
- b. Major international air and sea hub
- c. Flexible tax regime and designed to support business
- d. Transparent and fair legal system and various dispute resolution channels
- e. No thin capitalization rules

Other than holding shares in other foreign subsidiaries and generating passive investment income, PEIH may also carry out commercial activities, such as conducting supply chain activities.

The initial investment of USD 10,000.00 shall be used to establish PEIH and to shoulder the initial administrative and operational expenses of the company.

### **Item 19. Voting Procedures**

Under the Corporation Code, the affirmative vote of stockholders representing at least two thirds (2/3) of the outstanding capital stock of the Company shall be necessary for the approval of the proposed amendment to the Articles of Incorporation and the investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

Except in cases provided above, or where the law provides otherwise, all matters subject to vote shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

Stockholders of record are entitled to one (1) vote per share. There is no manner of voting prescribed in the By-Laws of the Company. Hence, voting may be done by *viva voce*, raising of hands or by balloting.

The external auditor of the Company, Punongbayan & Araullo, will validate the votes when voting is done by secret ballot. Likewise, Punongbayan & Araullo will count the number of hands raised when voting by show of hands is done.

The following items will be included in the agenda for the meeting:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held last March 15, 2018
4. Report of the President and Chief Executive Officer
5. Approval of the 2018 Audited Financial Statements and 2018 Annual Report
6. Corporate Actions:
  - A. Proposed Authority for the Corporation or any of its subsidiaries to enter into a Joint Venture Agreement or cooperation with China National Offshore Oil Corporation (CNOOC) to operate and establish various LNG related trade and services under the LNG Integrated Hub Project which includes the operation of an LNG import terminal and gas-fired power plant;
    - a. Proposed Authority to form and organize a new corporation, a wholly-owned subsidiary of the Company to manage the Corporation's LNG interest in the LNG Integrated Hub Project;
    - b. Proposed Authority to invest corporate funds in the initial amount of Php250,000,000.00 for the LNG Integrated Hub Project which shall include the formation of a new corporation.
  - B. Ratification of the Company's corporate actions:
    - a. increase investments in the following wholly-owned subsidiaries:

<b>Name of Subsidiary</b>	<b>Amount of Investment</b>
Subic Petroleum Trading and Transport Inc. (SPTT)	Php 55,800,000.00
Phoenix Global Mercantile, Inc. (PGMI)	22,500,000.00
P-F-L Petroleum Management, Inc. (PPMI)	429,625,000.00

**TOTAL**

**Php 507,925,000.00**

- b. investment of corporate funds through acquisition of shares in Action.Able, Inc. and think.able, Limited.
  - c. formation and organization of a new wholly-owned subsidiary in Singapore, **PNX Energy International Holdings, Pte. Ltd. (PEIH)**, to manage the Company's international investments, including expansion of related business activities and operation in the Asia Pacific Region, and the Company's initial investment of USD10,000 intended for PEIH's initial operations.
- 7. Ratification and Confirmation of all Acts and Resolutions of the Board and Management executed in the normal course of business covering the period of 01 Feb 2018 until 31 January 2019
  - 8. Election of the Members of the Board of Directors
  - 9. Appointment of External Auditor
  - 10. Other Matters
  - 11. Adjournment


*(signature page follows)*

## SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct.

This report is signed in Davao City on **22 February 2019**.

**P-H-O-E-N-I-X Petroleum Philippines, Inc.**



**SOCORRO T. ERMAC CABREROS**  
Corporate Secretary

# ANNEX A

<b>ACTS AND RESOLUTIONS OF THE BOARD OF DIRECTORS February 1, 2018 to January 30, 2019</b>	
5 Feb 2018	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b> that the Board of Directors authorized and empower, the Corporation to respond to, continue or commence any civil and/or criminal action in order to protect and advance the assets, rights and interests of the Corporation; <b>RESOLVED FURTHER</b>, To authorize, designates and appoints the Corporation's Corporate Secretary and VP for Corporate Legal, <b>SOCORRO ERMAC-CABREROS</b> and/or Network Planner Manager <b>FIDEL ALOBA</b>, and/or Handling Counsel <b>Atty. INNOCENCIO DELA CERNA, JR of the LAW FIRM OF DELA CERNA &amp; ASSOCIATES LAW OFFICE</b> to appear and represent the Respondents Phoenix Petroleum Philippines, Inc. during the Judicial Dispute Resolution (JDR) before Regional Trial Court Branch 17, CEBU CITY, for the purposes of commencing and responding to any actions necessary for the protection of its rights with regards to Civil Case No. R-CEB-18-00429-CV entitled "<b>Sps: Ricardo Alba &amp; Emilie R. Alba, Sps. Jules Alexander Y. Yu &amp; Reggie Ong vs PPPI &amp; et.,al</b>"</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, as it hereby resolved <b>P-H-O-E-N-I-X Petroleum Philippines Inc.</b>, as it hereby authorized and empowered to apply, transact and process for Environmental Compliance Certificate (ECC) with Department of Environment and Natural Resources (DENR) and other necessary permits with local agencies/entities relative to the operations of Aviation Staging Facilities; <b>RESOLVED FURTHER</b>, the Corporation authorized <b>Terminal Manager Ariston Curayag</b>, to sign, execute, deliver, receive and receipt for and in behalf of the Corporation.</li> </ul>
5-March-2018	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, as it is hereby resolved that <b>P-H-O-E-N-I-X Petroleum Philippines Inc.</b>, as it authorized and to enter exchange transactions including Spot, Forwards (Deliverable and Non-Deliverable) and FX swaps, Interest Rate Swap with Phil. National Bank.</li> <li>• <b>RESOLVED FURTHER</b>, to sign and execute deliver all transactions defined in the foregoing paragraph, singly or by the sole or singular account, all other transactions namely, to sign execute, and deliver any and all documents for and on behalf of the Corporation, the Loan Agreements, and all notices, certifications, instruments, deeds and other documents and to perform such further acts, in order to effectuate the foregoing matters can be completed, negotiated and delivered.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, that <b>SUMITOMO MITSUI BANKING CORPORATION – MANILA BRANCH</b> ("BANK") is hereby designated as the depository of the moneys and funds of the Corporation, for such purpose an account or accounts in any type and currency (the "ACCOUNT") in the name of the Corporation to be opened and maintained with the Bank, in accordance with such terms and conditions as may be prescribed by the Bank (including without limitations the Master Terms and Conditions for Bank Accounts), as may be amended from time to time by the Bank.</li> </ul>
5-March-2018	<ul style="list-style-type: none"> <li>• To transact, process and claim for and in behalf of the Corporation with the (1) City Assessor's and/or Treasurers Office for the property tax clearance and certificates relative to the transfer of the title cover in Katipunan Villanueva, Province of Misamis Oriental pursuant to a Deed of Sale executed by and between Power Synthetic Rubber Manufacturing Corporation and <b>P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b> (2) the Office of Registry of Deeds for the transfer of previous titles to the new owner; <b>CHERRY PACQUIAO</b> authorized and empowered to sign, deliver, receive and receipt for and in behalf of the Corporation;</li> </ul>
	<ul style="list-style-type: none"> <li>• To enter, negotiate and transact with registered owners for the lease over a parcel/s of land situated in Brgy. Mactan City of Lapu-Lapu, Cebu Island of Mactan and Registry of Deeds for LAPU-LAPU City, for purpose of establishing gasoline station facility; empower its General Manager for Retail Business <b>ERICSON S. INOCENCIO</b>;</li> </ul>
3-April 2018	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, as it hereby resolved that <b>P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b> Be hereby authorized and empowered to transact and enter into a Charter Agreement with PNX-Chelsea Shipping Corp. Over vessel "M/T Chelsea Denise II" for a period of SIX (6) years; <b>RESOLVED</b> and hereby authorized <b>JOHN HENRY YAP</b> Company's</li> </ul>

	Supply Manager to any all foregoing transaction shall be negotiate concluded, obtained and/or contracted.																
5-April-2018	<ul style="list-style-type: none"><li><b>RESOLVED</b>, as it hereby resolved that <b>P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b> authorized and empowered to apply and request for the CAR STICKER registration of the Company's Service Vehicle with Park Terraces which vehicle is particularly described as: Make/Type: Toyota/Van Series: Alphard 3.5L WP Plate #: DTU 11 OR #: 000020111316642 CR#: 12053920-4</li></ul>																
3-May-2018	<ul style="list-style-type: none"><li><b>RESOLVED</b>, that PHOENIX be, as it is hereby authorized to participate in the bidding of <b>SUPPLY and DELIVERY of DND-Wide Petroleum, Oil &amp; Lubricant (POL)</b> for Calendar 2018, that if awarded the tender shall enter into a contract with the <b>DEPARTMENT OF NATIONAL DEFENSE</b>; Therewith hereby appoint any one of the our officers <b>HENRY ALBER FADULLON (CHIEF OPERATION OFFICER), ROY O. JIMENEZ (GEN. MANAGER FOR COMMERCIAL &amp; INDUSTRIAL BUSINESS), ERICSON S. INOCENCIO (GEN. MANAGER FOR RETAIL BUSINESS) RICHARD TIANSAY (GEN. MANAGER FOR PRICING AND DEMAND)</b>, acting as duly authorized and designated representative of <b>P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b></li></ul>																
4-May-2018	<ul style="list-style-type: none"><li><b>RESOLVED</b>, as it hereby resolved that <b>P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b> To enter into Contract of Lease over property situated in Quezon City or the housing accommodations under such terms and conditions which may be the best interest of the Corporation; <b>RESOLVED</b> Further, that the Corporate Legal Manager ATTY. ROSALIO ROQUE II to negotiate the terms of the said Contract, as well as to sign, execute deliver, receive and receipt in behalf of the Corporation;</li></ul>																
	<ul style="list-style-type: none"><li><b>RESOLVED</b>, that the Corporation appoints and authorizes, as it hereby appoints the following officers MARIA RITA A. ROS AVP for Supply and JOHN HENRY C. YAP Manager for Supply; the authorized representatives/signatories in the application of business registration, import permits &amp; clearances, online application and all other permits and licenses with various government units; to sign execute and deliver any and all documents in the name of the Corporation in connection therewith or the like including signing of the relevant documents; <b>RESOLVED FURTHER</b>, to sign negotiate and transact with DENR in connection with <b>Chemical Control Order (CCO)</b>, Registration, Importation Clearance, <b>Pre Importation Notification (PMPIN)</b> all pertinent legal documents;</li></ul>																
	<ul style="list-style-type: none"><li>The payment of cash dividends for the following preferred shares for the second quarter of 2018 are as follows:  2<sup>nd</sup> Tranche: <table><tr><td>Shares</td><td>Record Date</td><td>Payment Date</td><td>Interest Rate per annum</td></tr><tr><td>PNXP</td><td>May 24, 2018</td><td>June 20, 2018</td><td>8.25%</td></tr></table> 3<sup>rd</sup> Tranche: <table><tr><td>PNX3A</td><td>May 22, 2018</td><td>June 18, 2018</td><td>7.427%</td></tr><tr><td>PNX3B</td><td>May 22, 2018</td><td>June 18, 2018</td><td>8.1078%</td></tr></table> Payments for aforesaid dividends for the preferred shares shall be implemented and through Banco De Oro Unibank Inc – Trust and Investment Group the company's stock transfer agent.</li></ul>	Shares	Record Date	Payment Date	Interest Rate per annum	PNXP	May 24, 2018	June 20, 2018	8.25%	PNX3A	May 22, 2018	June 18, 2018	7.427%	PNX3B	May 22, 2018	June 18, 2018	8.1078%
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PNX3A	May 22, 2018	June 18, 2018	7.427%														
PNX3B	May 22, 2018	June 18, 2018	8.1078%														
	<ul style="list-style-type: none"><li><b>RESOLVED</b>, as it hereby resolved that <b>P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b> As it hereby authorized and empowered to apply for an Income Tax Holiday Entitlement with Board of Investment (BOI) for the year 2017; <b>RESOLVED FURTHER</b>, to pursuant to the foregoing transaction, the Company Designates its Comptroller to be the authorized signatory <b>JONAREST Z. SIBOG</b>;</li></ul>																
	<ul style="list-style-type: none"><li>To apply, transact, process and claim (1) Tax Declaration (2) Business Permit (3) Light and Water connection/account and (4) other permits necessary with any private and government entities including Lessor's Permit for the business operation of <b>PHOENIX FUELS LIFE</b> Stations in area of Cebu, Bohol, Negros and Panay: <b>RESOLVED FURTHER</b>, authorize the following Retail Territory Managers: QUEENIE ANN GRACE B. VIERNES, ANGEL ANDOY, MERCEDITA A. OPLADO, ARIANNE T. FAJARDO, CHARNEL M. MACATIAG;</li></ul>																

	<ul style="list-style-type: none"> <li>That the Corporation be authorized as it is hereby authorized;           <ul style="list-style-type: none"> <li>A. Corporate Authority Deal with Phil. Bank of Communication               <ul style="list-style-type: none"> <li>i. Avail of Loans/credit facilities;</li> <li>ii. Enter into any contract or agreement for the purchase or sale of any currency</li> <li>iii. Deal in financial derivatives transactions including but not limited to forward contracts, swaps, options and the like, both in local and foreign currency covering currency interest rate and credit risks with bank;</li> </ul> </li> </ul> </li> </ul> <p>Up to principal amount of Php 830,000,000.00</p>
<b>21- May-2018</b>	<ul style="list-style-type: none"> <li>To apply, transact, process and claim for electrical power connection and/or reconnection with <b>VISAYAN ELECTRIC COMPANY (VECO)</b> and other permits necessary with any private and government entities including Lessor's Permit for the business operation of <b>PHOENIX FUELS LIFE</b> in the Island of Cebu; To authorized its Retail Territory Manager for Cebu <b>QUEENIE VIERNES</b> and <b>ANGEL C. ANDOY</b>;</li> </ul>
<b>25-May-2018</b>	<ul style="list-style-type: none"> <li>To apply, transact, process and claim for electrical power connection and/or reconnection with <b>METROPOLITAN CEBU WATER DISTRICT (MCWD)</b> and other permits necessary with any private and government entities including Lessor's Permit for the business operation of <b>PHOENIX FUELS LIFE</b> in the Island of Cebu; To authorized its Retail Territory Manager for Cebu <b>QUEENIE VIERNES</b> and <b>ANGEL C. ANDOY</b>;</li> </ul>
	<ul style="list-style-type: none"> <li>To apply, transact, process and claim for electrical power connection and/or reconnection with <b>MACTA ELECTRIC COMPANY (MECO)</b> and other permits necessary with any private and government entities including Lessor's Permit for the business operation of <b>PHOENIX FUELS LIFE</b> in the Island of Cebu; To authorized its Retail Territory Manager for Cebu <b>QUEENIE VIERNES</b> and <b>ANGEL C. ANDOY</b>;</li> </ul>
	<ul style="list-style-type: none"> <li>To authorized the purchase of Pos!ble.net, a digital platform used for retail transactions through the acquisition of up to 75% of shareholdings in Action.Able, Inc. ("AA") and Think.Able, Limited ("TA"), owners of digital platform; <b>RESOLVED LIKEWISE</b>, to authorized management to appoint Sycip, Gorres, Velayo and Co. ("SGV") and Ponferrada and Ty ("P&amp;T") to provide accounting and IT, and legal due diligence services, respectively, for Project Unite; <b>RESOLVED FURTHER</b>, authorize COO Henry Albert R. Fadullon or Corporate Legal Manager, to sign, execute, deliver any and all documents necessary and further to implement the foregoing powers as herein granted and approved;</li> </ul>
<b>4-June-2018</b>	<ul style="list-style-type: none"> <li>To transact, process claim for and in behalf of the corporation with (1) Bureau of Internal Revenue (BIR) the Certificate of Authorizing Registration (CAR) of a parcel of land situated at Brgy. Cabantian, Buhangin District, Davao ity, Philippines covered by TCT T-146-2017016131, pursuant to a Deed of Sale executed between P-H-O-E-N-I-X Petroleum Philippines, Inc. and Alsons Properties (2) Registry of Deeds (ROD) for the transfer of the previous title to the owner's name; and clearance from any government agency as may further required. That <b>TERESITA MANZO</b> be hereby authorized and empowered to sign, execute, deliver, receive and receipt for and on behalf of the Corporation;</li> </ul>
	<ul style="list-style-type: none"> <li><b>RESOLVED</b>, that the Corporation will apply for the following Exemptions: Exemption from payment of real property tax for the machineries and equipment used in the operations of the registered project of the Company as stated in the BOI specific terms and conditions; <b>RESOLVED FURTHER, be outsourced to ENTIA ACCOUNTING OFFICE and that Carina B. Entia CPA, and/or Emily B. Mendoza</b> representatives of Entia Accounting Office be authorized, as they are authorized to process and transact with Municipal Assessor's Office of Tayud, Consolacion, Cebu City;</li> </ul>
	<ul style="list-style-type: none"> <li><b>RESOLVED</b>, that the Corporation hereby authorized and empowered to negotiate, transact and enter into contract with <b>PETREDEC INTERNATIONAL PTE. Ltd</b> as its guarantor and <b>PHOENIX LPG PHILIPPINES, INC.</b> an associated company of the guarantor, relative to the purchasing , selling , transporting, trading of <b>Liquefied Petroleum Gas (LPG)</b> under reasonable terms and conditions as the proper officer would deem in the best interest of the Corporation; <b>RESOLVED FURTHER</b>, that the Corporation hereby authorizes its COO <b>HENRY ALBERT F. FADULLON</b> to negotiate, sign, execute, deliver, receive and receipt any and all documents and papers, including but not limited to the Registration Agreement, Lease Agreement and such Conveyance.</li> </ul>
	<ul style="list-style-type: none"> <li><b>RESOLVED</b>, as it is hereby resolve that <b>P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b> be as it is hereby authorized and empower negotiate and obtain with LAND BANK of the PHILIPPINES (LBP) for the availment of an up to Seven (7) Year Term Loan in the</li> </ul>



	<p>amount of Php 5,000,000,000.00;</p> <p><b>RESOLVED FURTHER, P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b> be as it is hereby authorized and empowered to negotiate and obtain with LAND BANK OF THE PHILIPPINES,(LBP) renewal with increase of its short term loan line in the amount of Php 2,000,000,000.00</p> <p><b>RESOLVED FURTHER, P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b> be as it is hereby authorized and empowered to negotiate and obtain with LAND BANK of the PHILIPPINES (LBP) renewal with increase of its DP/DA/OA/LC/TR Line in the amount of Php 1,500,000,000.00</p> <p><b>RESOLVED FURTHER,</b> that the Corporation is authorized to negotiate for the renewal without change of its Domestic Bills Purchase (DBPL) in the amount of Php 50,000,000.00 and the renewal with increase of its Stand-by Letter of Credit (SBLC) Line in the principal amount of \$ 30,000,000.00 Dollars or its peso equivalent;</p>																					
	<ul style="list-style-type: none"><li>• <b>RESOLVED,</b> as it is hereby resolved for purposes of facilitating the importation operations and such other related and significant business activities, the Company hereby approves and authorizes the opening and establishment of the various credit accommodations or facilities, including but not limited to letters of credit, trust receipts or bank drafts from time to time in amounts which may be required by the Company;</li></ul>																					
	<ul style="list-style-type: none"><li>• <b>RESOLVED,</b> as it is hereby resolved, that the following officers and/or member of the Board of the Corporation in the manner of combination herein provided are authorized effective 04 June 2018 to sign, draw or issue checks of the Company for the disbursing funds for its day-to-day operation;</li></ul>																					
	<ul style="list-style-type: none"><li>• <b>RESOLVED,</b> that PHOENIX be, as it is hereby authorized to participate in the bidding of <b>SUPPLY and DELIVERY of ENGINE LUBRICATING OIL TO SPUG POWER PLANTS AND BARGES</b> for Calendar 2018, that if awarded the tender shall enter into a contract with the <b>NATIONAL POWER CORPORATION</b>; Therewith hereby appoints any of one of our Officers <b>HENRY ALBERT FADULLON and/or ROY O. JIMENEZ</b>, acting as duly authorized and designated representative of <b>P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC.</b></li></ul>																					
	<ul style="list-style-type: none"><li>• <b>RESOLVED,</b> as it is hereby resolved, that the corporation be as it is hereby authorized and empowered to apply, transact, claim, and demand for refund the company's account with <b>DAVAO LIGHT POWER CORPORATION (DLPC)</b>;</li></ul>																					
	<ul style="list-style-type: none"><li>• <b>RESOLVED,</b> by the Board of Directors of the Corporation, in connection with the establishment of accounts of the Corporation with the BDO Unibank, Inc.;<ol style="list-style-type: none"><li>1. the Corporation be, as it is hereby authorized to apply for and obtain with the Bank the following accommodation/s:<table><tr><td><u>Facilities</u></td><td><u>Sublimit</u></td><td><u>Aggregate Principal Amount</u></td></tr><tr><td>Omnibus Line</td><td></td><td>Php 2,000,000,000.00</td></tr><tr><td>Domestic Letter Credit/Trust Receipt Line</td><td>Php 2,000,000,000.00</td><td></td></tr><tr><td>Import Letter Credit/Trust Receipt Line</td><td>Php 2,000,000,000.00</td><td></td></tr><tr><td>Credit Line</td><td>Php 2,000,000,000.00</td><td></td></tr><tr><td>Standby Letter of Credit</td><td>Php 55,000,000.00</td><td></td></tr><tr><td>Domestic Bills Purchased Line</td><td>Php 150,000,000.00</td><td></td></tr></table>As well as the temporary excesses or permanent increase thereon as may be approved by the said bank from time to time, under such terms and conditions as the Bank may require;</li></ol></li></ul>	<u>Facilities</u>	<u>Sublimit</u>	<u>Aggregate Principal Amount</u>	Omnibus Line		Php 2,000,000,000.00	Domestic Letter Credit/Trust Receipt Line	Php 2,000,000,000.00		Import Letter Credit/Trust Receipt Line	Php 2,000,000,000.00		Credit Line	Php 2,000,000,000.00		Standby Letter of Credit	Php 55,000,000.00		Domestic Bills Purchased Line	Php 150,000,000.00	
<u>Facilities</u>	<u>Sublimit</u>	<u>Aggregate Principal Amount</u>																				
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Credit Line	Php 2,000,000,000.00																					
Standby Letter of Credit	Php 55,000,000.00																					
Domestic Bills Purchased Line	Php 150,000,000.00																					
	<ul style="list-style-type: none"><li>• <b>RESOLVED,</b> that <b>STANDARD CHARTERED BANK – MANILA BRANCH</b> (the "Bank") is hereby designated as the depository bank of the Corporation, whereupon savings, current, investment management, trust and other accounts may be opened and maintained, to which funds of the Corporation may be deposited and against which withdrawals, fund transfers, debits and credits may be made, and the bank is hereby authorized to accept, pay, encash, or otherwise honor and charge against this Corporation any and all checks notes, drafts, bills of exchange, acceptances, orders or funds transfer/debits, and to effect any instructions relating to the operation, administration and management of the accounts when signed, drawn, accepted or endorsed on behalf of or the name of this Corporation;</li></ul>																					
	<ul style="list-style-type: none"><li>• <b>RESOLVED,</b> to close the company's existing accounts maintained with <b>BANCO De ORO BRANCH</b> the following accounts.<table><tr><td>Branch:</td><td>Account No.</td></tr><tr><td>• Banco de Oro – Lizada Branch</td><td>SA No. 003758005081</td></tr></table></li></ul>	Branch:	Account No.	• Banco de Oro – Lizada Branch	SA No. 003758005081																	
Branch:	Account No.																					
• Banco de Oro – Lizada Branch	SA No. 003758005081																					

	<ul style="list-style-type: none"><li>Banco de Oro – Lizada Branch SA No. 003750002976</li></ul>																
13- June2018	<ul style="list-style-type: none"><li><b>RESOLVED</b>, that TIONGCO SIAO BELLO &amp; ASSOCITATES and/or any of its Lawyers, be authorized to represent the Corporation before the MUNICIPAL TRIAL in CITIES of DASMARINAS CITY (MTCC) in Criminal Case No. 18-0355 entitled "<b>PEOPLE OF THE PHILIPPINES V EDWIN SALUMBRE Y REYAL</b>" for the sole purpose of release and turning over of the faw fuel truck with engine no. PNX52667213 and MV File No. 1301-0000732863 registered to PHOENIX PETROLEUM PHILS. INC., involved in the said case;</li></ul>																
03-Aug-2018	<ul style="list-style-type: none"><li>To authorize the Corporation to apply, transact, process and claim the Corporation’s regulatory permits and such other related and significant business activities but not limited to tree cutting activities, permit to operate application and Environmental Compliance Certificate with local government unit where the corporation operating its office and/or branches; <b>RESOLVED FURTHER</b> that the Corporation’s VisMin Terminal Superintendent/OIC <b>Crispin Subido and/or Marvin Jericho M. Maralit</b>, whose specimen signatures, is hereby authorized and empowered to transact business and represent the Corporation before duly constituted authorities, and to sign, execute, deliver and receive, any and all contracts, documents and instruments required or necessary to carry out foregoing resolution for and behalf of the Corporation;</li></ul>																
	<ul style="list-style-type: none"><li>The payment of cash dividends for the following preferred shares for the third quarter of 2018 as follows: 2<sup>nd</sup> Tranche:<table><tr><td>Shares</td><td>Record Date</td><td>Payment Date</td><td>Interest Rate per annum</td></tr><tr><td>PNXP</td><td>August 24, 2018</td><td>September 20, 2018</td><td>8.25%</td></tr></table> 3<sup>rd</sup> Tranche:<table><tr><td>PNX3A</td><td>August 22, 2018</td><td>September 18, 2018</td><td>7.427%</td></tr><tr><td>PNX3B</td><td>August 22, 2018</td><td>September 18, 2018</td><td>8.1078%</td></tr></table></li><li>Payments for aforesaid dividends for the preferred shares shall be implemented and through Banco De Oro Unibank Inc – Trust and Investment Group the company’s stock transfer agent.</li></ul>	Shares	Record Date	Payment Date	Interest Rate per annum	PNXP	August 24, 2018	September 20, 2018	8.25%	PNX3A	August 22, 2018	September 18, 2018	7.427%	PNX3B	August 22, 2018	September 18, 2018	8.1078%
Shares	Record Date	Payment Date	Interest Rate per annum														
PNXP	August 24, 2018	September 20, 2018	8.25%														
PNX3A	August 22, 2018	September 18, 2018	7.427%														
PNX3B	August 22, 2018	September 18, 2018	8.1078%														
23-Aug-2018	<ul style="list-style-type: none"><li><b>RESOLVED, as</b> it hereby resolved, that the Corporation be as it is hereby authorized and empowered to offer, sell and issue and re issue in scrip less form, Philippine Peso Dominated Commercial Paper (CP) in the aggregate principal amount of up to Ten Billion Pesos (Php 10,000,000,000.00) (the “Commercial Paper”), which shall be issuable and re-issuable (in full o in part) and offered for sale and distribution within the Republic of the Philippines within a period of three years reckoned from the date of the relevant permit to sell; XX <b>RESOLVED FURTHER</b>, that the Corporation, be as it is hereby authorized and empowered to file and register the Commercial Papers with <b>Securities Exchange Commission (SEC)</b> <b>RESOLVED FURTHER</b>, that the Corporation, be as it is hereby authorized and empowered to list each issuance (and re-issuance) of the Commercial Papers with the <b>Philippine Dealing and Exchange Corporation (PDEX)</b></li></ul>																
3-Sept-2018	<ul style="list-style-type: none"><li><b>RESOLVED</b>, to authorize the Corporation to open and maintain Peso / Dollar / Acceptable Third Currencies Savings / Current / Time Deposit Account(s) with UNIONBANK OF THE PHILIPPINES (the “Bank”) and to make deposits, placements and/or Investment or trust and to avail of cash management facilities and other products / services of the Bank as may be appropriate for the Corporation to effectively manage its collection and disbursements therein and in connection therewith;</li></ul>																
1-Oct-2018	<ul style="list-style-type: none"><li><b>Resolved, as it is hereby that P-H-O-E-N-I-X PETROLEUM PHILLIPPINES, INC. (“Corporation”)</b> as it hereby authorized and empowered the infusion of additional capital in following wholly-owned subsidiaries:<table><tr><td>Name of Subsidiary</td><td>Amount of Investment</td></tr><tr><td>Subic Petroleum Trading and Transport Inc. (SPTT)</td><td>Php 55,800,000.00</td></tr><tr><td>Phoenix Global Mercantile, Inc. (PGMI)</td><td>22,500,000.00</td></tr><tr><td>PFL Petroleum Management, Inc. (PPMI)</td><td>429,625,000.00</td></tr><tr><td colspan="2">-----</td></tr><tr><td>TOTAL</td><td>Php 507,925,000.00</td></tr></table></li></ul>	Name of Subsidiary	Amount of Investment	Subic Petroleum Trading and Transport Inc. (SPTT)	Php 55,800,000.00	Phoenix Global Mercantile, Inc. (PGMI)	22,500,000.00	PFL Petroleum Management, Inc. (PPMI)	429,625,000.00	-----		TOTAL	Php 507,925,000.00				
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Subic Petroleum Trading and Transport Inc. (SPTT)	Php 55,800,000.00																
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PFL Petroleum Management, Inc. (PPMI)	429,625,000.00																
-----																	
TOTAL	Php 507,925,000.00																

5-Nov-2018	<ul style="list-style-type: none"> <li>• <b>RESOLVED, that P-H-O-E-N-I-X PETROLEUM PHILLIPPINES, INC. (the "Corporation")</b> as it hereby authorized and empowered to represent, file its Answer/Explanation, Position Paper with Department of Environment and Natural Resources-EMB-Regional Center XII for the Corporation's Service Station located at Quezon Boulevard, Brgy. Poblacion Kidapawan City, North Cotabato; <b>RESOLVED FURTHER</b>, that any (1) one of the Corporation's VISMIN Retail Engineering/Sales Officer, are hereby authorized and empowered to represent the Corporation before duly constituted authorities, and to attend a Technical Conference, sign, execute, deliver and receive any and all contracts, agreements, documents and instruments required or necessary to carry out the forgoing resolution for and behalf of the Corporation;</li> </ul>						
5-Nov-2018	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, that the Corporation be, as it hereby authorized to process and submit all prescribed documentary requirements necessary for the release of its shipments in the Subic Bay Freeport Zone ("SBFZ"), including the payment of all taxes, fees and charges in all its shipments;</li> </ul>						
5-Dec-2018	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, that the Corporation be, as it is hereby authorized to file its Answer/Explanation, Position paper, motions, and/or such other pleadings as the Corporation's Legal Counsel and/or Recruitment Specialist may deem appropriate in the case entitled 'Jonathan Rodriguez vs PPPI' that is pending before Department of Labor and Employment ('DOLE') National Labor Relations Commission, Regional Arbitration Branch No. IV Calamba City, and docketed as NLRC Case No. RAB IV-10-01836-18-B ("Subject Case") and to file such action/s before any court tribunal or agency intertwined, interconnected or interrelated with the Subject Case;</li> </ul>						
	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, as it hereby resolved that <b>P-H-O-E-N-I-X PETROLEUM PHILLIPPINES, INC. ( the Corporation)</b> as it is hereby authorized and empowered to offer its services to and contract with SM PRIME HOLDINGS, INC ("SM"); <b>RESOLVED FURTHER</b> that in order to implement the above purpose, the Board hereby authorizes the Corporation's General Manger for Commercial Sales and Industrial Business, to sign execute and deliver the pertinent service agreements and other pertinent documents which may be necessary under the premises for and in behalf of the Corporation;</li> </ul>						
	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b> as it hereby resolved that the Board hereby ratifies the authorization of the following officers of the Corporation viz,</li> </ul> <table border="0"> <tr> <td>Name</td><td>Position</td></tr> <tr> <td>Dennis A. Uy</td><td>President and Chief Executive Officer</td></tr> <tr> <td>Ma. Concepcion F. De Claro</td><td>Chief Finance Officer</td></tr> </table> <p>To sign execute documents Subscription Contract/Agreement of the Corporation; To Subscribed or invest to negotiate such subscription upon such consideration, terms and conditions as in its discretion is for the best interest of the Corporation;</p>	Name	Position	Dennis A. Uy	President and Chief Executive Officer	Ma. Concepcion F. De Claro	Chief Finance Officer
Name	Position						
Dennis A. Uy	President and Chief Executive Officer						
Ma. Concepcion F. De Claro	Chief Finance Officer						
	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, as it hereby resolved that <b>P-H-O-E-N-I-X PETROLEUM PHILLIPPINES, INC. ( the Corporation)</b> be as it hereby authorized and empowered to apply and process the Company's application for renewal of its Permits and Accreditation to any Government Agency; <b>RESOLVED</b> as it hereby resolved, that any of all foregoing transactions shall be negotiated, concluded obtained and/or contracted for , by the company's RoadTransport Manager Francisco Baldazo Jr. under such terms and conditions and stipulations as the said authorized signatory may deem advisable and desirable in best interest of the Corporation; XX <b>RESOLVED FURTHER</b>, as it hereby resolved to authorize the Company's Road Transport Scheduling Lead for Calaca Terminal JANSSEN D. ENRIQUEZ to process Permit &amp; Accreditation to any government agency the above-mentioned applications thereby to deliver from time to time in behalf o f the said Corporation all documents, papers, instruments or any other related processes pertaining to implementation of the foregoing authority;</li> </ul>						



	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, as it hereby resolve to authorize the Corporation to apply, transact and process business permit for the year <b>2019</b> and the succeeding years, thereafter for its DEPOT in Combodia St. Bredco Port. Phoenix Petroleum Depot Bacolod City with the local government units and/or private entities in the said area; <b>RESOLVED FURTHER</b>, as it hereby authorized the <b>RICO T. URETA</b> to the above powers.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, as it is hereby resolved, that the Corporation, through its Representatives identified hereunder, shall transact with BDO UNIBANK, INC., including its trust department, and/or any of its branches subsidiaries, or affiliates, including but not limited to BDO Capital &amp; Investment Corporation and BDO Leasing and Finance, Inc. ( collectively BDO) to obtain loan facilities and other credit accommodations, as well as their products and services;</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, to authorize the Corporation to borrow, apply for, negotiate and/or secure a loan and/or other credit accommodations and facilities from the Unionbank in the principal aggregate amount of PESOS: TWO BILLION FIVE HUNDRED MILLION AND 00/100 (2,500,000,000.00)or its FOREIGN CURRENCY EQUIVALENT (for credit facility in multi-currencies.)</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, to authorize the Corporation to enter to Foreign Exchange (FX) transactions such as but not limited to FX forwards, and FX currency swaps, among others, with UNIONBANK OF THE PHILIPPINES (the Bank), shall require the signature of the Corporation officers, to sign execute and deliver any and all documents relative thereto;</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>RESOLVED</b>, that <b>P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.</b> be, as it is hereby, authorized to open and maintain in the name of the Corporation any type of deposit account/s ("Deposit Account") with East West Bank (EWBC) LEVISTE BRANCH.</li> </ul>

# **“ANNEX B”**

## **MANAGEMENT REPORT**

### **I. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

The Company has not had any disagreement with its previous and current external auditor/independent public accountant on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

### **BRIEF DESCRIPTION OF THE GENERAL NATURE AND SCOPE OF THE BUSINESS OF THE REGISTRANT AND ITS SUBSIDIARIES**

#### **1. Business Description**

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the “Company” or “PPPI”, interchangeably) was incorporated in the Philippines on May 8, 2002 under its original name of “OILINK MINDANAO DISTRIBUTION, INC.” On 11 January 2004, the Company amended its Articles of Incorporation changing its name from Oilink Mindanao Distribution, Inc. to Davao Oil Terminal Services Corp. On August 7, 2006, the Philippine Securities and Exchange Commission approved the Amended Articles of Incorporation of the Company changing its name from Davao Oil Terminal Services Corp. to “P-H-O-E-N-I-X Petroleum Philippines, Inc.”. The Company is 41.97% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI) and 0.83% owned by Udenna Management & Resources Corp. PAPI(UMRC), companies organized in the Philippines.

The Company is registered with the Board of Investments (BOI) since November 16, 2005 then as a New Industry Participant with New Investment in storage, marketing and distribution of petroleum products under Republic Act (RA) 8479 (Downstream Oil Industry Deregulation Act of 1998). Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investment Code of 1987. Under its registration, the Company is also entitled to certain tax and non-tax incentives to include Income Tax Holiday (ITH) for five (5) years from November 16, 2005.

The Company likewise registered with the BOI in 2010 and 2012 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Deregulation Act) for its storage tanks in various locations. Under these registrations, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

The Company's transactions relating to the BOI registered investments entitled it to certain tax and non-tax incentives. Details of the registrations are as follows:

<b>Location of Project</b>	<b>Date of Registration</b>	<b>Income Tax Holiday Period</b>	<b>Expiry</b>
Calaca, Batangas	February 26, 2010	5 years	Feb 25, 2015
Davao	May 14, 2010	5 years	May 13, 2015
Expansion			
Zamboanga	November 25, 2010	5 years	Nov 24, 2015
Bacolod City	May 10, 2012	5 Years	May 09, 2017
Villanueva, Misamis Orienta (near CDO)	May 10, 2012	5 Years	May 09, 2017
Villanueva, Misamis Orienta (near CDO)	November 24, 2017	5 Years	Nov 24, 2022
Expansion			
Tayud, Cebu City	September 9, 2017	5 Years	Sept 9, 2022
Calapan, Mindoro	October 12, 2017	5 Years	Oct 12, 2022
Calaca, Batangas (Expansion)	December 22, 2017	5 Years	Dec 22, 2022

On July 11, 2007, the Company went public, making available twenty-five percent (25%) of its total outstanding shares. The Company thus became the first petroleum company to list in the Philippine Stock Exchange (PSE) after the enactment of the Republic Act (RA) 8479 in 1998. The aforementioned law encourages petroleum companies to be listed with the PSE.

The Company's operations consist of Trading, Terminaling and Hauling Services. Under Trading, the Company offers its refined petroleum products (including Jet A1) and lubricants to retailers and commercial/industrial customers.. The retail service stations are classified as Company-Owned, Company-Dealer-Operated (CODO) or Dealer-Owned, Dealer-Operated (DODO).

The Company's Terminaling and Hauling Services involves the leasing of storage space in its terminal depot, hauling and into-plane services (hauling of Jet A1 fuels to airports and refueling of aircraft) in Davao, Cagayan de Oro, General Santos City, Cotabato City, Ozamis City, Pagadian City and Zamboanga City. Since 2008, Cebu Air designated the Company as its exclusive logistics partner in all its Mindanao operations.

## **Subsidiaries:**

At present, the Company has Eight (8) direct wholly-owned subsidiaries, namely:

- **P-h-o-e-n-i-x Global Mercantile, Inc. ("PGMI")** was incorporated on July 31, 2006. It was previously engaged in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. PGMI temporarily ceased its operation and is currently dormant.
- **PFL Petroleum Management Inc. ("PFL or PPMI")** was incorporated on January 31, 2007 and is currently engaged in the management of the three retail service stations which are being used as training sites and stations for prospective dealers.
- **Subic Petroleum Trading and Transport Phils., Inc. (SPTT)** was registered with the SEC on February 20, 2007 and is engaged in the buying and selling, supply and distribution, importation and exportation, and the storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use. It does not carry any inventory at any given time. SPTT is duly registered with Subic Bay Metropolitan Authority ("SBMA") and was issued the Certificate of Registration and Tax Exemption on 01 June 2012, which is effective until 31 May 2013 and renewable by SPTT. It is classified as a Subic Bay Freeport Enterprise for the purpose of and with permit to operate the business of engaging in the business of importation, warehousing, transshipment, export, distribution of liquor, wines and spirits, tobacco and cigarettes and general merchandise and commodities such as but not limited to groceries, canned goods and pre-paid cards; convenience store for selling and distribution of gasoline and other petroleum products and other liberalized items.
- **Phoenix LPG Philippines, Inc. (PLPI)** was incorporated last 20 June 1995 with the Securities and Exchange Commission as Petronas Energy Philippines, Inc. (PEPI), and was later renamed as Phoenix LPG Philippines, Inc. after its acquisition in accordance with the Share Purchase Agreement with the Company. It is currently engaged in the importation, distribution, marketing and retail sale of Liquefied Petroleum Gas (LPG), mainly in the Visayas and Mindanao area, with some minor operations in some areas of Luzon.
- **Duta, Inc.** was incorporated with the SEC last November 09, 1994 and currently holds its principal office in 15th Floor, Citibank



Tower, Valero st., Salcedo Village, Makati City. It operates as a property holding company of PLPI and currently owns the real properties where the plants and some distribution offices of PLPI currently stand.

- **Philippine FamilyMart CVS, Inc.** was registered with the SEC last November 29, 2012 and currently maintains its principal office at Fourth Floor, Tara Building, 389 Sen. Gil J. Puyat Avenue, Makati City, Philippines. It is currently engaged in the operation and sub-franchising of convenience stores under the “FamilyMart” brand. It currently holds the exclusive Area Franchise to the “FamilyMart” brand in the Philippines and is granted the right to exclusively sub-franchise the “FamilyMart” convenience stores anywhere in the Philippines.
- **PNX Petroleum Singapore Pte. Ltd.** was registered in Singapore and started operations sometime in October 2017. It is the regional trading arm of the Company. It currently holds office in Singapore and is able to buy directly from the refineries in the region due to its bigger requirements. It also takes orders and sells to other local and regional buyers.
- **PNX Energy International Holdings Pte. Ltd.,** registered in Singapore in 2018, PEIH was established to manage the Company’s international investments, as the Company explores possible investments in different regional markets such as Vietnam, Indonesia, Myanmar, Thailand and Australia.

The Company also has direct investments in Three (3) subsidiaries, namely:

- **Action.Able, Inc.,** registered in 2015, the Company owns 74.9% of the subsidiary. Action.Able is a three year old digital payment platform which enables and facilitates financial transactions between a merchant who avails and uses the service, and his customers who uses the platform to purchase, buy or pay all kinds of prepaid loads bills, and money remittances through a single Point of Sale device.
- **think.able, Limited,** registered in Hong Kong in 05 May 2014, The Company owns 74.9% of the subsidiary. think.able is the company that owns and holds the trademarks and copyrights used by Action.Able, Inc. in its operations and devices, including the trademark for “Pos!ble.net” the more popular name for which the devices and the service is known.
- **Phoenix Asphalt Philippines, Inc.** is a joint venture of Phoenix Petroleum Philippines, Inc., Tipco Asphalt Public Company

Limited of Thailand and Carlito B. Castrillo. Formed in January 2018, the joint venture will manufacture, operate, market, and distribute asphalt, asphalt-related products and other by-products of crude oil and other petroleum products, including operating terminals in the Philippines. Its plant is scheduled to complete construction in 2019 at the Calaca Industrial Seaport Park.

## 2. Directors and Officers

- (a) The incumbent members of the Board of Directors and the executive officers of the Company are as follows:

Office	Name	Age	Citizenship
<b>Directors</b>			
Chairman	Domingo T. Uy	72	Filipino
Director/President and Chief Executive Officer	Dennis A. Uy	45	Filipino
Director/Vice-Chairman	Romeo B. De Guzman	69	Filipino
Director/Treasurer and Head of Corporate Finance	Joseph John L. Ong	59	Filipino
Director	Cherylyn C. Uy	39	Filipino
Director	Frederic C. DyBuncio	58	Filipino
Director	J.V. Emmanuel A. de Dios	54	Filipino
Director	Stephen T. CuUnjieng	59	Filipino
Independent Director	Carolina Inez Angela S. Reyes	57	Filipino
Independent Director	Consuelo Ynares Santiago	79	Filipino
Director	Monico V. Jacob	73	Filipino
Corporate Secretary/Vice President for Corporate Legal	Socorro T. Ermac Cabreros	54	Filipino
<b>Other Executive Officers</b>			
Chief Operating Officer	Henry Albert R. Fadullon	51	Filipino
Chief Finance Officer	Ma. Concepcion de Claro	61	Filipino
Senior Vice President for Corporate Affairs, Business Development and Security	Alan Raymond T. Zorrilla	49	Filipino
General Manager for Shared Services	Debbie A. Uy-Rodolfo	39	Filipino
Vice President for Business Development for Terminals and Depot	William M. Azarcon	72	Filipino
Asst. Vice President for Engineering	Ignacio Raymund Ramos, Jr.	56	Filipino
General Manager for Supply, Pricing and Demand	Richard C. Tiansay	55	Filipino
General Manager for Retail Sales	Ericson S. Inocencio	44	Filipino
General Manager for Business Development, Strategies and Portfolio	Joselito G. De Jesus	63	Filipino
General Manager for Lubricants Sales and Distribution Business	Joven Jesus G. Muiar	48	Filipino
General Manager for Commercial and Industrial Business	Roy O. Jimenez	56	Filipino

General Manager for Joint Ventures	Joriz B. Tenebro	40	Filipino
Asst. Vice President for CME	Ma. Rita A. Ros	59	Filipino
Asst. Vice President for Treasury	Reynaldo A. Phala	52	Filipino
Asst. Vice President for Comptrollership	Jonarest Z. Sibog	38	Filipino
Asst. Vice President for Brand and Marketing	Celina I. Matias	54	Filipino
Asst. Vice President for Human Resources	Celeste Marie G. Ong	51	Filipino
Asst. Vice President for Retail Operations and NFRB, Network Development & Capital Investments	Arnel G. Ablan	51	Filipino
Asst. Vice President for Technical Services and QAPD	Jaime T. Diago, Jr.	63	Filipino
Asst. Corporate Secretary	Gigi Q. Fuensalida-Ty	42	Filipino

*Since the last annual meeting of 2018, NO officer or director has resigned because of a disagreement with the Company on any matter relating to the Company's issuance, operations, policies or practices.*

### **Directors**

The members of the Board of Directors of the Company are elected during the annual stockholders' meeting to hold office until the next succeeding annual stockholders' meeting and until their successors have been appointed or elected and qualified. The following is the list of the incumbent members of the Board of Directors, and their business experiences during the past five (5) years:

#### **Domingo T. Uy** **Chairman**

Mr. Domingo T. Uy, Filipino, 72 years old, is a co-founder and has been a member of the Board of Directors of the Company since 2002. Mr. Uy was elected Chairman of the Board of Directors of the Company on February 15, 2007. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development. Mr. Uy is actively involved in socio-civic programs and is a Director of the Philippine National Red Cross, Davao Chapter. He is also a Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association - Davao Chapter.

#### **Dennis A. Uy** **Director, President and Chief Executive Officer**

Mr. Dennis A. Uy, Filipino, 45 years old, is the founder of the Company and has served as President and Chief Executive Officer since inception. He is the Chairman and President of Udenna Corporation, the parent company, which

has businesses in the shipping, logistics, distribution, real estate, and service industries. Among the subsidiaries of Udenna Corporation are Phoenix Petroleum Holdings, Inc. (PPHI), Udenna Management & Resources Corp. (UMRC), Chelsea Logistics Corp., Udenna Investments BV, and Udenna Trade Corporation. The subsidiaries of Phoenix Petroleum Philippines are Phoenix Global Mercantile, Inc., Subic Petroleum Trading & Transport Philippines, Inc., and PFL Petroleum Management. The subsidiaries of Udenna Management & Resources Corp. (UMRC) are Udenna Development Corporation (UDEVCO), Global Synergy Trade and Distribution Corp., Value Leases, Inc., Udenna Capital, PNX-Udenna Insurance Brokers, Udenna Environmental Services, Udenna Energy Corporation, and F2 Logistics. Under UDEVCO are Phoenix Petroterminals & Industrial Park Corp. (PPIPC), Udenna Tower Corporation, and GoHotels Davao. The Chelsea Logistics Corp. has the shipping businesses Chelsea Shipping Corp. and Trans-Asia Shipping Lines. Mr. Uy is also Chairman of Phoenix Philippines Foundation and Udenna Foundation. He is director of shipping and logistics provider 2Go Group, Inc. through his Udenna Investments BV subsidiary KGLI-NM Holdings Inc. He also serves as independent director of Apex Mining Corp. Mr. Uy is a member of the Young Presidents Organization's Philippine chapter and the Philippine Business for Social Progress. Since November 2011, Mr. Uy has been the Honorary Consul of Kazakhstan to the Philippines. In 2016, he was appointed as the Presidential Adviser on Sports. He is a graduate of De La Salle University with a degree in Business Management.

**Romeo B. De Guzman**  
**Director, Vice-Chairman**

Mr. Romeo B. De Guzman, Filipino, 69 years old, was elected Director of the Company in 2009. He is the Vice Chairman and Senior Strategic Adviser, and previously was Chief Operating Officer of the Company, bringing over 40 years of outstanding experience in the oil industry. Before joining the Company, he was with Pilipinas Shell Petroleum Corporation, where he was Vice President for External Affairs for Asia Pacific and a member of the Board of Directors up to December 2006. He was with the said company holding various management and executive positions. Prior to that, he worked at Getty Oil Philippines Inc. for 10 years. Mr. De Guzman is also the Chairman of the Board of Directors of Mirait Philippines, Inc. He holds a Marketing Management and MBA degrees from San Sebastian College – Manila.

**Atty. Jose Victor Emmanuel A. De Dios**  
**Director**

Atty. J.V. Emmanuel A. De Dios, Filipino, 54 years old, was elected Independent Director of the Company on February 15, 2007 and regular director on March 7, 2008. He is the CEO of GE Philippines, and prior to that was President and CEO of Nido Petroleum Pty Ltd., an Australian Stock

Exchange-listed oil and gas company. He was Managing Director of Merritt Advisory Partners, Inc. and was a member of the Board of Directors of Davies Energy Systems, Inc. He also served as Chairman of the Board of the Philippine National Oil Company Exploration Corporation and was former Undersecretary of the Philippine Department of Energy. Atty. De Dios obtained his Master of Laws degree from Harvard Law School and completed his Bachelor of Laws at the Ateneo School of Law.

**Joseph John L. Ong**  
**Director, Treasurer**

Mr. Joseph John L. Ong, Filipino, 59 years old, is the Treasurer of the Company. He is also a member of the Board of Directors of South Pacific, Inc., an affiliate of the Company. Prior to his employment in the Company, he spent almost 10 years at Primeworld Digital Systems, Inc. (Pacific Internet Phils.) initially as Vice President and CFO and eventually as Executive Vice President – Operations and Chief Finance Officer from 2008 - 2009. He also worked for 12 years with Ginebra San Miguel, Inc., then known as La Tondeña Distillers, Inc., the country's second largest beverage company at the time and a listed subsidiary of San Miguel Corporation. He was its Vice President for Treasury from 1995 - 1999, at which time he headed the team that took the company public in 1994 and was primarily responsible for institutional-investor relations. Prior to the San Miguel Group, he held various positions at the Bank of the Philippine Islands and Ayala Investment & Development Corp. (before it merged with BPI) from 1980-1986. He received his Bachelor of Science in Commerce from De La Salle University in 1980.

**Frederic C. DyBuncio**  
**Director**

Mr. Frederic C. DyBuncio, Filipino, 58 years old was elected as a Director of the Company on May 27, 2017. He is the President of SM Investments Corporation. He is a Director of Atlas Consolidated Mining and Development Corporation, Premium Leisure Corp., 2GO Group, Inc., and Pacific Online Systems Corporation. Prior to holding the post, he was a career banker who spent over 20 years with JP Morgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Business Management and completed a Master's degree in Business Management from the Asian Institute of Management.

**Cherylyn C. Uy**  
**Director**

Ms. Cherylyn Chiong-Uy, Filipino, 39 years old, is a graduate of Business and Finance from Ateneo de Davao University. Ms. Uy is one of the pioneers/incorporators of Udenna Corporation, the ultimate parent company of Phoenix Petroleum, and which has subsidiaries engaged in the petroleum, shipping, logistics, services, and real estate businesses, among others. She is the Corporate Treasurer of Udenna Corporation. Ms. Uy is also one of the Executive Directors of Phoenix Philippines Foundation, Inc., the corporate social responsibility arm of the Company. She is the Corporate Treasurer of Udenna Management and Resources Corporation and Chelsea Shipping Corp.

**Carolina Inez Angela S. Reyes**  
**Independent Director**

Carolina Inez Angela S. Reyes, Filipino, 57 years old, is the owner and Co-Chief Executive Officer of Reyes Barbecue, a popular chain of more than 50 barbecue-focused restaurants founded by her husband, Francisco Reyes. Before taking charge at Reyes Barbecue in 2008, Ms. Reyes spent 20 years as a corporate marketing executive, where she distinguished herself by revitalizing and energizing brands. From 1994 to 1999, she held the following positions in La Tondeña Distillers, Inc.: Vice-President Marketing Services; Vice-President Marketing and Sales Non-Liquor (Bottled Water & Juices), Assistant Vice-President and Area Sales Director. From 1999 to 2002, Ms. Reyes also worked in The Coca-Cola Export Corporation as its Division Marketing Director of Non-Carbonated Beverages Business Unit and Director for Alternative Beverages. From July 2002 to October 2007, Ms. Reyes served as the Vice-President for Marketing of Jollibee Foods Corporation. She took her Masters in Business Administration from De La Salle University Graduate School of Business, graduated from the University of the Philippines (Diliman) with a degree in A.B. Economics, and took a short course at the Culinary Institute of America in New York.

**Stephen T. CuUnjieng**  
**Director**

Stephen T. CuUnjieng, Filipino, 59 years old, was elected as a Director of the Company on January 15, 2018, after being a long time adviser to the Board. He is Chairman of Evercore Asia Limited, and has substantial and wide experience in investment banking. He has acted as Financial Adviser to several financial transactions of companies involving initial public offerings, major and strategic acquisitions, and mergers of various companies from various industries. He is a member of the Executive Advisory Board for Asia of the Wharton School of Business, and an Independent Director of Century Properties Group and Aboitiz Equity Ventures. He has received several awards and distinctions, such as the Best Independent Advisory Firm in Asia

in 2016 for Evercore, and Deals of the Year for various acquisitions. He graduated from Ateneo de Manila University and Ateneo School of Law, and completed an MBA in Finance from the Wharton School of Business.

**Consuelo Yñares-Santiago**  
**Independent Director**

Ms. Consuelo Yñares-Santiago, Filipino, 79 years old, is a Retired Justice of the Philippine Supreme Court. Justice Santiago (Ret) is currently an independent director of Anchor Insurance Brokerage Corp., a leading insurance brokerage company based in New York, USA, SMC Global Power Holdings, Inc., one of the country's leading power companies which is the power generation unit of San Miguel Corporation, South Luzon Tollway Corp., and Top Frontier Investment Holdings, Inc. She is the Chair Advisory Council of the Office of Alternative Dispute Resolution under the Department of Justice. She earned her Law Degree at the University of the Philippines. After being admitted to the bar, she started her career as a Legal Officer of the Securities and Exchange Commission (SEC). After 5 years of legal practice, she decided to enter the Judiciary and spent 36 years of her career as Municipal Judge, Metropolitan Trial Court judge, Regional Trial Court judge, and Associate Justice of Court of Appeals, before becoming an Associate Justice of the highest court of the country, the Supreme Court. During her time in the Supreme Court, she became the chairperson of the Supreme Court's 3rd Division and also joined various committees, among them the Justice on Wheels Program as Chairperson, the Foreign Travel Committee as Chairperson, the House of Representative Electoral Tribunal (HRET) as Chairperson, and member of the Presidential Electoral Tribunal. She was also a consultant of the Judicial and Bar Council (JBC) and a Bar Examiner of Labor Law and Social Legislation during the 1996 Bar Examination and Taxation Law in the 1998 Bar Examination.

**Monico V. Jacob**  
**Director**

Monico V. Jacob, Filipino, 73 years old, has been Director of the Company since March 7, 2008. He is President and Chief Executive Officer of the STI Education Systems Holdings, Inc., a publicly listed company; of STI Education Services Group, Inc.; and of West Negros University. He is also the Chairman of Philplans First, Inc., a pre-need company; of Philippine Life Financial, Inc., a life insurance company, and of Republic Surety and Insurance Co., a non-life insurance Company. He likewise sits as an independent director of Jollibee Foods, Inc., Century Properties, Lopez Holdings, Inc. and 2GO Shipping. He sits as Director of Asian Terminals, Inc., Philhealthcare Systems, Inc., an HMO, Philippine Women's University and IAcademy.

**Nicasio I. Alcantara**  
**Nominee-Independent Director**

Nicasio I. Alcantara, Filipino, 76 years old, is the Chairman and President of ACR Mining Corporation and Chairman of Conal Corporation. He currently serves as the Chairman of the Corporate Governance Committee of BDO Private Bank, Inc. and is a member of the Bank's Audit Committee and Related Party Transactions Committee. He is currently a Director of Alsons Corporation, Alsons Development and Investment Corporation and several other prestigious corporations. Prior to this, Mr. Alcantara also held the position of Chairman and President in various corporations, namely, Petron Corporation, Alsons Consolidated Resource Inc., Iligan Cement Corporation, Alsons Cement Corporation, Northern Mindanao Power Corporation, Refractories Corporation of the Philippines, and Alsons Insurance Brokers Corporation. He was also the Chairman of Alsons Prime Investments Corporation. Mr. Alcantara holds a Masters degree in Business Administration (MBA) from Sta. Clara University, California, and a Bachelor of Science degree in Business Administration from Ateneo de Manila University.

**Minoru Takeda**  
**Nominee-Independent Director**

Minoru Takeda, Japanese, 65 years old is the Chairman of aNew Energy (an advisory company for Renewables/LNG), Senior Advisor of GLX LNG (LNG Trading Platform Company), Director of Oxalis Chemicals KK, and Sr. Advisor of Uyeno Kosan KK. Mr. Takeda was with ExxonMobil for 22 years and with Royal Dutch Shell group for 14 years. He was the Chairman of the Board of Showa Shell KK, Country Chairman of Shell Group of Companies in Japan, and GM of Shell Upstream International in charge of the ASEAN/India LNG Market Development. For Mobil Oil Corporation, in addition to holding key positions in Japan, he was Director of Mobil Oil New Zealand, and has experience in Global HQ Downstream Corporate Planning. He also spent over 4 years in Deloitte, as Partner of Deloitte Tohmatsu Consulting and served as CEO of Deloitte Tohmatsu Corporate Finance. He holds BS and MS from Keio University and MS from MIT Sloan School of Management. He was a Visiting Researcher at Harvard University, Energy and Environmental Policy Center.

**Directorships in Other Reporting Companies**

The following are directorships held by the directors and executive officers in other reporting companies during the last five (5) years:

Name of Director	Name of Reporting Company	Position Held
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Consuelo Ynares Santiago	Top Frontier Investment Holdings, Inc.	Independent Director
Carolina Inez A. S. Reyes	La Tondeña Distillers, Inc. Coca-Cola Export Corporation Jollibee Foods Corporation	Independent Director VP for Marketing

and the following candidates for Independent Directors for 2019-2020 have held directorships in other reporting companies for the last five (5) years:

Name of Director	Name of Reporting Company	Position Held
Nicasio I. Alcantara	ACR Mining Corporation.	Chairman & President
Minoru Takeda	Showa Shell Sekiyu K.K.	Chairman

#### **Period of Directorship in the Company**

<b><u>Name</u></b>	<b><u>Period of Service</u></b>	<b><u>Term of Office</u></b>
Dennis A. Uy	since incorporation to present	1 year
Domingo T. Uy	since incorporation to present	1 year
Romeo B. De Guzman	since 2009 to present	1 year
J.V. Emmanuel De Dios	2007 to present	1 year
Cherylyn C. Uy	2004 to 2006, 2013 to present	1 year
Joseph John L. Ong	2013 to present	1 year
Monico V. Jacob	2008 to present	1 year
Consuelo Ynares Santiago	2013 to present	1 year
Carolina Inez A. S. Reyes	2016 to present	1 year
Stephen T. CuUnjieng	January 15, 2018 to present	1 year
Frederic C. DyBuncio	May 27, 2017 to present	1 year

#### **Executive Officers**

The following is a list of other executive officers and their business experiences during the past five (5) years:

**Henry Albert R. Fadullon**, Filipino, 51 years of age, was appointed Chief Operating Officer of the Company on April 17, 2017. Prior to this, he served Shell Shared Services (Asia) B.V. as General Manager for its global businesses. He has over 25 years of experience in the petroleum industry, having held various roles at Pilipinas Shell Petroleum Corp., a decade of which were spent overseas with postings in Malaysia, Oman, and London. He has a wealth of

experience in Retail and B2B performing a variety of frontline and functional roles leading into General Management positions. He completed his BS Industrial Management Engineering, minor in Mechanical Engineering, from De La Salle University.

**Ma. Concepcion F. De Claro**, Filipino, 61 years of age, holds a Bachelor of Science degree in Commerce, Major in Accounting from the Colegio de San Juan de Letran. She has been the Company's Chief Financial Officer since March 2018. She was Director of Alsons Prime Investment Corporation and Alsons Power Holdings Corporation and the Vice-President and Chief Operating officer of Alsons Corporation. She also served as the Director of Limay Energen Corporation and Manila North Harbour Port, Inc. Ms. de Claro also worked with Petron Corporation for several years. She was a Consultant for M&A Projects and a member of the Board of Trustees of Petron Corporation Employees Retirement Fund. She also served as Petron's Vice President for Corporate Planning & Services, Controller for the company and its subsidiaries, and held various positions in Corporate Planning. In addition, Ms. De Claro also served as a Director of New Ventures Realty Corporation, Las Lucas Development Corporation, Petron Marketing Corporation and Petron Freeport Corporation.

**Alan Raymond T. Zorrilla**, Filipino, 49 years of age, is the Senior Vice President for External Affairs, Business Development, and Security of the Company. Prior to his employment with the Company, he was Chief Legal Counsel of the Unioil Group of Companies where he headed the Legal, Human Resources, and Administrative Departments. He also served as Director for Freeport Services Corporation, a 100% subsidiary of Subic Bay Metropolitan Authority and was once a Legal Consultant of the Department of Environment and Natural Resources. Atty. Zorrilla was engaged in litigation practice with Pangilinan, Britanico, Sarmiento and Franco Law Offices before he entered corporate practice. He formerly worked as Corporate Legal Counsel of publicly-listed Fil-Estate Group of Companies in its Litigation and Labor Department. Atty. Zorrilla completed his law studies at the San Beda College of Law in 1994 and was admitted to the Philippine Bar in 1995. He also took up his masteral studies at the Ateneo Graduate School of Business. He is an Army Reservist and a concurrent Commander (Lt. Colonel) of the Philippine Coast Guard Auxiliary.

**William M. Azarcon**, Filipino, 72 years old, is currently the Vice President for Business Development for Terminals and Depots. Mr. Azarcon has twenty-six (26) years experience in the oil industry, covering engineering operations, retail and distribution of bulk & packed products nationwide. Mr. Azarcon used to work for Pilipinas Shell Petroleum Corporation and served as Field Engineer in Operations nationwide constructing depots & related facilities, i.e, jetties, submarine pipelines, bulk storage tanks, among others. He likewise served as Head of Operations of North Luzon and transferred to Retail Engineering as Retail Engineering Manager nationwide. He also served as RVI (Retail Visual Identity) Manager. After retiring from Shell, Mr. Azarcon

engaged in business as Retail Engineering Contractor of Shell. He holds a degree in Bachelor of Science in Mechanical Engineering from Mapua.

**Socorro T. Ermac-Cabrerros**, Filipino, 54 years old, is concurrently the Vice President for Corporate Legal and Corporate Secretary of the Company. She is also the Corporate Secretary Phoenix Petroleum Holdings, Inc. Prior to joining the Company, she was a Legal Counsel of Philippine National Bank in Davao City. She has worked for the government such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She finished her law degree at the Ateneo de Davao University College of Law. She was President for the Davao City Chapter of the Integrated Bar of the Philippines, Davao City Chapter from 2009-2011 and President of the Davao Lady Lawyers Association from 2000-2002.

**Jonarest Z. Sibog**, Filipino, 38 years old, is the Asst. Vice President for Comptrollership. She joined the company in 2006, starting her career in Procurement which she headed for seven years before moving to Finance. She is a graduate of Ateneo de Davao University with a degree in Bachelor of Science in Accountancy. She finished her Masters in Business Administration at the University of Mindanao where she also earned a few units in LLB. She is a Certified Public Accountant and is currently a Board of Director of the Association of CPAs in Commerce and Industry (ACPACI) - Davao City Chapter

**Richard C. Tiansay**, Filipino, 55 years old, is the General Manager for Pricing and Demand. Mr. Tiansay has more than 22 years of experience in the oil industry covering domestic and international operations. His last position in Royal Dutch Shell is as Global SAP IT Order to Cash Team Lead in London, U.K. This after being assigned to various key managerial positions not limited in the Philippines but as well as in a number in Asia Pacific and other countries. Mr. Tiansay completed his Bachelor of Science in Mechanical Engineering degree from the University of San Carlos, Cebu City.

**Roy O. Jimenez**, Filipino, 56 years of age is currently the General Manager for Commercial and Industrial Business. Prior to joining the Company he was connected with Chevron Phil. Inc for almost 30 years and handled various National and District Managerial positions, as well as supervisory positions for various trades such as Retail, Commercial/Industrial, Marketing Support, Liquefied Petroleum Gas and Lubricants. He also handled regional position as a Programs Manager and have been the team lead for Philippines in various Chevron Regional projects. He was assigned as a District Manager covering various areas like North Metro Manila/North Luzon, Visayas and Mindanao. He is a licensed Mechanical Engineer and graduated in University of Santo Tomas. He has MBA units in De La Salle University and attended various Leadership and Management programs in Asian Institute of Management, as well as in-house training programs of Chevron in Asia Pacific and South Africa.

**Joselito G. de Jesus**, Filipino, 63 years old, is the General Manager for Business Development, Strategies and Portfolio Unit. Prior to joining the Company, Mr. de Jesus was the Assistant Vice-President for Reseller Trade of Petron Corporation. He joined the oil industry in late 1970's when became a Corporate Planning Analyst, then later on Corporate Planning Manager/Coordinator, of the Philippine National Oil Company (PNOC). Mr. de Jesus also became a Manager in the Corporate Planning Department of PNOC Shipping and Transport Corporation and at the same time, he was also an assistant to the Chairman of PNOC. In the late 90's, Mr. de Jesus transferred to Petron Corporation and stayed with said Company for almost 17 years. He is a graduate of Bachelor of Science in Business Administration Major in Marketing and Finance from the University of the Philippines and holds a Masters in Business Administration from the Ateneo Graduate School of Business.

**Ericson S. Inocencio**, Filipino, 44 years old, is the General Manager for Retail Business. Eric has more than 20 years of extensive experience in the petroleum industry. Prior to joining the Company, he was connected with Chevron Phils. where he held various positions primarily leading the Commercial and Industrial business as District Sales Manager for more than five(5) years and as concurrent National Fleet Cards Sales Manager. He has exposure in marketing support function in charge of developing and executed local & global process/programs which includes profitability modelling. He is a certified Mechanical Engineer from De La Salle University and attended his MBA at Ateneo Graduate School of Business.

**Joven Jesus G. Mugar**, Filipino, 48 years of age, is the General Manager for Lubricants Sales and Distribution Business. He joined Phoenix last May 4, 2015. He brought with Him twelve and a half years of pure lubricant experience from a major petroleum company holding various positions in sales, business development and marketing handling both B2C and B2B. Within those years, he had 2 years assignment in the Asia Pacific Region doing Channel Development Specialist work.

**Maria Rita A. Ros**, Filipino, 59 years old, is the the Asst. Vice President for CME. Ms. Ros has more than thirty (30) years of experience in the oil industry covering materials management, supply chain management, production planning, imports-exports, warehousing and logistics. She held various positions in Petron Corporation from 1981 up to 2011 when she handled Biofuels and Special Projects, and Supply Optimization. Ms. Ros set up a personal business before joining Phoenix Petroleum Philippines, Inc. in November 2013. She is a graduate of B.S. Chemical Engineering from the University of the Philippines, and is a licensed Chemical Engineer, and took up Basic Management at the Asian Institute of Management.

**Celina I. Matias**, Filipino, 54 years old, is presently the Asst. Vice President for Brand and Marketing Group of the Company. Ms. Matias has more than 25 years of expertise on strategic marketing and client servicing. She honed her skills from Ogilvy & Mather and McCann Erickson and had worked with local Ad Agency as partner. She handled over 25 local and global brands across different product categories from petroleum, telecoms, real estate, automotive, pharmaceutical and a lot more. She finished Communication Arts major in Advertising & Public Relations in Assumption College.

**Debbie A. Uy-Rodolfo**, Filipino, 39 years old, is presently the General Manager for Shared Services of the Company. Ms. Uy-Rodolfo is currently heading the Company's transition so that it could effectively provide shared administrative services such as Human Resources, Customer Service and others, to the Company and its subsidiaries, and later on its affiliates. She graduated with a degree in Computer Science major in IT from De La Salle University, and finished her Masters in Journalism at Ateneo de Manila University.

**Reynaldo A. Phala** Filipino, 52 years old, is the Asst. Vice President for Treasury. He joined the Company in 2008 as its Credit and Collection Manager. Before joining the Company, he led a progressive banking career for 17 years, which he started at UCPB. He also worked with the Department of Trade and Industry as Municipal Trade and Industry Officer for a year. He graduated from Mindanao State University-General Santos City with the degree Bachelor of Science in Civil Engineering as a consistent academic scholar and passed the licensure examinations for Civil Engineers in May 1989. He recently finished his Master in Business Administration (MBA) under the Regis Program at the Ateneo Graduate School of Business.

**Celeste Marie G. Ong**, Filipino, 51 years old, is currently the Asst. Vice President for Human Resources. Ms. Ong has more than 20 years of solid human resources management experience from local and multinational companies (Concrete Aggregates Inc., Van Melle Phils., Fujitsu Computer Products and Optodev, Inc.) Her expertise includes compensation management, talent acquisition, training and development, employee relations/engagement, benefits administration and HRIS. She finished A.B. Psychology from Pamantasan ng Lungsod ng Maynila and took her M.A. in Psychology at University of Santo Tomas. She completed Essilor Management Training course in Singapore & France.

**Gigi Q. Fuensalida-Ty**, Filipino, 42 years old, is presently the Asst. Corporate Secretary of the Company. Prior to her employment with the Company, she was one of the Senior Associates of the Villaraza Cruz Marcelo and Angangco Law Office. For six (6) years, Atty. Fuensalida specialized in Civil, Commercial and Criminal Litigation wherein she developed strategies for complex litigation and actively participated in the prosecution and defense of criminal cases before the regular trial courts, quasi-judicial bodies and the appellate courts. Atty. Fuensalida holds a degree in Bachelor of Arts Major in

Political Science from the Ateneo de Manila University. She further obtained her Juris Doctor degree from the same institution and graduated with honors in 2002. Atty. Fuensalida is a member of the Integrated Bar of the Philippines since 2003.

**Ignacio Raymund S. Ramos, Jr.**, Filipino, 56 years old, is the AVP for Engineering. He has more than 25 years of specialized practice in the fuel industry. He previously worked with Shell Philippines (1985 to 2003) and worked his way up to key positions like Special Projects Manager, Head Retail Construction, Retail Engineering Manager and Field Facilities Engineering Manager. He also worked in Enmar Construction Inc. (2004-2009) where his role as General Manager propelled the business in the field of construction and maintenance of bulk oil terminal facilities and equipment for major petroleum companies. Among the projects he managed from 2006-2017 were: SMART Piggings (Intelligent Inspection of Pipelines) Shell Guam Inc.; In Indonesia: Pulau Laut Terminal bulk storage & distribution and jetty facility' PT Banten Energy for the construction of Refrigerated LPG Terminal, New IBT Barge Fuel Loading facility and in Singapore the construction of Lube Oil & Grease Manufacturing Plant. He finished Civil Engineering from the University of the Philippines.

**Arnel G. Alban**, Filipino, 51 years old, has been recently appointed as the Asst. Vice President for Network Development, Non-Fuels Retailing Business and Capital Investment, while concurrently handling the position the Asst. Vice President for Retail Operations. He joined Phoenix in April 2018, moving from Total (Philippines) Corporation as Asst. Vice President for Retail Development and Compliance. He has a solid 25 years experience in the oil industry, starting out as a Business Counselor (or Retail Territory Manager) in 1993 at Caltex (Philippines), Inc. where he stayed for 5 years. In 1998, he moved to Total where he stayed for 20 years, moving in various Sales positions, including a stint as AVP for Retail Development and Compliance. Arnel is a licensed Civil Engineer and graduated from the University of the Philippines.

**Jaime T Diago Jr.**, Filipino, 63 years old, joined Phoenix Petroleum in September 2018 as AVP Technical Service and QAPD. Prior to joining the company, he was connected with Pilipinas Shell where he served for 32 years holding the following key roles: Fuels Product Quality (PQ) Lead (PH & HK), Fuels PQ Manager (MEA), Fuels Technical Manager, Head Trading & Economics, Marketing Sales Manager, Commercial Development Manager and Lubricants Assistant Supply. Prior to his employment with Pilipinas Shell, Jaime also had six years with Mobil Philippines where he served as Marketing Representative and Technical Service Engineer. He finished BSME from Silliman University and is a licensed Mechanical Engineer.

**Joriz Tenebro**, Filipino, 40 years old, is the General Manager for Joint Ventures. Prior to joining Phoenix in November 2018, he has 15 years of combined business and commercial finance experience with Shell in retail, trading, upstream and integrated gas covering Asia Pacific, Middle East, and Europe. Role includes retail territory management; reporting, planning and economics; finance management; M&A and New Business Development; and internal audit. He was based in Davao, Manila and a combined 10 years in Singapore and Dubai. Prior to joining Shell, he spent a total of 3 years as P&G distributor Finance Manager and PwC Finance Auditor. Most of his key development trainings were in Shell Headquarter in Netherlands and INSEAD France. He graduated from Ateneo de Davao University.

#### Period of Service in the Company

<u><b>Name</b></u>	<u><b>Period of Service</b></u>
Henry Albert R. Fadullon	April 17, 2017 to present
Ma. Concepcion F. De Claro	May 1, 2018 to present
Joseph John L. Ong	November 3, 2010 to present
Socorro Ermac Cabrerros	July 2, 2006 to present
Jonarest Z. Sibog	March 27, 2006 to present
Reynaldo A. Phala	October 16, 2008 to present
Alan Raymond T. Zorrilla	April 1, 2009 to present
William M. Azarcon	June 1, 2009 to present
Joselito G. De Jesus	March 15, 2011 to present
Richard C. Tiansay	March 1, 2013 to present
Ericson S. Inocencio	February 15, 2014 to present
Roy O. Jimenez	May 11, 2015 to present
Joven Jesus Mugar	May 4, 2015 to present
Ma. Rita A. Ros	November 1, 2013 to present
Celeste Marie G. Ong	July 2, 2012 to present
Debbie A. Uy-Rodolfo	February 1, 2008 to present
Celina I. Matias	July 2, 2012 to present
Gigi Q. Fuensalida	June 1, 2008 to present
Ignacio Raymund Ramos, Jr.	January 16, 2018 to present
Arnel G. Ablan	April 16, 2018 to present
Jaime T. Diago, Jr.	September 3, 2018 to present
Joriz B. Tenebro	November 5, 2018 to present

## **II. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

### **A. Comparable discussion on Material Changes in Results of Operations for the Year Ended December 31, 2018 vs. December 31, 2017.**

## **Revenues, Cost of Sales and Gross Margins**

The Group's Revenues during the year 2018 grew to **₱88.611** billion, about 99% higher compared to the **₱44.426** billion generated in 2017. This was due to the combined effect of the **49%** growth in total volume sold in the same period ( 2018: 2,747 million liters vs. 2017: 1,844 million liters) and the increase in the domestic selling prices of the products as a result of the 31% increase in the price of Dubai crude (benchmark crude of Asian refineries) average (2018: US\$69.65/ bbl vs. US\$53.14/ bbl) as well as the implementation of the new excise tax rates on the sale of domestic petroleum products. This was augmented by the **₱1.308** billion sales contributed by Philippine FamilyMart CVS, Inc. (PFM) and **₱54** million sales contributed by Action Able, Inc.

The 903 million liters incremental sales volume was mainly attributable to the 758 million liters sold by Pnx Singapore. In addition, volume sold by both the parent company and Phoenix LPG Philippines, Inc. rose by 139 million liters (8%) and 31 million liters (22%), respectively, during the comparative years.

Similarly, Cost of Sales and Services increased by 106%, from **₱37.909** billion in 2017 to **₱78.839** billion in 2018, as a result of the volume growth, aggravated by the higher product costs reflecting the global oil price movements, as well as the imposition of the new excise tax rates on petroleum products starting in January 1, 2018.

Consequently, Gross Margin rose by 58% or **₱3.596** billion. On the other hand, Gross Margin Rate decreased to 12% from the 16% registered in 2017. This was primarily due to the change in company's sales volume mix. The volume sold to commercial accounts as well as PNX Singapore sales to external customers grew faster (by 12% and 3877%) than volume sold through the company's retail outlets where margins are generally higher.

## **Operating Expenses, Non-operating Expenses, Recurring Income**

Meanwhile, Selling and Administrative Expenses of **₱5.741** billion, up by 36% versus the **₱4.134** billion incurred in 2017, primarily because of the cost outlay of the new businesses.

On the other hand, Other Net Non-operating Charges of **₱0.656** billion was 970% greater than the **₱0.061** billion incurred in 2017. This year includes **₱0.625** billion fair value gains on Investment Property while previous year's balance included **₱0.650** billion one-time gain on fair value of acquired asset. However, even excluding this one-time gain, 2018 Net Non-operating Charges still reflected a 80%, mainly due to the rise in borrowing rates as the Bangko Sentral ng Pilipinas (BSP) increased the benchmark rates three times or an equivalent of 1.75% in 2018. Furthermore, additional debt service was incurred due to the acquisition of the new businesses which were funded by short-term debt.

Despite the increases in both operating and non-operating expenses, the net income after tax of **₱2.767** billion, rose by 82% from 2017 re-stated level of **₱1.521** billion.



## **Non-recurring Transactions and Net Income**

Meanwhile, the company recorded non-recurring transactions, principally as a result of the excess of the fair value over the acquisition cost of the Investment Properties amounting to ₱0.650 billion in 2017. In 2018, the fair value increment of ₱0.625 billion.

Considering these adjustments, as well as the ₱0.029 million translation adjustment related to Pnx SG, and the fair value revaluation of land assets amounting to ₱1.220 total Comprehensive Income stood at ₱3.568 billion, 134% higher than the ₱1.527 billion re-stated report in 2017.

The fair value revaluation of land assets was in compliance with Philippine Accounting Standards No. 16, which requires that revaluations be carried out regularly for the entire class of assets to which that asset belongs. Specifically, since the land assets of the PLPI were recorded at fair market even prior to its purchase by the Company, the company opted to similarly reflect the fair value of all its land holdings.

## **Financial Condition**

*(As of December 31, 2018 versus December 31, 2017)*

Total resources of the Group as of December 31, 2018 stood at ₱64.600 billion, a 46% growth compared to the ₱44.173 billion level as of December 31, 2017. This was mainly due to the increases in Property, Plant, and Equipment, including the revaluation of the Land Assets and Goodwill, the latter of which was incurred in relation to the acquisition of Philippine FamilyMart CVS, Inc. and Action Able, Inc.

As a result of the doubling of revenues, Cash and Cash Equivalents as well Trade and Other Receivables rose by 331% (from ₱1.832 billion in December 31, 2017 to ₱7.890 billion as of December 31, 2018), and 95% (from ₱7.509 billion as of December 31, 2017 to ₱15.031 billion as of December 31, 2018), respectively.

Inventories declined by 10% to ₱11.135 billion as of December 31, 2018, from ₱12.970 billion as of December 31, 2017. The build-up in December 2017 was brought about by the confluence of the following factors: to address the new businesses such as LPG with the purchase of PEPI, operation of Pnx SG and the volume requirements of the new accounts, higher price of imported petroleum products as a result of movement of prices in the international market, and the decrease in the demand for IFO by the power companies.

As of December 31, 2018, the Group's Property and Equipment, net of accumulated depreciation, increased to ₱18.716 billion versus the ₱13.400 billion as of December 31, 2017 (by 40%), representing the assets of the newly acquired subsidiaries, the fair value revaluation of the Land Assets as well as the continuing expansion program of the group.

Interest-bearing Loans and Borrowings, both current and non-current, was up by 42% from ₱28.171 billion as of December 31, 2017 to ₱39.900 billion as of December 31, 2018. The increment of ₱11.728 billion was from the availment of new loans to service the

working capital requirements of the new businesses, the bulk of which by PNX SG, as well as the company's various capital expenditures.

Trade and Other Payables increased by 107% from ₱3.584 billion as of December 31, 2017 to ₱7.435 billion as of December 31, 2018 due to the additional trade transactions of the new subsidiaries.

Total Stockholders' Equity increased to ₱15.974 billion as of December 31, 2018 from ₱11.683 billion as of December 31, 2017, (by 37%) resulting from the earnings generated and non-recurring gains during the year. This was partly offset by the declaration of cash dividends for both common and preferred shares. In addition, new stocks were issued in relation to the Company's Employee Stock Option Plan (ESOP).

### Key Performance Indicators and Relevant Ratios

The Group's key performance indicators and relevant ratios and how they are computed are listed below:

	<u>December 30, 2018</u>	<u>December 31, 2017</u>
Current Ratio <sup>1</sup>	1.1x : 1x	1.2x : 1x
Debt to Equity Ratio <sup>2</sup>	3.0x : 1x	2.7x : 1x
Net Book Value per Share <sup>3</sup>	₱8.53	₱8.33
Debt to Equity Interest-Bearing <sup>4</sup>	2.5x : 1x	2.4x : 1x
Earnings per Share <sup>5</sup>	₱1.38	₱1.16

#### Notes:

1 - Total current assets divided by current liabilities

2 - Total liabilities divided by tangible net worth

3 - Total stockholder's equity (net of Preferred) divided by the total number of shares issued and outstanding

4 - Interest Bearing Debts divided by Total stockholder's equity (net of Preferred)

5 - Period or Year Net income after tax divided by weighted average number of outstanding common shares

These key indicators were chosen to provide management with a measure of the Group's financial strength (Current Ratio and Debt to Equity) and the Group's ability to maximize the value of its stockholders' investment in the Group (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise, these ratios are used to compare the Group's performance with similar companies.

**Material (5% or more) Changes to the Group's Balance Sheet as of December 31, 2018 vs. December 31, 2017**

331% increase in Cash and Cash Equivalents

Increased cash inflow due to the 99% increase in revenue compared to the previous period.

95% increase in Trade Receivables

A result of the 99% increase in revenue brought about by the increase in sales volume this period compared to the previous period.

10% decrease in Inventory

This is the normal minimum inventory requirement given the current growth in revenue.

81% increase in Due from related parties

In line with the plan of the company to further expand its operations in Luzon, the company advance funds to CISC to enable the latter to upgrade and improve wharf facilities, which will redound to the benefit and improve the company's supply operations.

14% decrease in Net Input VAT

In relation to the decrease in inventory movement.

14% increase in Prepayments and other current assets

Due to the renewal of insurances of all the assets, prepaid rentals advertising and other services and acquisitions which will cover the periods beyond December 31, 2018.

40% increase in PPE

Due to new acquisitions, and construction of new retail and depot facilities and the fair value revaluation of land assets of ₱1.219 billion.

11% increase in Intangible Assets

Due to new software acquisitions for the new subsidiaries.

100% increase in Investment in a Joint Venture

Additions from newly concluded Joint Ventures such as Phoenix Asphalt Philippines, Inc.(PAPI), Phoenix Southern Petroleum, Corp. (PSPC) and Galaxi Petroleum Fuel, Inc.

56% increase in Investment Properties

Resulting from the latest appraisal of the particular investment properties, specifically the land assets of PLPI.

11% increase in Goodwill

Due to the acquisition of PFM, Think Able and Action Able.

614% increase in Other Non-current Assets

Due to the acquisition of PFM and additional rental deposits for the new leases intended for network expansions and option agreements related to property acquisitions.

38% decrease in Deferred Tax Assets  
Due to increase in accrued revenues

57% increase in Current Interest-bearing loans  
Due to the reclassification of certain long-term loans that are due in the next 12 months as well as the additional loans incurred to finance the working capital requirements of Pnx SG.

107% increase in Trade and Other payables  
Due to the increased trade transaction of the new subsidiaries.

2607% increase in Income Tax payable  
Due to the increase in Income Tax from Non-ITH segments.

19% increase in Non-current Interest-bearing loans  
Due the availment of certain long-term loans within the year.

181% increase in Deferred Tax Liabilities  
Increase due the deferred taxes computed on the Fair Value Increment from Investment Property and Land Assets.

25% increase in Non-current liabilities  
Due the increase security deposits from customers of PPPI and PLPI.

27% increase in Additional Paid in Capital  
Coming from the receipt in excess of the par value of the ₱2.0 million Preferred Shares last December, net of the APIC from the redeemed ₱5.0 million shares.

35984% Decrease in Revaluation Reserve  
Due to Fair Value Appraisal of the Land Assets.

757% decrease in Accumulated Translation Adjustments  
Due to increased transaction of the foreign currency denominated subsidiary, Pnx Singapore.

44% increase in Retained Earnings  
Increase coming the Net Income after tax and fair value revaluation of the Land Assets and Investment properties net of the dividends declared and distributed during the year.

**Material (5% or more) changes to the Group's Income Statement as of December 31, 2018 vs. December 31, 2017**

99% increase in Sale of Goods  
Due to the revenues coming from the new subsidiaries namely; PLPI, Duta Group, PFM and Pnx SG, coupled with, higher fuel prices (by 30[1251] %) and additional volume sold

relative to last year (by 49%). The parent company recorded an 8% improvement on its volume sold this year.

138% increase in fuel service, storage income, rental income and other revenue  
This is due to the revenues from the newly acquired subsidiary – PFM and Action Able, Inc.

106% increase in Cost of Sales and Services  
This mirrors the increase in the sale of goods, reflecting the price movements in the world market during the year which is higher compared to the same period in 2017. The increase in excise tax rates on petroleum products also contributed to the increment.

36% increase in selling and administrative expenses  
This is primarily because of the operating requirements of the new subsidiaries. The expansion program of the group caused higher salaries and wages, depreciation, fuel expenses and other operating expenses. The launching of various advertisements and promotions like PULSE Technology are also factors causing the increment.

70% increase in Finance Costs  
A substantial portion represents interest from the P6B loan used to acquire Petronas during the last quarter of 2017.

80% increase in Finance Income and Others  
These pertain to the reversal of certain bad debts, which were collected in 2018, expenses accrued in the prior years which would no longer be paid, net realized and unrealized forex gains.

100% increase in Equity Share in Net Income of a Joint Venture  
This is the net share from PAPI, PSPC and Galaxi joint ventures.

49% increase in Income Tax Expense  
Substantial portion comes from the new businesses net of the ITH holiday benefit of the parent.

657% increase in Translation Adjustments  
Due to the increased forex exposure on the increased transactions of the foreign denominated subsidiary.

100% increase in Revaluation of Land  
This is the result of the appraisal of the Land Assets of PPPI.

345% decrease in Remeasurement of Retirement Benefit Obligation  
This is the result of the Actuarial Valuation Report per revised PAS 19.

8331% increase in Deferred Tax Expense  
Due to the increase in Other Comprehensive Income subject to deferred tax liability.

There are no other material changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Furthermore, there are no material events and uncertainties known to management that would impact or change the reported financial information and condition of the Group.

**B. Comparable discussion on Material Changes in Results of Operations for the Year Ended December 31, 2017 vs. December 31, 2016.**

***Revenues***

The Group generated total revenues of ₱46.326 billion in 2017, 52% higher than 2016's ₱30.577 billion, on the back of a 17% increase in sales volume and fuel prices. This includes addition of LPG revenue of ₱3.4 billion and Pnx SG revenue to third party customers of ₱ 250 million . The group reported ₱44.426 billion net of the pre-acquisition revenues, 45% higher than 2016.

Sales revenues from trading and distribution of petroleum products increased by 56% from ₱29.472 billion in 2016 to ₱45.879 billion in 2017. **Excluding the LPG's pre-operating revenue, net increase is 49% amounting to ₱44.051 billion.** Retail volume (station sales) increased by 9% due to growth in both station network and same store sales. The Commercial and industrial segment also increased by 15%, while aviation volume grew by 13%. Lubricants volume also grew by 49% from the prior year.

The Parent has built five hundred five (530) Phoenix retail service stations as of December 31, 2017 compared to four hundred forty-seven (505) retail stations as of the same period last year. The Parent has a number of retail stations undergoing various stages of construction which are projected to be opened within the 1st half of 2018.

The Group generated revenues of ₱ 375 million from fuel service, storage, and others in 2017, down from ₱1.104 billion in 2016. The 66% year-on-year decline was mainly because 2016 includes shipping, port and real estate revenues from the spun-off subsidiaries. Excluding the revenue from CSC and PPIPC in 2016, fuel services, storage and other revenue increased by 6%.

***Cost and expenses***

The Group recorded cost of sales and services of ₱39.298 billion as of December 2017, an increase of 56% from ₱25.124 billion in 2016. Net of the pre-acquisition cost of sales of the LPG business, the group reported ₱37.909 billion, a net increase of 51%. This was due to higher product costs compared to last year, reflecting increasing global oil prices. The 17% increase in volume is also a factor in the increase cost of sales.

Selling and administrative expenses increased by 32%, driven by higher operating expenses for completed expansions, expected growth impact and newly acquired subsidiaries.

## *Net Income*

The Group's net income for 2017 grew to ₱1.792 billion from ₱1.092 billion in 2016. This includes one-time gain coming from the excess of fair value over acquisition cost of the newly - acquired subsidiary, Duta, Inc amounting to ₱ 650 million and the pre-acquisition profit of PLPI and Duta, Inc. amounting to ₱ 279 million. Excluding non-recurring income, core business net income grew by 30% to ₱1.421 billion, driven primarily by 17% increase in sales volume and additions from the new business, particularly LPG.

The Parent was registered with the Board of Investments on November 16, 2005 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Regulation Act) and, as such, enjoyed an income tax holiday for five (5) years from November 16, 2005 to November 16, 2010.

The Parent Company obtained additional registration approval from the Board of Investments (BOI) under R.A. 8479 or Oil Industry Deregulation Law for its Calaca, Batangas Terminal. This entitled the Parent Company to an Income Tax Holiday (ITH) on the revenue activities from this additional storage capacity for five (5) years starting February 2010. Another BOI registration was granted to the Davao Terminal Expansion facility effective February 2010, which entitled the Parent Company another set of incentives, including the five (5) year ITH on its Davao Terminal Marketing and Storage activities.

The Parent Company was also registered with the BOI on November 25, 2010 as new industry participant with new investment in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Deregulation Act) for its storage tanks in Talisayan, Zamboanga City. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987. This expired on November 25, 2015.

The Parent Company also obtained new approvals with the BOI for its two (2) new facilities. Both the Cagayan de Oro City and the Bacolod City facilities were registered and issued certification by the BOI on May 12, 2012, entitling the Parent Company ITH for five years from registration plus other fiscal and non-fiscal incentives accorded to BOI-registered entities.

The Parent Company also obtained new approvals with the BOI for its four (4) new facilities. Expansions of Cagayan de Oro City and Calaca, Batangas facilities were registered and issued certification by the BOI on November 24, 2017 and December 22, 2017, respectively. New facilities in Tayud, Cebu and Calapan, Mindoro were likewise registered and issued certification by the BOI on September 9, 2017 and October 12, 2017, respectively, entitling the Parent Company ITH for five years from registration plus other fiscal and non-fiscal incentives accorded to BOI-registered entities. These additional ITH incentives will allow the Company to enjoy an effective income tax rate well below 30% as it continuously expands its storage and

obtains further incentives from the BOI.

### **Financial Condition**

*(As of December 31, 2017 versus December 31, 2016)*

Total resources of the Group as of December 31, 2017 stood at ₱44.471 billion, higher by 68% compared to the ₱26.538 billion as of December 31, 2016. This is mainly due to the acquisition of PLPI and Duta, Inc., higher fuel prices and increase in inventory.

Cash and cash equivalents this year decreased by 22% from ₱2.339 billion in December 31, 2016 to ₱1.831 billion as a result of increased operating, acquisition and expansion requirements.

Trade and other receivables decreased by 15% from ₱8.789 billion as of December 31, 2016 to ₱7.510 billion as of December 31, 2017, due to the intensified collection of credit sales and other receivables.

Inventories increased to ₱12.970 billion as of December 30, 2016 from ₱2.999 billion as of December 31, 2016. The increase is brought about by the confluence of the following factors: 1) to address requirements of new businesses, such as LPG with the purchase of PEPI, the operation of Singapore Trading and serving volume of new accounts; 2) higher price of imported petroleum products, mainly because of the increase in crude prices and 3) the continued decrease in demand for IFO by the power sectors also contributed to the higher inventory levels.

Due from related parties decreased to ₱518 million as of December 2017 from ₱1.507 billion as of December 2016. The receivable balance from UDEVCO amounting to ₱50 million for the sale of PPIPC was settled and reclassification of the non-trade receivable from Chelsea Shipping Group Corp. amounting to ₱500 million.

As of December 31, 2017, the Group's property and equipment, net of accumulated depreciation, increased to ₱13.401 billion compared to ₱9.002 billion as of December 31, 2016 due to the acquisition of PEPI and Duta, Inc. as well as the completion of the new retail stations and various facility expansion of the group.

Loans and Borrowings, both current and non-current, increased by 114% from ₱13.184 billion as of December 31, 2016 to ₱28.171 billion as of December 31, 2017. The increase of ₱14.987 billion was from the acquisition of PEPI and Duta, Investment in PNK Singapore, increased inventory value and other capital expenditures of the group.

Trade and other payables increased by 20% from ₱3.333 billion as of December 31, 2016 to ₱3.863 billion as of December 31, 2017 due to longer supplier credit term.

Total Stockholders' Equity increased to ₱11.952 billion as of December 31, 2017 from ₱9.762 billion as of December 31, 2016, resulting from the earnings generated in 2017 net of cash dividend declared and paid during the period for both common shares



and preferred shares. The sale of treasury shares and the employee stock also contributed to the increase. The sale of treasury shares increased the Additional paid in capital by ₱367 million while the employee stock option increased the common shares by ₱2.761 million and the additional paid in capital by ₱21.351 million.

### ***Key Performance Indicators and Relevant Ratios***

The Group's key performance indicators and relevant ratios and how they are computed are listed below:

	December 31, 2017	December 31, 2016
Current Ratio <sup>1</sup>	1.22 : 1	1.17:1
Debt to Equity Ratio <sup>2</sup>	2.72 : 1	1.72:1
Return on Equity <sup>3</sup>	17%	11%
Net Book Value per Share <sup>4</sup>	6.60 : 1	5.08:1
Debt to Equity Interest-Bearing <sup>5</sup>	2.36 : 1	1.35:1
Earnings per Share <sup>6</sup>	1.16	0.64
Earnings per Share (net of one-time gain) <sup>6</sup>	0.89	0.64

*Notes:*

1 - Total current assets divided by current liabilities

2 - Total liabilities divided by tangible net worth

3 - Period or Year Net income divided by average total stockholders' equity

4 - Total stockholder's equity (net of Preferred) divided by the total number of shares issued and outstanding

5 - Interest Bearing Debts divided by Total stockholder's equity (net of Preferred)

6 - Period or Year Net Income after tax divided by weighted average number of outstanding common shares

7 - Period or Year Net Income after tax (net of one-time gain) divided by weighted average number of outstanding common shares

These key indicators were chosen to provide management with a measure of the Group's financial strength (Current Ratio and Debt to Equity) and the Group's ability to maximize the value of its stockholders' investment in the Group (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise, these ratios are used to compare the Group's performance with similar companies.

The Group's debt to equity (DE) ratio for 2017 is higher at 2.72: 1 due to increased liability used for the acquisition of PEPI and Duta, Inc, investment in PNK Singapore, capital expenditures for various expansions and increased inventory requirement.

***Material Changes to the Group's Balance Sheet as of December 31, 2017 compared to December 31, 2016 (Increase/decrease of 5% or more)***

**22% decrease in Cash and Cash Equivalents**

A result of increased operating, acquisition and expansion requirements. The Cash and cash equivalent is within the maintained minimum level to support the operating requirement of the group.

**15% decrease in trade and other receivables**

Due to the intensified collection of credit sales and other receivables.

**333% increase in inventory**

The increase is brought about by the confluence of the following factors: 1) to address requirements of new businesses, such as LPG with the purchase of PEPI, the operation of Singapore Trading and serving volume of new accounts; 2) higher price of imported petroleum products, mainly because of the increase in crude prices and 3) the continued decrease in demand for IFO by the power sectors also contributed to the higher inventory levels.

**66% decrease in due from a related party**

Collection of the receivable balance from UDEVCO for the sale of PPIPC amounting to ₱50 million and reclassification of the ₱500 million to Non-Trade receivable for the CLC for the sale of CSC.

**141% increase in net input vat**

Due to increase in inventory purchases.

**49% increase in property, plant and equipment**

Due to the acquisition of PEPI and Duta, Inc. as well as the completion of the retail stations and expansion of various facilities.

**100% increase in Investment Property**

Due to the acquisition and appraisal of the fair value of the investment properties of Duta Inc. and Kaparangan.

**38,941% increase in Goodwill**

Due to the acquisition of PEPI and Duta, Inc.

**402% increase in Deferred Tax Assets**

Due to the additions from the newly-acquired subsidiaries.

**39% decrease in Other Non-Current Assets**

Due to additions from the newly-acquired subsidiaries.

49% increase in Current Interest-bearing loans

Due to the increase in inventory requirement

20% increase in Trade Payable

Due to the extended supplier credit terms.

492% increase in Non-current Interest-bearing loans

Used for the acquisition of PEPI and Duta Inc., investment in PNX SG and various capital expenditure requirements.

93% Increase in Other Non-Current Liabilities

Increase in security deposit from new customers especially with the additions from LPG business.

30% increase in Capital Stock

Due to the sale of treasury shares and the employee stock option plan.

7% increase in Additional Paid-in Capital

Due to the sale of treasury shares and the employee stock option plan.

36% increase in Retained Earnings

Due to earnings generated in 2017 net of the dividends paid both to common and preferred shares.

***Material changes to the Group's Income Statement as of December 31, 2017 compared to December 31, 2016 (Increase/decrease of 5% or more)***

49% increase in sale of goods

Due to the increase in volume, increase in fuel prices, addition of the LPG Business and sale coming from PNX SG

66% decrease in fuel service, shipping, storage income, and other revenue

There are no more charter fees, sale of real estate and port revenues after the spin-off of CSC and PPIPC.

51% increase in Cost of Sales

As a result of the increase in revenue, volume and fuel prices

32% increase in selling and administrative expenses

Driven by the Group's expansion and acquisition program that resulted in higher depreciation, rent expense, salaries and wages, taxes and licenses and professional fees.

16% decrease in Finance Costs

Most of the financing transactions were made towards the latter part of the year to

fund acquisitions and investments. Moreover, a material portion of the 2016 finance cost were from the spun-off subsidiaries.

**73% decrease in Finance Income**

The decrease is on account of the depreciation of foreign exchange at year-end which resulted in lower forex gain.

**100% decrease in Equity share in Net Loss of a Joint venture**

The joint venture was part of the spun-off subsidiary in 2016.

**100% increase in Excess of Fair Value over acquisition cost**

Due to the acquisition of Duta Inc. which has investment properties with higher appraisal value versus the acquisition cost inclusive of its novated advances from Petronas in favor of PPPI.

**640% Increase in other income**

Due to other income coming from PLPI and Duta, Inc. related to reversals of previously recognized impairments and allowances.

**Recognition of Pre-acquisition Profit**

This refers to the Income of PEPI and Duta, Inc. from January to July 2017, prior to the completion of the acquisition.

**19% increase in income tax**

Due to additions from the newly-acquired subsidiaries, expiration of certain ITH certificates net of the effect of the new approvals.

**8% decrease in re-measurement of post-employment benefit obligation**

Due to the sale of CSC and PPIPC net of the increase from PLPI.

**100% increase in Translation adjustment**

This comes from the forex translation of PNX SG to Philippines Peso.

There are no other material changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Furthermore, there are no material events and uncertainties known to management that would impact or change the reported financial information and condition of the Group.

**C. Comparable discussion on Material Changes in Results of Operations for the Year Ended December 31, 2016 vs. December 31, 2015.**

***Revenues***

The Group generated total revenues of ₱30.577 billion in 2016, 2% higher than 2015's ₱30.054 billion, on the back of a 25% increase in sales volume and improved product mix in favor of higher margin products. This however, was tempered by the 19% decline in average fuel prices.

Sales revenues from trading and distribution of petroleum products increased by 4% from ₱28.621 billion in 2015 to ₱29.666 billion in 2016. Retail volume (station sales) increased by 12% due to growth in both station network and same store sales. The Commercial and industrial segment also increased by 33%, while aviation volume grew by 14%. Lubricants volume also grew by 18% from the prior year.

The Parent has built five hundred five (505) Phoenix retail service stations as of December 31, 2016 compared to four hundred forty-seven (454) retail stations as of the same period last year. The Parent has a number of retail stations undergoing various stages of construction which are projected to be opened within the 1st half of 2017.

The Group generated revenues of ₱1.104 billion from fuel service, shipping, storage, port, real estate, and others in 2016, down from ₱1.433 billion in 2015. The 23% year-on-year decline was mainly due to the ₱456 million in sale of real estate in 2015 versus none in 2016. Moreover, results of Chelsea Shipping Corporation (CSC) and Phoenix Petroterminals and Industrial Park Corp. (PPIPC) were consolidated only from January to November.

### *Cost and expenses*

The Group recorded cost of sales and services of ₱25.124 billion as of December 2016, a decrease of 0.1% from ₱25.269 billion in 2015. This was due to lower product costs compared to last year, reflecting lower global oil prices. Prices continued its generally downward movement from the second quarter of 2015 until first quarter of 2016, which only then, started to recover.

Selling and administrative expenses increased by 23%, driven by higher depreciation for completed expansions, as well as increases in rent expense, salaries and wages, taxes and licenses, and professional fees in relation to the expansion program of the Group.

### *Net Income*

The Group's net income for 2016 grew to ₱1.092 billion from ₱905.868 million in 2015. Growth was driven primarily by higher sales volume, higher efficiencies in trading and supply management, and higher service revenues.

The Parent was registered with the Board of Investments on November 16, 2005 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Regulation Act) and, as such, enjoyed an income tax holiday for five (5) years from November 16, 2005 to November 16, 2010.

The Parent Company obtained additional registration approval from the Board of Investments (BOI) under R.A. 8479 or Oil Industry Deregulation Law for its Calaca,

Batangas Terminal. This entitled the Parent Company to an Income Tax Holiday (ITH) on the revenue activities from this additional storage capacity for five (5) years starting February 2010. Another BOI registration was granted to the Davao Terminal Expansion facility effective February 2010, which entitled the Parent Company another set of incentives, including the five (5) year ITH on its Davao Terminal Marketing and Storage activities.

The Parent Company was also registered with the BOI on November 25, 2010 as new industry participant with new investment in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Deregulation Act) for its storage tanks in Talisayan, Zamboanga City. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987. This expired on November 25, 2015.

The Parent Company also obtained new approvals with the BOI for its two (2) new facilities. Both the Cagayan de Oro City and the Bacolod City facilities were registered and issued certification by the BOI on May 12, 2012, entitling the Parent Company ITH for five years from registration plus other fiscal and non-fiscal incentives accorded to BOI-registered entities. These additional ITH incentives will allow the Company to enjoy an effective income tax rate well below 30% as it continuously expands its storage and obtains further incentives from the BOI.

### **Financial Condition**

*(As of December 31, 2016 versus December 31, 2015)*

Total resources of the Group as of December 31, 2016 stood at ₱26.538 billion, lower by 14% compared to the ₱30.926 billion as of December 31, 2015. This is mainly due to the sale of the subsidiaries, resulting in the deconsolidation of the carrying values of CSC and PPIPC.

Cash and cash equivalents this year increased by 43% from ₱1.632 billion in December 31, 2015 to ₱2.339 billion due to the net proceeds from sale of the subsidiaries and increased collections towards year-end net of payment of outstanding interest-bearing debt.

Trade and other receivables decreased by 19% from ₱10.810 billion as of December 31, 2015 to ₱8.789 billion as of December 31, 2016, due to the intensified collection of credit sales and other receivables and the deconsolidation of related receivables from the sale of the subsidiaries.

Inventories increased by 14% to ₱2.999 billion as of December 30, 2016 from ₱2.638 billion as of December 31, 2015, driven by the timing of arrival of importations. The Group targets to maintain an average of one month worth of inventory to ensure stable supply in retail stations and commercial/industrial clients. However, the actual level varies depending on the actual arrival dates of the fuel tankers.

Due from related parties increased to ₱1.507 billion as of December 2016 from ₱12.260 million as of December 2015, arising from the receivable balance from

UDEVCO amounting to ₱50 million for the sale of PPIPC and from Chelsea Shipping Group Corp. amounting to ₱500 million for the sale of CSC. The change also included reclassification of accounts following the sale of the subsidiaries, CSC and PPIPC.

As of December 31, 2016, the Group's property and equipment, net of accumulated depreciation, decreased to ₱9.002 billion compared to ₱12.823 billion as of December 31, 2015 due to the sale of the subsidiaries that resulted in the deconsolidation of the related assets of CSC and PPIPC.

Loans and Borrowings, both current and non-current, decreased by 22% from ₱16.983 billion as of December 31, 2015 to ₱13.184 billion as of December 31, 2016. The decrease of ₱3.799 billion was from the settlement of loans, which include the payments of interest-bearing debt from the proceeds of the sale of subsidiaries. Also contributing to the decline was the decrease in trade payables and the deconsolidation of the related loans and borrowings of CSC and PPIPC following the sale.

Trade and other payables decreased by 2% from ₱3.578 billion as of December 31, 2015 to ₱3.333 billion as of December 31, 2016 due to longer supplier credit term.

Total Stockholders' Equity decreased to ₱9.762 billion as of December 31, 2016 from ₱10.023 billion as of December 31, 2015, resulting from the earnings generated in 2016 net of cash dividend declared and paid during the period for both common shares and preferred shares. The deconsolidation of CSC and PPIPC also contributed to the decrease.

### ***Key Performance Indicators and Relevant Ratios***

The Company's key performance indicators and relevant ratios and how they are computed are listed below:

	December 31, 2016	December 31, 2015
Current Ratio <sup>1</sup>	1.71:1	1.14:1
Debt to Equity-Total <sup>2</sup>	1.72:1	2.09:1
Return on Equity-Common <sup>3</sup>	11%	11%
Net Book Value Per Share <sup>4</sup>	6.81:1	6.89:1
Debt to Equity-Interest Bearing <sup>5</sup>	1.35:1	1.69:1
Earnings Per Share-Adjusted <sup>6</sup>	0.64	0.60

#### *Notes:*

1 - Total current assets divided by current liabilities

2 - Total liabilities divided by tangible net worth

3 - Period or Year Net income divided by average total stockholders' equity

4 -Total stockholder's equity (net of Preferred) divided by the total number of shares issued and outstanding

*5- Interest Bearing Debts divided by Total stockholder's equity (net of Preferred)*

*6 – Period or Year Net income after tax divided by weighted average number of outstanding common shares*

These key indicators were chosen to provide management with a measure of the Group's financial strength (Current Ratio and Debt to Equity) and the Group's ability to maximize the value of its stockholders' investment in the Group (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise, these ratios are used to compare the Group's performance with similar companies.

The Group's debt to equity (DE) ratio for 2016 is lower at 1.72: 1 due to the sale of the subsidiaries resulting in the deconsolidation of the related accounts of CSC and PPIPC.

**Material Changes to the Group's Balance Sheet as of December 31, 2016 compared to December 31, 2015 (Increase/decrease of 5% or more)**

43% increase in Cash and Cash Equivalents

A result of the net proceeds from the sale of the subsidiaries, as well as the timing of collections and disbursements during the period offset by proceeds used to pay out interest-bearing debt. Minimum levels of cash are also maintained to support maturing obligations.

14% increase in inventory

Due to the timing of arrival of importations, additional product lines, and the prices of petroleum.

19% decrease in trade and other receivables

Due to improved collection efforts and higher customer management efficiency. Also contributing to the decline was the sale of the subsidiaries, which resulted in the deconsolidation of the trade and other receivables of CSC and PPIPC.

12,191% increase in due from a related party

Attributable to the receivable balance from the sale of CSC to Chelsea Group Corp amounting to ₱500 million and from UDEVCO for the sale of PPIPC amounting to ₱50 million. The change also included reclassification of accounts following the sale of the subsidiaries, CSC and PPIPC.

28% increase in restricted deposit

Due to the sale of subsidiaries resulting in the deconsolidation of CSC and PPIPC.

6% decrease in net input vat

Due to the sale of subsidiaries resulting in the deconsolidation of CSC and PPIPC.

30% decrease in property, plant and equipment

Due to the sale of subsidiaries resulting in the deconsolidation of CSC and PPIPC.

280% increase in Intangible Assets



Due to the acquisition of a basketball franchise as part of the Group's brand enhancement initiatives.

100% decrease in Land Held for Future Development

Due to sale of subsidiaries resulting in the deconsolidation of PPIPC.

100% decrease in Investment in a joint venture

Due to sale of subsidiaries resulting in the deconsolidation of PPIPC.

88% decrease in Goodwill

Due to sale of subsidiaries resulting in the deconsolidation of PPIPC and CSC.

100% increase in Deferred Tax Assets

Due to sale of subsidiaries resulting in the deconsolidation of related accounts of PPIPC and CSC.

43% decrease in Other Non-Current Assets

Due to sale of subsidiaries resulting in the deconsolidation of related accounts of PPIPC and CSC.

63% decrease in Non-current Interest-bearing loans

Due to the early settlement of Long-Term Debt using the proceeds from the sale of CSC and PPIPC.

100% decrease in Non-current Trade and Other Payables

Due to sale of subsidiaries resulting in the deconsolidation of the related accounts of PPIPC and CSC.

100% decrease in Deferred Tax Liability

Due to sale of subsidiaries resulting in the deconsolidation of the related accounts of PPIPC and CSC.

5% Increase in Other Non-Current Liabilities

Increase in security deposit from new customers

23% decrease in Capital Stock

Due to treasury shares acquisition amounting to ₱330.6 million

17% increase in Other Reserves

Due to the sale of the sale and subsequent deconsolidation of PPIPC and CSC.

23% increase in Retained Earnings

Due to earnings generated in 2016 net of the dividends paid both to common and preferred shares, as well as the sale and deconsolidation of PPIPC and CSC.

***Material changes to the Group's Income Statement as of December 31, 2016 compared to December 31, 2015 (Increase/decrease of 5% or more)***

23% decrease in fuel service, shipping, storage income, and other revenue  
Due to the ₱456 million revenues from sale of real estate in 2015 versus none in 2016.

23% increase in selling and administrative expenses  
Driven by the Group's expansion program that resulted in higher depreciation, rent expense, salaries and wages, taxes and licenses, and professional fees.

5% increase in Finance Costs  
Increase in the number of financing transactions.

2,649% increase in Finance Income  
Due to forex gains arising from US\$-denominated revenues

21% Increase in other income  
Due to growth in non-fuel related business.

207% Increase on equity share in Net Loss of a joint venture.  
Attributable to the equity share of PPIPC in SPI for the eleven months ending November 30, 2016.

9% decrease in income tax  
Due to increase in deferred tax assets arising from unrealized and non-taxable income.

15% decrease in re-measurement of post-employment benefit obligation  
Due to the sale of CSC and PPIPC.

100% decrease on the revaluation of tankers under OCI  
Due to the sale of CSC and PPIPC and their deconsolidation in December 2016.

65% decrease on the tax expense on other comprehensive income  
Due to the absence of revaluation of tankers under OCI following the sale of CSC.

There are no other material changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Furthermore, there are no material events and uncertainties known to management that would impact or change the reported financial information and condition of the Group.

### **III. EXTERNAL AUDIT FEES**

*(please refer to pages 34-36 of the Information Statement - form 20-IS)*

### **IV. Market price of and Dividends on required by Part V of Annex C, as amended**

#### **(1) Market Information**

The Company's common shares were listed and traded at the Philippine Stock Exchange ("PSE") starting on July 11, 2007. The high and low sale prices of each period for years 2016 and 2017 are hereunder shown:

## Year 2018

<b>Period</b>	<b>Highest Close Price</b>	<b>Lowest Close Price</b>
First Quarter	13.80	11.10
Second Quarter	12.80	11.74
Third Quarter	12.20	10.50
Fourth Quarter	11.30	10.50

## Year 2017

<b>Period</b>	<b>Highest Close Price</b>	<b>Lowest Close Price</b>
First Quarter	8.47	5.53
Second Quarter	11.68	8.10
Third Quarter	13.26	9.50
Fourth Quarter	13.36	10.90

As of February 20, 2019, the Company's closing share price is at Php 11.80, with a market capitalization of approximately Php 16,558,989,937.60.

*Preferred Shares*

The 1<sup>st</sup> tranche preferred shares of the Company were issued on September 21, 2010 by way of private placement and/or sale under SRC Rule 10.1 (k) and (l) to qualified institutional buyers, hence, exempt from the registration requirement of the SRC. Therefore, these shares were not listed with and traded in the Exchange.

The 2<sup>nd</sup> tranche preferred (PNXP) shares of the Company were redeemed last December 20, 2018 at Php 100.00 per share or a total of Five Hundred Million Pesos (Php500,000,000.00). These PNXP shares shall form part of the preferred treasury shares of the company.

The 3<sup>rd</sup> tranche preferred shares of the Company consisting of 20,000,000 preferred shares were registered on December 3, 2015 and listed with the Exchange on December 18, 2015. The 3<sup>rd</sup> tranche were issued under the following series:

Series 3A (PNX3A) is entitled to an Optional Redemption on the 3<sup>rd</sup> Anniversary of the Listing Date and is subject to a Step-Up Dividend Rate on the 5<sup>th</sup> anniversary of the Listing Date; and

Series 3B (PNX3B) is entitled to an Optional Redemption on the 5<sup>th</sup> anniversary of the Listing Date and is subject to a Step-Up Dividend Rate on the 7<sup>th</sup> anniversary of the Listing Date.

The high and low sale prices for each period of PNX3A and PNX3B shares for the year **2018** and **2017** are hereunder shown:

**2018**

**Series 3A (PNX3A)**

	<b>Highest Close</b>	<b>Lowest Close</b>
<b>Period</b>	<b>Price</b>	<b>Price</b>
First Quarter	105.70	102.00
Second Quarter	104.80	100.10
Third Quarter	104.00	99.50
Fourth Quarter	103.20	99.00

**2018**

**Series 3B (PNX 3B)**

	<b>Highest Close</b>	<b>Lowest Close</b>
<b>Period</b>	<b>Price</b>	<b>Price</b>
First Quarter	114.00	108.50
Second Quarter	111.00	106.00
Third Quarter	112.00	103.00
Fourth Quarter	109.90	101.20

**2017**

**Series 3A (PNX3A)**

	<b>Highest Close</b>	<b>Lowest Close</b>
<b>Period</b>	<b>Price</b>	<b>Price</b>
First Quarter	108.00	104.10
Second Quarter	108.00	104.10
Third Quarter	107.20	103.00
Fourth Quarter	106.00	100.10

**2017**

**Series 3B (PNX 3B)**

	<b>Highest Close</b>	<b>Lowest Close</b>
<b>Period</b>	<b>Price</b>	<b>Price</b>
First Quarter	120.00	106.90
Second Quarter	121.00	108.00
Third Quarter	113.50	105.00
Fourth Quarter	115.00	100.00

**(1) Holders**

**Top 20 Stockholders of Common Shares  
As of January 31, 2019**

#	NAME OF STOCKHOLDERS	OWNERSHIP (in %)	OUTSTANDING & ISSUED SHARES
1	PHOENIX PETROLEUM HOLDINGS INC.	41.97	588,945,630
2	ES CONSULTANCY GROUP, INC.	24.25	340,270,980
3	TOP DIRECT INVESTMENTS LIMITED	10.12	142,000,000
4	UDENNA CORPORATION	8.35	117,245,918
5	PCD NOMINEE CORPORATION (FILIPINO)	7.6729	138,605,668
6	PCD NOMINEE CORPORATION - (NON-FILIPINO)	7.4889	223,221,490
7	UDENNA MANAGEMENT & RESOURCES CORP.	0.83	11,661,195
8	JOSELITO R. RAMOS	0.34	4,812,600
9	DENNIS A. UY	0.28	3,991,811
10	UDENCO CORPORATION	0.12	1,614,787
11	DENNIS A. UY &/OR CHERYLYN C. UY	0.08	1,098,060
12	DOMINGO T. UY	0.05	645,919
13	ERIC U. LIM OR CHRISTINE YAO LIM	0.02	319,000
14	MARJORIE ANN LIM LEE OR PAULINE ANN LIM	0.02	300,000
15	EDWIN U. LIM OR GENEVIEVE LIM	0.02	300,000
16	JOSE MANUEL ROQUE QUIMSON	0.01	173,039
17	ZENAIDA CHAN UY	0.01	149,058
18	REBECCA PILAR CLARIDAD CATERIO	0.01	148,453
19	SOCORRO ERMAC CABREROS	0.007	103,316
20	IGNACIA S. BRAGA IV	0.005	71,019

***Preferred Shares***

The holders of the preferred shares (3rd tranche) of the Company as of 31 January 2019 are as follows:

## PNXPNX3A (Series A):

STOCKHOLDER'S NAME	OUTSTANDING & ISSUED SHARES (FULLY PAID)	OUTSTANDING & ISSUED SHARES (PARTIALLY PAID)	TOTAL HOLDINGS (SUBSCRIBED)	PERCENTAGE TO TOTAL	NATIONALITY
PCD NOMINEE CORPORATION (FILIPINO)	7,468,410	0	7,468,410	99.579	FILIPINO
PCD NOMINEE CORPORATION (NON-FILIPINO)	18,980	0	18,980	0.253	OTHERS
ANTONIO T. CHUA	5,700	0	5,700	0.076	OTHERS
KNIGHTS OF COLUMBUS FRATERNAL ASSOCIATION OF THE PHILS. INC.	6,910	0	6,910	0.092	FILIPINO
GRAND TOTAL	7,500,000		7,500,000	100.000	

## PNX3B (Series B)

STOCKHOLDER'S NAME	OUTSTANDING & ISSUED SHARES (FULLY PAID)	OUTSTANDING & ISSUED SHARES (PARTIALLY PAID)	TOTAL HOLDINGS (SUBSCRIBED)	PERCENTAGE TO TOTAL	NATIONALITY
PCD NOMINEE CORPORATION (FILIPINO)	7,468,410	0	7,468,410	99.579	FILIPINO
PCD NOMINEE CORPORATION (NON-FILIPINO)	18,980	0	18,980	0.253	OTHERS
ANTONIO T. CHUA	5,700	0	5,700	0.076	OTHERS
KNIGHTS OF COLUMBUS FRATERNAL ASSOCIATION OF THE PHILS. INC.	6,910	0	6,910	0.092	FILIPINO
GRAND TOTAL	7,500,000		7,500,000	100.000	

The issuance of the Offer Shares shall have no effect on the amount and percentage of the present holdings of the Company's common shareholders. Neither is there any effect of this issuance on the percentage of the Company's shares beneficially owned by foreigners.

**(2) Dividends**

The Company's dividend policy is to declare at least 30% of its prior year's net income as dividends, whether in stock or in cash or a combination of both, payable out of its unrestricted retained earnings subject to statutory limitations.

Each holder of a common share is entitled to such dividends as may be declared in accordance with the Company's dividend policy. The Company's current dividend policy entitles holders of common shares to receive dividends based on the recommendation of the Board of Directors. Such recommendation will consider such factors as operating expenses, implementation of business plans, and working capital.

***History of Dividend Income Payment*****1. Company****a. Dividends on Common Shares**

Date Declared	Dividend Rate	Record Date	Payment Date	Total Amount
January 25, 2018	Cash Dividend of P0.15 per share	Apr 2, 2018	April 26, 2018	P207,954,037.36

January 25, 2017	Cash Dividend of P0.10 per share	March 30, 2017	April 27, 2017	P136,468,719.08
March 18, 2016	Cash Dividend of P0.08 per share	April 05, 2016	April 29, 2016	P114,302,178.56
March 4, 2015	Cash Dividend of P0.05 per share	March 18, 2015	April 16, 2015	P71,438,861.60
January 29, 2014	Cash Dividend of P0.10 per share	March 17, 2014	April 11, 2014	P142,877,723.20
January 24, 2013	30% Stock Dividend	May 15, 2013	June 10, 2013	P329,717,232.00
	Cash Dividend of P0.10 per share	April 11, 2013	May 8, 2013	P103,605,941.60

#### b. Cash Dividend on Preferred Shares

Since the issuance of the preferred shares of the Company on September 21, 2010 (the 1<sup>st</sup> tranche), the Company has declared quarterly dividends fixed at 11.50% per annum, calculated in respect of each share with reference to the Issue Price thereof on each dividend period. This translates to a cash dividend amounting to P2.875 per share per quarter. The cash dividends were paid on September 21, December 21, March 21 and June 21 of each year starting December 21, 2010 until the preferred shares were redeemed on December 20, 2013.

##### 1<sup>st</sup> Tranche

Date Declared	Dividend Rate	Record Date	Payment Date	Total Amount
December 5, 2013	P2.875 per share	N/A	December 20, 2013	P14,375,000.00
September 5, 2013	P2.875 per share	N/A	September 21, 2013	P14,375,000.00
June 5, 2013	P2.875 per share	N/A	June 21, 2013	P14,375,000.00
Mar 5, 2013	P2.875 per share	N/A	March 21, 2013	P14,375,000.00
December 5, 2012	P2.875 per share	N/A	December 21, 2012	P14,375,000.00
September 5, 2012	P2.875 per share	N/A	September 21, 2012	P14,375,000.00
June 4, 2012	P2.875 per share	N/A	June 21, 2012	P14,375,000.00
March 05, 2012	P2.875 per share	N/A	March 21, 2012	P14,375,000.00
December 1, 2011	P2.875 per share	N/A	December 21, 2011	P14,375,000.00
August 12, 2011	P2.875 per share	N/A	September 21, 2011	P14,375,000.00
May 12, 2011	P2.875 per share	N/A	June 21, 2011	P14,375,000.00
March 11, 2011	P2.875 per share	N/A	March 21, 2011	P14,375,000.00
September 21, 2010	P2.875 per share	N/A	December 21, 2010	P14,375,000.00

On December 20, 2013, in order to redeem the 1<sup>st</sup> tranche of preferred shares, the Company issued the 2<sup>nd</sup> tranche of preferred shares with the same amount and features except for the rate, which was reduced to 8.25% per annum. The dividends are calculated on a 30/360 day basis and have a priority in the payment of dividends at the fixed rate of 8.25% per annum at the time of issuance, which translates to a cash dividend amounting to P2.0625 per share per quarter. These shares are also preferred in the distribution of corporate assets in the event of liquidation and dissolution of the Company.

The 2<sup>nd</sup> tranche preferred (PNXP) shares of the Company were redeemed last December 20,

2018 at Php 100.00 per share or a total of Five Hundred Million Pesos (Php500,000,000.00). These PNXP shares shall form part of the preferred treasury shares of the company.

## 2<sup>nd</sup> Tranche

Date Declared	Dividend Rate	Record Date	Payment Date	Total Amount
Nov. 7, 2018	P2.0625 per share	Nov. 23, 2018	Dec. 20, 2018	P10,312,500.00
Aug 6, 2018	P2.0625 per share	Aug 24, 2018	Sept 20, 2018	P10,312,500.00
May 7, 2018	P2.0625 per share	May 24, 2018	June 20, 2018	P10,312,500.00
Feb, 2018	P2.0625 per share	Feb 22, 2018	March 20, 2018	P10,312,500.00
Nov. 6, 2017	P2.0625 per share	Nov. 23, 2017	Dec. 20, 2017	P10,312,500.00
Aug 3, 2017	P2.0625 per share	Aug. 24, 2017	Sept 20, 2017	P10,312,500.00
May 4, 2017	P2.0625 per share	May 24, 2017	June 20, 2017	P10,312,500.00
Feb 6, 2017	P2.0625 per share	Feb 22, 2017	March 20, 2017	P10,312,500.00
Nov 7, 2016	P2.0625 per share	Nov 2016	Dec. 2016	P10,312,500.00
Aug 10, 2016	P2.0625 per share	Aug 24, 2016	Sept 20, 2016	P10,312,500.00
May 11, 2016	P2.0625 per share	May 26, 2016	June 20, 2016	P10,312,500.00
March 10, 2016	P2.0625 per share	Feb 23, 2016	March 21, 2016	P10,312,500.00
Nov 10, 2015	P2.0625 per share	Nov. 26, 2015	Dec 20, 2015	P10,312,500.00
Aug 10, 2015	P2.0625 per share	Aug. 25, 2015	Sept 21, 2015	P10,312,500.00
May 12, 2015	P2.0625 per share	May 12, 2015	June 22, 2015	P10,312,500.00
Feb 6, 2015	P2.0625 per share	Feb. 24, 2015	March 20, 2015	P10,312,500.00
N/A	P2.0625 per share	N/A	Dec 22, 2014	P10,312,500.00
N/A	P2.0625 per share	N/A	Sept 22, 2014	P10,312,500.00
N/A	P2.0625 per share	N/A	June 20, 2014	P10,312,500.00
N/A	P2.0625 per share	N/A	March 20, 2014	P10,312,500.00

### (3) Recent Sale of Unregistered Securities or Exempt Securities Including Recent Issuance of Securities Constituting an Exempt Transaction

The Company has not sold or transferred any securities that is not registered under the Code nor did it issue any additional securities in exchange for any properties, services and other securities.

## V. DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE.

Corporate powers and governance of the Company is exercised by the Board of Directors which consists of eleven (11) members, two (2) of whom are independent directors. As a matter of policy and based on good corporate practice, unless a special meeting is called upon for a specific purpose, the Board regularly meets every quarter wherein which the relevant corporate issues may be raised for discussion and voted by the members of the Board.

Last March 07, 2008, during the regular meeting of the Board, the Manual of Corporate Governance which incorporated the best practices was approved and adopted to establish the principles of good corporate governance for the entire Corporation. The adoption of the new Manual of Corporate Governance replaces the old manual of corporate governance prescribed by the SEC which was then observed and followed by the Company. Moreover, the adoption of the new Manual now



complies with the SEC requirement that before assuming office, a director must attend a seminar on corporate governance conducted by a duly recognized government or private institution.

Last January 30, 2008, the Company through the Corporate Secretary has submitted a document certifying the attendance of the members of the Board of Directors in all regular meetings for the year 2007 as well as the compliance to the provisions of the Manual of Corporate Governance prescribed by the SEC as adopted by the Company.

March 03, 2009 was the submission and compliance with the Certification of the Company's Compliance Officer to the extent of compliance with its Manual for Corporate Governance.

As of 2018, there were no reported deviations on the Company's Manual of Corporate Governance.

As part of the Corporate Governance, the Group works on the early disclosures of quarterly and annual reports tot SEC and PSE.

Internal Audit Group of the Company conducts regular internal audit review to both processes, compliance to Company policies and procedures and risk analysis. Reports and recommendations submitted for board review and actions.

The Company plans on constantly improving corporate governance. The Company recognizes that corporate governance is not just a set of rules but a way of life, not just for the directors and officers of the Company but for every single employee. The Company intends to continuously re-evaluate its existing policies, implement reforms, emulate and improve on the best existing corporate practices of industry leaders in order to improve the quality of life of every employee, maximize returns to shareholders, to improve its relationship with business partners, and strengthen and widen the reach of its corporate social responsibility programs.

- VI. AS PART OF THE CORPORATE GOVERNANCE, THE COMPANY WILL PROVIDE WITHOUT CHARGE, UPON WRITTEN REQUEST TO THE CORPORATE SECRETARY OF THE COMPANY AT THE ADDRESS LISTED ON THE COVER PAGE OF THIS INFORMATION STATEMENT, A COPY OF THE COMPANY'S ANNUAL REPORT ON SEC FORM 17-A, INCLUDING THE FINANCIAL STATEMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018 HOWEVER, UPON THE DISCRETION OF THE MANAGEMENT OF THE COMPANY, A CHARGE MAY BE MADE FOR EXHIBITS REQUESTED, WHICH CHARGE SHALL BE LIMITED TO REASONABLE EXPENSES THAT MAY BE INCURRED BY THE COMPANY IN FURNISHING SUCH EXHIBITS.**
- VII. ANNUAL AUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED DECEMBER 31, 2018 (Please see attached Annex "C")**

26 February 2019

ANNEX "C"

**Securities & Exchange Commission**  
Secretariat Building, PICC Complex  
Roxas Blvd, Metro Manila

**Philippine Stock Exchange**  
Disclosure Department  
3/F PSE Plaza, Ayala Triangle Plaza  
Makati City, Metro Manila

**Philippine Dealing & Exchange Corporation**  
37th Floor, Tower 1, The Enterprise Center  
6766 Ayala Ave. corner Paseo de Roxas  
Makati, 1226 Metro Manila, Philippines

**Attention: Hon. Vicente Graciano P. Felizmenio, Jr.**  
Director, Market and Securities Regulation Department  
Securities & Exchange Commission

**Ms. Janet Encarnacion**  
Head - Disclosure Department  
Philippine Stock Exchange

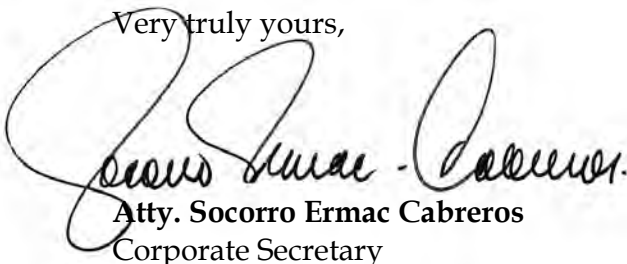
**Atty. Joseph B. Evangelista**  
Head - Issuer Compliance and Disclosure Department  
(ICDD)

**Ladies and Gentlemen:**

We would like to submit our recently concluded Annual Audited Financial Statement (AAFS) for period ended 31 December 2018 complete with its attachments as will be attached to our Definitive Information Statement (SEC Form 20-IS) and distributed to our shareholders.

Thank you and warm regards.

Very truly yours,



**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

SEC  
DAVAO  
EXTENSION OFFICE  
FEB 26 2019  
RECEIVED SUBJECT TO REVIEW OF  
FORM AND CONTENTS  
SEC Registration Number

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(082) 235-8888

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Any day in March
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12/31

## Mobile Number

1. <input type="checkbox"/> <b>Yes</b> 2. <input type="checkbox"/> <b>No</b> 3. <input type="checkbox"/> <b>Not sure</b>
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Stella Hizon Reyes Road, Bo. Pampanga, Davao City

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



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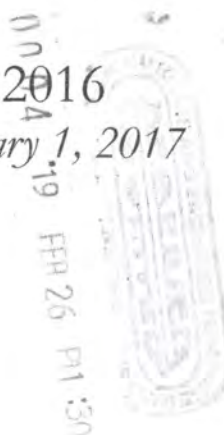
**FOR SEC FILING**



Consolidated Financial Statements and  
Independent Auditors' Report

**P-H-O-E-N-I-X Petroleum Philippines, Inc.**  
**and Subsidiaries**

December 31, 2018, 2017 and 2016  
*(With Corresponding Figures as at January 1, 2017)*







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**Punongbayan & Araullo**

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The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288

## **Report of Independent Auditors**

**The Board of Directors and Stockholders**  
**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
Stella Hizon Reyes Road  
Barrio Pampanga, Davao City

### **Opinion**

We have audited the consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years in the period ended December 31, 2018, and notes to consolidated financial statements, including a summary of significant accounting policies.

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

### **Basis for Opinion**

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

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**Certified Public Accountants**

Punongbayan & Araullo is the Philippine member firm of Grant Thornton International Ltd

Offices in Cavite, Cebu, Davao  
BOA/PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002-FR-5

[grantthornton.com.ph](http://grantthornton.com.ph)

## **Key Audit Matters**

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

### **(a) Revenue Recognition**

#### *Description of the Matter*

The Group's revenue is primarily generated from the sales of goods [fuels, liquefied petroleum gas (LPG), lubricants and other petroleum products], which is recognized as the goods are delivered. The Group focuses on revenue as a key performance measure, which could create an incentive for management to overstate revenues, particularly from sale of goods. In our view, revenue recognition is a key audit matter due to its significance to profit, high volume of revenue transactions and susceptibility to misstatement due to fraud or error. Relative to this, we consider that there is a higher risk associated with revenue occurrence and appropriate recognition of sales in the correct accounting period.

The revenue recognition policy and disaggregation of revenues are disclosed in accounting policies for revenues are included in Notes 2.13 and 21, respectively, to the consolidated financial statements.

#### *How the Matter was Addressed in the Audit*

Our audit procedures included, among others, the following:

- updating our understanding of the Group's revenue recognition policy and procedures;
- reviewing the existing contracts with customers and evaluating the appropriateness of the Group's revenue recognition policies and application in accordance with PFRS 15, *Revenue from Contracts with Customers*;
- performing sales cut-off procedures immediately before and after the year-end by testing the sales invoices to evidence of delivery to ensure that revenue was recognized in the correct period;
- performing detailed transaction testing by agreeing sample revenue items to supporting documents, including sales invoices, contracts and third party correspondence,
- conducting substantive analytical procedures; and,
- confirming trade receivables, on a sample basis, as of the end of the reporting period.

### **(b) Impairment of Trade and Other Receivables**

#### *Description of the Matter*

Under the PFRS, the Group is required to assess its trade and other receivables for impairment. As described in Note 4.2(b) to the consolidated financial statements, the impairment losses have been determined in accordance with PFRS 9, *Financial Instruments*. The allowance for impairment of trade and other receivables is considered to be a matter of significance since estimates used to determine the allowance for impairment requires significant judgment.

As of December 31, 2018, the Group had trade and other receivables amounting to P15,030.7 million, which contributed to 23.3% of the Group's total assets. As of December 31, 2018, the allowance for impairment on trade and other receivables amounted to P634.4 million.



The disclosures of the Group on the allowance for impairment of trade and other receivables and the related credit risk are included in Notes 7 and 4.2(b) to the consolidated financial statements, respectively.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of trade and other receivables, included, but not restricted to:

- evaluating the appropriateness of the Group's expected credit loss model based on the requirements of PFRS 9;
- assessing the appropriateness and reasonableness of underlying assumptions, and the sufficiency, reliability and relevance of the data used by the Group's management;
- performing independent checking on the probability of default, loss given default and exposure at default rates that are used as bases in computing the impairment loss on selected trade and other receivables accounts; and,
- performing an independent calculations based on the Group's methodology.

**(c) Business Combination**

*Description of the Matter*

As disclosed in Note 1.4 to the consolidated financial statements, in 2018, the Group completed the acquisitions of Philippine FamilyMart CVS, Inc. (PFM), Action.Able Inc. (AAI), Think.Able Limited (TAL) (AAI and TAL collectively known as AAI Group). The Group has determined these acquisitions to be business combinations for which the purchase price is to be allocated between the identifiable assets and liabilities at their respective fair values.

Following the various acquisitions, the management has determined Goodwill amounting to P273.1 million and P155.0 million for the acquisitions of PFM and AAI Group, respectively. The accounting for these on business acquisition is complex due to the significant judgements and estimates that are required to determine the values of the consideration transferred and the identification and measurement of the fair value of the assets acquired and liabilities assumed. We, therefore, consider the business acquisition to be a key audit matter due to the significance of the amount involved and the complexity of the accounting requirements.

The Group's disclosure on policies on business combinations is presented in Note 2.12 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures included, among others, the following:

- reviewing the relevant minutes of meeting of the Parent Company for the approval of the transaction and executed share purchase agreement;
- involving our own valuation specialist to assist in evaluating the appropriateness of the valuation methods and relevant assumptions used;
- examining supporting document of the cash consideration given;
- reviewing the appropriateness and reasonableness of valuations prepared by independent appraisers on certain properties; in addition, assessing the competencies, objectivity and capabilities of the appraisers;
- testing the reasonableness of the fair values of the assets acquired and liabilities assumed as at the acquisition date;
- recalculating the difference between the net assets acquired and considerations given; and,
- evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.

**(d) Existence and Valuation of Inventories**

*Description of the Matter*

As of December 31, 2018, the Group held P11,135.5 million of inventories, which is 17.2% of the total consolidated assets of the Group. Given the size of the inventory balance relative to the consolidated total assets of the Group, and the estimates and judgments involved in this account, the valuation of inventory required our significant audit attention. As disclosed in Note 2.5, inventories are held at the lower of cost and net realizable value using the moving average method. As of year-end, the valuation of inventory is reviewed by the management and the cost of inventory is reduced where inventory is forecast to be sold below cost. The breakdown of inventory as of December 31, 2018 is disclosed in Note 8 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures included among others, the following:

- observing inventory counts and performing test of quantities;
- performing test of purchases and test on the moving average cost calculation; and,
- testing the net realizable values of sample inventory items to recent selling prices.

**(e) Impairment of Goodwill**

*Description of the Matter*

The Group has recognized goodwill amounting to P4,418.8 million as of December 31, 2018. Under PFRS, the Group is required to annually test the amount of its goodwill for impairment. The annual impairment testing of goodwill is considered to be a key audit matter due to the complexity of management process in assessing the recoverability of goodwill. In addition, the assumptions used in determining the cash generating units (CGUs) where the goodwill is allocated and estimating the recoverable amount involves significant judgment. The recoverable amount of the CGUs has been computed using discounted cash flows method. This valuation method uses several key assumptions, including estimated of future sales volume and prices, operating costs, terminal value growth rates and discount rate.

The Group's disclosures about Goodwill and the policy are included in Notes 14 and 2.12, respectively.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to goodwill included, among others, the following:

- involving our own valuation specialist to assist in evaluating the appropriateness of assumptions used in estimating the recoverable amount of CGUs;
- evaluating the appropriateness of assumptions and methodologies used by the management, in particular, those relating to the estimated of future sales volume and prices, and operating costs as well as the discount rate used; and,
- evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.



**(f) Change in Accounting Policy Resulting in Revaluation of Properties**

*Description of the Matter*

As described in Note 2.1(b), the Group changed its accounting policy in 2018 with respect to the subsequent measurement of its parcels of land that are classified under property, plant and equipment and investment properties. The Group now applies the revaluation model for parcels of land under property, plant and equipment, and fair value model for parcels of land under investment properties. Under the revaluation model, property, plant and equipment are carried at a revalued amount, being its fair value at the date of revaluation, less any subsequent impairment losses. Under the fair value model, investment properties are carried at fair value, and changes in fair value is recognized in profit or loss. Prior to this change, the Group applied the cost model, under which the parcels of land are carried at cost less impairment. The management believes that the new policy results in the consolidated financial statements providing reliable and more relevant information. As a result of the change in accounting policy, gain on revaluation of land under property, plant and equipment and fair value gains on investment properties amounting to P1,219.8 million and P624.9 million, respectively, were recognized. The voluntary change in accounting policy resulting to the valuation of parcels of land classified under property, plant and equipment and investment properties is considered as a key audit matter due to the significance of the amounts involved, combined with the significant judgements associated with the determination of fair values.

The Group's disclosures about the effect of the change in accounting policy is presented in Note 2.1(b)(ii) to the consolidated financial statements; the new accounting policy for property, plant and equipment and investment properties are discussed in Notes 2.7 and 2.8 to the consolidated financial statements, respectively; and, while the presentation of the carrying values are presented in Notes 11 and 15 for property, plant and equipment and investment properties, respectively.

*How the Matter was Addressed in the Audit*

Our audit procedures in relation to the change in accounting policy resulting to revaluation of the properties included, among others, the following:

- evaluating the appropriateness of the change in accounting policy and analyzing the effects from the perspective of PAS 8, *Accounting Policies, Changes in Accounting Estimates, Errors*;
- reviewing the appropriateness and reasonableness of valuations prepared by independent appraisers on certain properties and testing the land values, on a sampling basis, by comparing the values used by the independent appraisers to publicly available information of similar comparable properties;
- assessing the competencies, objectivity and capabilities of the appraisers; and,
- recalculating for the gain on revaluation of property, plant and equipment and fair value gains on investment properties.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the Parent Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.



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

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

If, based on the work performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audits resulting in this independent auditors' report is Ramilito L. Nañola.

**PUNONGBAYAN & ARAULLO**

  
**By: Ramilito L. Nañola**  
Partner

CPA Reg. No. 0090741

TIN 109-228-427

PTR No. 7333698, January 3, 2019, Makati City

SEC Group A Accreditation

Partner - No. 0395-AR-3 (until May 19, 2019)

Firm - No. 0002-FR-5 (until Mar. 26, 2021)

BIR AN 08-002511-19-2018 (until Jan. 25, 2021)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 22, 2019

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein and as enumerated below, for the years ended December 31, 2018, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

- a) Supplementary schedules required under Annex 68-E of the Securities Regulation Code
  - i. Financial assets
  - ii. Amounts of receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
  - iii. Amounts of receivables from Related Parties which are Eliminated during the Consolidation of Financial Statements
  - iv. Intangible assets – other assets
  - v. Long-term debt
  - vi. Indebtedness to Related Parties (Long-term loans from related Company)
  - vii. Guarantee of Securities of Other Issuers
  - viii. Capital stock
- b) Map showing the relationship between and among related entities
- c) Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2018
- d) Reconciliation of retained earnings available for dividend declaration
- e) Schedule showing financial soundness indicators

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.



Signed this day 22<sup>nd</sup> day of February 2019

  
DOMINGO T. UY  
Chairman

  
DENNIS A. UY  
President

  
MA. CONCEPCION F. DE CLARO  
Chief Finance Officer

(REPUBLIC OF THE PHILIPPINES)  
City of Davao) S.s

0004 19 FEB 26 PM 1:30

**SUBSCRIBED AND SWORN** to before me on this day of 22 February 2019 in Davao City. Affiants have confirmed their identities by presenting competent evidence of identity viz;

**Name**

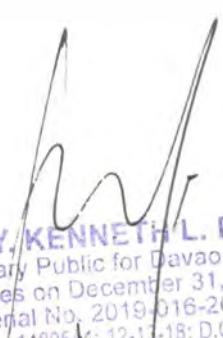
Domingo T. Uy  
Dennis A. Uy  
Ma. Concepcion F. De Claro

**Competent Evidence of Identity**

And that they further attest that the same are true and correct.

Doc. No. 385;  
Page No. 78;  
Book No. 99;  
Series of 2019.



  
**ATTY. KENNETH L. DABI**  
Notary Public for Davao City  
Expires on December 31, 2020  
Serial No. 2019-016-2020  
PTR No. 1480544; 12-13-18; D.C. (2019)  
IBP No. 055663; 11-28-18; D.C. (2019)  
Roll of Attorneys No. 47866  
Km. 7, Lanang, Davao City

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018, AND 2017**  
*(With Corresponding Figures as at January 1, 2017)*  
*(Amounts in Philippine Pesos)*

	Notes	December 31, 2018	December 31, 2017 (As Restated - see Note 2)	January 1, 2017 (As Restated - see Note 2)
<b>A S S E T S</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	6	P 7,889,708,807	P 1,831,557,883	P 2,338,780,526
Trade and other receivables - net	7	15,030,714,704	7,705,307,762	8,789,006,059
Inventories - net	8	11,135,494,286	12,416,237,073	2,998,780,146
Due from related parties - net	27	937,904,472	518,004,898	1,506,997,926
Restricted deposits	9	52,719,265	51,281,559	50,925,404
Input value-added tax - net		1,517,537,410	1,773,091,281	731,735,790
Prepayments and other current assets	10	695,698,779	610,271,176	595,963,599
Total Current Assets		37,259,777,423	24,905,751,632	17,012,189,450
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment - net	11	18,715,994,505	13,399,979,808	9,002,313,141
Investment properties	15	1,739,021,205	1,114,780,281	-
Intangible assets - net	12	328,054,350	295,458,242	275,037,490
Investments in joint ventures	13	455,436,370	-	-
Goodwill - net	14	4,418,842,831	3,990,666,606	10,221,849
Deferred tax assets - net	26	147,484,516	235,996,230	46,191,775
Other non-current assets	16	1,595,667,530	223,467,068	192,084,216
Total Non-current Assets		27,400,501,307	19,260,348,235	9,525,848,471
<b>TOTAL ASSETS</b>		<b>P 64,660,278,730</b>	<b>P 44,166,099,867</b>	<b>P 26,538,037,921</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Interest-bearing loans and borrowings	17	P 26,309,487,284	P 16,796,874,145	P 11,262,858,843
Trade and other payables	19	7,434,839,252	3,584,623,798	3,232,652,616
Income tax payable		99,380,682	3,671,202	100,283,443
Total Current Liabilities		33,843,707,218	20,385,169,145	14,595,794,902
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing loans and borrowings	17	13,590,520,166	11,374,559,853	1,921,565,000
Deferred tax liabilities - net	26	631,776,224	225,027,052	-
Other non-current liabilities	20	620,602,265	497,806,312	258,584,286
Total Non-current Liabilities		14,842,898,655	12,097,393,217	2,180,149,286
Total Liabilities		48,686,605,873	32,482,562,362	16,775,944,188
<b>EQUITY</b>				
Equity attributable to parent company	28			
Capital stock		1,112,004,232	1,456,538,232	1,123,097,449
Additional paid-in capital		7,233,692,486	5,709,303,309	5,320,816,182
Revaluation reserves		827,510,428	( 2,306,049 )	( 12,148,102 )
Other reserves		( 730,361,725 )	( 730,361,725 )	( 730,361,725 )
Accumulated translation adjustment		24,828,394	( 3,791,486 )	-
Retained earnings		7,542,843,961	5,254,155,224	4,060,689,929
		16,010,617,776	11,683,537,505	9,762,093,733
Non-controlling interest		( 36,944,919 )	-	-
Total Equity		15,973,672,857	11,683,537,505	9,762,093,733
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 64,660,278,730</b>	<b>P 44,166,099,867</b>	<b>P 26,538,037,921</b>

See Notes to Consolidated Financial Statements.

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	Notes	2018	2017 (As Restated - see Note 2)	2016 (As Restated - see Note 2)
<b>REVENUES</b>				
Sale of goods	2, 27	P 87,672,722,663	P 44,148,952,252	P 29,346,197,021
Fuel service and other revenues	2, 20	824,182,312	301,402,792	205,587,559
Rent income	15, 31	113,863,129	92,626,832	148,340,733
Charter fees and other charges		-	-	624,704,375
Port revenues		-	-	126,128,262
		<u>88,610,768,104</u>	<u>44,542,981,876</u>	<u>30,450,957,950</u>
<b>COST AND EXPENSES</b>				
Cost of sales and services	21	78,838,964,820	38,345,104,529	25,123,949,229
Selling and administrative expenses	22	<u>5,741,750,297</u>	<u>4,207,027,951</u>	<u>3,327,065,843</u>
		<u>84,580,715,117</u>	<u>42,552,132,480</u>	<u>28,451,015,072</u>
<b>OTHER CHARGES (INCOME)</b>				
Finance costs	23	1,449,247,671	804,707,861	906,290,170
Fair value gains on investment properties	15	( 624,941,000 )	-	-
Finance income	23	( 73,374,342 )	( 56,313,476 )	( 207,687,618 )
Equity share in net income of joint ventures	13	( 7,342,245 )	-	50,068,966
Excess of fair value of net assets acquired over acquisition cost	1	-	( 650,182,327 )	-
Others - net	15	( <u>87,267,127</u> )	( <u>36,852,747</u> )	( <u>11,006,428</u> )
		<u>656,322,957</u>	<u>61,359,311</u>	<u>737,665,090</u>
<b>PROFIT BEFORE TAX</b>		<b>3,373,730,030</b>	<b>1,929,490,085</b>	<b>1,262,277,788</b>
<b>TAX EXPENSE</b>	26	<u>606,588,321</u>	<u>408,067,238</u>	<u>169,802,891</u>
<b>NET PROFIT</b>		<b>P <u>2,767,141,709</u></b>	<b>P <u>1,521,422,847</u></b>	<b>P <u>1,092,474,897</u></b>
<b>NET PROFIT ATTRIBUTABLE TO:</b>				
Parent company		P 2,776,255,552	P 1,521,422,847	P 1,092,474,897
Non-controlling interest		( <u>9,113,843</u> )	-	-
		<u>P 2,767,141,709</u>	<u>P 1,521,422,847</u>	<u>P 1,092,474,897</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Item that will be reclassified subsequently to profit or loss</b>				
Translation adjustment related to a foreign subsidiary	2	( P <u>28,719,880</u> )	( P 3,791,486 )	P -
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Gain on revaluation of land	11	1,219,846,043	-	-
Remeasurements of post-employment defined benefit obligation	24	( 34,393,933 )	14,060,076	15,360,800
Tax expense	26	( <u>355,635,633</u> )	( <u>4,218,023</u> )	( <u>4,608,240</u> )
		<u>829,816,477</u>	<u>9,842,053</u>	<u>10,752,560</u>
<b>Other Comprehensive Income - net of tax</b>		<u>801,096,597</u>	<u>6,050,567</u>	<u>10,752,560</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P <u>3,568,238,306</u></b>	<b>P <u>1,527,473,414</u></b>	<b>P <u>1,103,227,457</u></b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Parent company		P 3,577,352,149	P 1,527,473,414	P 1,103,227,457
Non-controlling interest		( <u>9,113,843</u> )	-	-
		<u>P 3,568,238,306</u>	<u>P 1,527,473,414</u>	<u>P 1,103,227,457</u>
<b>Basic Earnings per share</b>	29	<u>P 1.72</u>	<u>P 0.97</u>	<u>P 0.64</u>
<b>Diluted Earnings per share</b>		<u>P 1.72</u>	<u>P 0.96</u>	<u>P 0.64</u>

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016  
(Amounts in Philippine Pesos)

Notes	Capital Stock					Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Accumulated Translation Adjustment	Retained Earnings	Total Equity Attributable to the Shareholders of Parent Company	Non-controlling Interest	Total Equity
	Preferred Stock	Preferred Treasury Stock - At Cost	Common Stock	Common Treasury Stock - At Cost	Total								
Balance at January 1, 2016	P 30,000,000	(P 5,000,000)	P 1,431,538,232	P -	P 1,456,538,232	P 5,709,303,309	(P 2,306,049)	(P 730,361,725)	(P 6,065,195)	P 5,524,581,532	P 11,951,690,104	P -	P 11,951,690,104
As previously reported	-	-	-	-	-	-	-	-	-	( 76,725,448)	( 76,725,448)	-	( 76,725,448.26)
Adjustment from adoption of PFRS 9	2	-	-	-	-	-	-	-	-	( 270,426,308)	( 268,152,599)	-	( 268,152,599.00)
Restatements	2	-	-	-	-	-	-	-	-	-	-	-	-
As restated	2	30,000,000	( 5,000,000)	1,431,538,232	-	5,709,303,309	( 2,306,049)	( 730,361,725)	( 3,791,486)	5,177,429,776	11,606,812,057	-	11,606,812,057
Cash dividends	28	-	-	-	-	-	-	-	-	( 409,640,735)	( 409,640,735)	-	( 409,640,735)
Issuance of shares during the year	28	2,000,000	-	2,766,000.00	-	2,019,389,177	-	-	-	( 8,444,238)	2,015,710,879	-	2,015,710,879
Acquisition of shares during the year	28	-	( 5,000,000)	-	( 344,300,000)	( 495,000,000)	-	-	-	( 844,300,000)	( 844,300,000)	-	( 844,300,000)
Share-based compensation	24	-	-	-	-	-	-	-	-	7,243,666	7,243,666	-	7,243,666
Business combination	1	-	-	-	-	-	-	-	-	-	-	( 27,831,076)	( 27,831,076)
Translation adjustments during the year	2	-	-	-	-	-	-	-	28,719,880	-	28,719,880	-	28,719,880
Total comprehensive income for the year		-	-	-	-	-	829,816,477	-	-	2,776,255,552	3,606,072,029	( 9,113,843)	3,596,958,186
Balance at December 31, 2018	P 32,000,000	(P 10,000,000)	P 1,434,304,232	(P 344,300,000)	P 1,112,004,232	P 7,233,692,486	P 827,510,428	(P 730,361,725)	P 24,928,394	P 7,542,843,961	P 16,010,617,776	(P 36,944,919)	P 15,973,672,857
Balance at January 1, 2017	P 30,000,000	(P 5,000,000)	P 1,428,777,232	(P 330,679,783)	P 1,123,097,449	P 5,320,816,182	(P 12,148,102)	(P 730,361,725)	P -	P 4,060,689,929	P 9,762,093,733	P -	P 9,762,093,733
Sale of treasury shares	28	-	-	-	440,087,488	367,136,612	-	-	-	-	807,224,100	-	807,224,100
Cash dividends	28	-	-	-	-	-	-	-	-	( 331,118,383)	( 331,118,383)	-	( 331,118,383)
Acquisition of shares during the year	28	-	-	( 109,407,705)	( 109,407,705)	-	-	-	-	( 109,407,705)	( 109,407,705)	-	( 109,407,705)
Issuance of shares during the year	28	-	-	2,761,000	-	21,350,515	-	-	-	( 8,429,034)	15,682,481	-	15,682,481
Share-based compensation	24	-	-	-	-	-	-	-	-	11,589,866	11,589,866	-	11,589,866
Translation adjustments during the year	2	-	-	-	-	-	-	-	( 3,791,486)	-	( 3,791,486)	-	( 3,791,486)
Total comprehensive income for the year		-	-	-	-	-	9,842,053	-	-	1,521,422,846	1,531,264,899	-	1,531,264,899
Balance at December 31, 2017 - As Restated - see Note 2	P 30,000,000	(P 5,000,000)	P 1,431,538,232	P -	P 1,456,538,232	P 5,709,303,309	(P 2,306,049)	(P 730,361,725)	(P 3,791,486)	P 5,254,155,224	P 11,683,537,505	P -	P 11,683,537,505
Balance at January 1, 2016	P 30,000,000	(P 5,000,000)	P 1,428,777,232	P -	P 1,453,777,232	P 5,320,816,182	P 559,295,266	(P 622,952,239)	P -	P 3,312,425,742	P 10,023,362,183	P -	P 10,023,362,183
Deconsolidation of subsidiaries	1	-	-	-	-	-	-	-	-	( 65,599,296)	( 730,361,725)	-	( 730,361,725)
Acquisition of shares during the year	28	-	-	( 330,679,783)	( 330,679,783)	-	-	-	-	-	( 330,679,783)	-	( 330,679,783)
Cash dividends	28	-	-	-	-	-	-	-	-	( 309,212,179)	( 309,212,179)	-	( 309,212,179)
Share-based compensation	24	-	-	-	-	-	-	-	-	5,757,780	5,757,780	-	5,757,780
Total comprehensive income for the year		-	-	-	-	-	10,752,560	-	-	1,092,474,897	1,103,227,457	-	1,103,227,457
Transfer of revaluation reserve: absorbed through depreciation, net of tax		-	-	-	-	-	( 24,842,985)	-	-	24,842,985	-	-	-
Balance at December 31, 2016	P 30,000,000	(P 5,000,000)	P 1,428,777,232	(P 330,679,783)	P 1,123,097,449	P 5,320,816,182	(P 12,148,102)	(P 730,361,725)	P -	P 4,060,689,929	P 9,762,093,733	P -	P 9,762,093,733

See Notes to Consolidated Financial Statements.



**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	Notes	2018	2017 (As Restated - see Note 2)	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		P 3,373,730,030	P 1,929,490,085	P 1,262,277,788
Adjustments for:				
Interest expense on bank loans and other borrowings	23	1,376,994,786	780,917,196	863,399,371
Depreciation and amortization	22	1,056,749,318	851,080,582	1,002,088,441
Impairment losses on trade and other receivables	22	68,465,111	50,335,399	112,986,854
Interest income	23	( 31,424,946 )	( 18,480,943 )	( 7,110,105 )
Unrealized foreign exchange currency loss (gain) - net		( 30,577,666 )	3,893,468	( 171,372,659 )
Translation adjustment	2	28,719,880	( 3,791,486 )	-
Provision for loss on lost cylinders	11	24,290,486	-	-
Share in net income of an indirectly-owned joint ventures	13	( 7,342,245 )	-	50,068,966
Employee share options	24	7,243,666	11,589,866	5,757,780
Recovery of accounts written off		( 2,768,583 )	-	-
Loss (gain) on disposal of property, plant and equipment		( 1,006,348 )	9,165,790	-
Excess of fair value of net assets acquired over acquisition cost	1	-	( 650,182,327 )	-
Gain on reversal of impairment losses on investment properties	15	-	( 40,785,503 )	-
Impairment losses on non-financial assets		-	92,823	-
Operating profit before working capital changes		5,863,073,489	2,923,324,950	3,118,096,436
Decrease (increase) in trade and other receivables		( 7,415,944,495 )	1,784,568,722	528,697,133
Decrease (increase) in inventories		26,812,185,929	11,723,876,386	( 370,318,364 )
Decrease in land held for sale and land development costs		-	-	22,667,290
Decrease (increase) in restricted deposits		( 1,437,706 )	( 356,155 )	20,046,803
Decrease (increase) in input value-added tax - net		363,028,626	( 1,027,547,440 )	( 36,265,532 )
Increase in prepayments and other current assets		( 1,174,855,871 )	( 235,826,739 )	( 637,592,575 )
Increase (decrease) in trade and other payables		3,555,861,543	101,084,787	( 288,096,189 )
Cash generated from operations		28,001,911,515	15,269,124,511	2,357,235,002
Cash paid for income taxes		( 29,603,287 )	( 7,345,345 )	( 4,508,301 )
Net Cash From Operating Activities		27,972,308,228	15,261,779,166	2,352,726,701
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property, plant and equipment	11	( 4,517,753,320 )	( 3,176,343,510 )	( 2,155,960,542 )
Increase in other non-current assets		( 1,698,692,055 )	27,350,919	( 15,994,274 )
Advances to related parties	27	( 524,778,830 )	( 669,526,678 )	( 944,762,083 )
Investments in joint ventures	13	( 448,094,125 )	-	-
Acquisition of subsidiaries	1	( 397,455,037 )	( 6,705,620,931 )	-
Acquisitions of intangible assets	12	( 58,062,515 )	( 50,548,722 )	( 203,908,603 )
Interest received		27,225,602	15,769,301	3,777,233
Collections from related parties	27	25,952,983	1,158,519,706	25,000
Proceeds from disposal of property, plant and equipment		22,618,656	14,531,586	2,434,359
Proceeds from disposal of subsidiaries	27	-	-	2,450,000,000
Increase in land held for future development		-	-	( 151,281,172 )
Net Cash Used in Investing Activities		( 7,569,038,642 )	( 9,385,868,329 )	( 1,015,670,082 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayments of interest-bearing loans and borrowings		( 71,873,587,858 )	( 43,104,708,403 )	( 19,886,544,848 )
Proceeds from additional interest-bearing loans and borrowings		57,798,571,804	37,016,647,657	20,684,209,975
Proceeds from issuance of shares of stock	28	2,015,710,879	15,682,481	-
Interest paid		( 1,638,604,940 )	( 741,202,295 )	( 801,737,593 )
Acquisition of treasury shares	28	( 844,300,000 )	( 109,407,705 )	( 330,679,783 )
Payments of cash dividends	28	( 409,640,735 )	( 331,118,383 )	( 309,212,179 )
Increase in other non-current liabilities		606,732,188	63,749,068	13,900,134
Proceeds from sale of treasury shares	28	-	807,224,100	-
Net Cash Used in Financing Activities		( 14,345,118,662 )	( 6,383,133,480 )	( 630,064,294 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>6,058,150,924</b>	<b>( 507,222,643 )</b>	<b>706,992,325</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>1,831,557,883</b>	<b>2,338,780,526</b>	<b>1,631,788,201</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>P 7,889,708,807</b>	<b>P 1,831,557,883</b>	<b>P 2,338,780,526</b>

**Supplemental Information on Non-cash Investing and Financing Activities:**

- In 2018, the Parent Company acquired certain land from a related party amounting to P92.9 million, of which, P19.8 million remained unpaid as of December 31, 2018 (see Note 1).
- On August 14, 2017, the Parent Company acquired the 100.00% shares of stocks of Duta, Inc. and Subsidiary for the amount of P394.2 million, of which P267.3 million advances of Duta, Inc.'s previous stockholder was novated in favor of the former (see Note 1.4).
- Interest payments amounting to P261.6 million, P19.7 million, and P61.7 million in 2018, 2017 and 2016, respectively, were capitalized as part of the cost of property, plant and equipment (see Notes 11.1).
- Certain hauling and heavy equipment with carrying amount of nil as of December 31, 2018 and 2017 and P3.1 million as of December 31, 2016, respectively, are accounted for under finance leases.
- On November 24, 2016, the Parent Company sold its entire investments in Chelsea Shipping Corp. and Calaca Industrial Seaport Corp. to related parties under common ownership for a total consideration of P3,000.0 million (see Note 1.5). The disposal of the subsidiaries resulted to a recognition of Other Reserves, accounted as the difference between the net asset values of the subsidiaries and consideration received (see Notes 1.5 and 2.12). As of December 31, 2018 and 2017, the outstanding receivable from the sale of subsidiaries is presented as part of Non-trade receivable under Trade and Other Receivables account in the consolidated statements of financial position (see Notes 7 and 27.9).

See Notes to Consolidated Financial Statements.

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

**1. GROUP INFORMATION**

***1.1 Incorporation and Operations***

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the Parent Company) was incorporated in the Philippines on May 8, 2002 and is 41.97% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines.

The Parent Company's made its initial public offering with the Philippine Stock Exchange (PSE) on July 11, 2007. The Parent Company is presently engaged in trading of petroleum products on wholesale and retail basis and operating of gas stations, oil depots, storage facilities and allied services. The registered office of the Parent Company, which is also its principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

PPHI was incorporated in the Philippines and was registered with the Philippine Securities and Exchange Commission (SEC) on May 31, 2006. PPHI's primary purpose is to provide management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. PPHI's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The ultimate parent is Udenna Corporation (UC), which is primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing. The ultimate parent company's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The Parent Company has a total of 600 operating retail service stations, and a total of eight service stations under construction as of December 31, 2018.

## 1.2 Subsidiaries, Joint Ventures and their Operations

As of December 31, the Parent Company holds ownership interests in the following entities, which are all incorporated and domiciled in the Philippines or otherwise stated:

Subsidiaries/Joint Venture	Explanatory Notes	Percentage of Ownership	
		2018	2017
<b>Direct interest:</b>			
<u>Subsidiaries</u>			
P-F-L Petroleum Management, Inc. (PPMI)	(a)	100.00%	100.00%
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	(b)	100.00%	100.00%
Subic Petroleum Trading and Transport Phils., Inc. (SPTT)	(c)	100.00%	100.00%
PNX Petroleum Singapore Pte. Ltd. (PNX SG)	(d)	100.00%	100.00%
Phoenix LPG Philippines, Inc. (PLPI)	(e)	100.00%	100.00%
Duta, Inc. <sup>4</sup>	(f)	100.00%	100.00%
Philippine FamilyMart CVS, Inc. (PFM) <sup>1</sup>	(g)	100.00%	-
PNX Energy International Holdings, Pte. Ltd. (PNX Energy) <sup>1</sup>	(h)	100.00%	-
Action.Able, Inc.(AAI) <sup>1</sup>	(i)	74.90%	-
Think.Able Limited (TAL) <sup>1</sup>	(j)	74.90%	-
<u>Joint venture</u>			
Phoenix Asphalt Philippines, Inc. <sup>3</sup>	(k)	40.00%	-
<b>Indirect interest:</b>			
Kaparangan, Inc. (Kaparangan) <sup>2,4</sup>	(l)	100.00%	100.00%
PNX (Vietnam) Pte. Ltd. (PNX Vietnam) <sup>5</sup>	(m)	100.00%	-
PT Phoenix Petroleum Indonesia (PNX Indonesia) <sup>6</sup>	(n)	100.00%	-
Galaxi Petroleum Fuel, Inc. (Galaxi) <sup>7</sup>	(o)	51.00%	-
Phoenix Southern Petroleum Corp. (PSPC) <sup>7</sup>	(p)	51.00%	-

Notes:

1 New subsidiaries

2 Wholly-owned subsidiary of Duta

3 Joint venture of Parent Company

4 Duta and Kaparangan, collectively known as Duta Group

5 Subsidiary of PNX Energy

6 Subsidiary of PGMI

7 Joint venture of PPMI

- (a) Incorporated on January 31, 2007 and is engaged in organizing, managing, administering, running and supervising the operations and marketing of various kinds of services-oriented companies such as petroleum service stations.
- (b) Incorporated on July 31, 2006 to engage in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. PGMI started commercial operations in 2007 and temporarily ceased its operation in 2008 but has resumed its business in October 2015 through selling of acid oil and coconut fatty acid distillates, both are by-products from manufacturing of coconut methyl ester (CME).
- (c) Incorporated on February 20, 2007 and is engaged in buying and selling, supply and distribution, importation and exportation, storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use.

- (d) Incorporated on October 30, 2012 in Singapore and started operations in October 2017. It is the regional trading arm of the Group. It currently holds office in Singapore and is able to buy directly from the refineries in the region due to its bigger requirements. It also sells to other local and regional buyers.
- (e) Incorporated on June 20, 1995 to engage in the buying, selling, storing, distributing, and marketing at wholesale of all kinds of goods, including but not limited to liquefied petroleum gas (LPG) and other petroleum products.
- (f) Incorporated on November 9, 1994 to engage in the business of buying, investing, exchanging, selling securities of every kind and description and leasing of land.
- (g) Incorporated on November 29, 2012. PFM is engaged in the business of operating convenience stores (CVS) under the trademark "FamilyMart" either by direct operation and/or by franchise system in the Philippines and to conduct business activities related to and in support to the aforesaid CVS platforms including importation and export, advertisement and promotion, and in general, to exercise and perform any and all powers necessary, incidental, or convenient to the business.
- (h) Incorporated on October 29, 2018 in Singapore to engage in activities related to investment in downstream and upstream energy activities and businesses but has not yet started commercial operations as of December 31, 2018.
- (i) Incorporated on May 6, 2015 to engage in the business of selling, leasing or distributing electronic devices to distributors, merchants or retailers for the purpose of digital marketing and/or ecommerce and to engage in the business of providing an outline digital network for the purpose of digital marketing and/or e-commerce accessible through electronic devices.
- (j) Incorporated on May 5, 2014 and is a Hong Kong based company that handles the trademark of AAI.
- (k) Incorporated on March 23, 2018 and was established to import, store, manufacture, sell market, distribute bitumen, bitumen-related products and such other by-products of crude oil and such other petroleum products including the operation of terminals and depots.
- (l) Incorporated on January 21, 1994 to engage in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.
- (m) Incorporated on October 30, 2018 in Singapore to engage in activities related to investment in downstream and upstream energy activities and businesses and has not yet started its commercial operations.
- (n) Incorporated on September 10, 2018 in Indonesia to serve as an avenue for the Parent Company to explore business opportunities in different parts of Indonesia. PNK Indonesia has not yet started its commercial operations.
- (o) Incorporated on August 2, 2017 and is a joint venture with its previous owners. Galaxi owns and operates a number of petroleum service stations in different parts of the Philippines.
- (p) Incorporated on July 5, 2018 to operate petroleum service stations in areas within Southern Luzon under the Parent Company's name and brand.

### 1.3 Other Corporate Information

The registered office and principal place of business of the existing subsidiaries, except those presented in below, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

SPTT	– Units 113 and 115 Subic International Hotel, Alpha Building, Rizal Highway, Subic Bay Freeport Zone, Zambales
PNX SG	– 350 Orchard Road, #17-05/06 Shaw House, Singapore
PNX Energy	– 350 Orchard Road, #17-05/06 Shaw House, Singapore
PNX Vietnam	– 350 Orchard Road, #17-05/06 Shaw House, Singapore
PLPI	– Phoenix Petroleum Corporate Headquarters, Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City
Duta	– 15 <sup>th</sup> Floor, Citibank Tower, Valero St., Salcedo Village, Makati City
Kaparangan	– 15 <sup>th</sup> Floor, Citibank Tower, Valero St., Salcedo Village, Makati City
PFM	– 4 <sup>th</sup> Floor, Tara Building, No. 389 Sen. Gil Puyat Avenue, Makati City, Metro Manila
AAI	– 2 <sup>nd</sup> Floor, Crown Center, 158 Jupiter Street Corner N. Garcia Street, Bel-Air Village, Makati City
TAL	– Room 1902, W Wilson House, 19-27 Wyndham Street, Central, Hong Kong
PAPI and PSPC	– 25 <sup>th</sup> Floor Fort Legend Tower, 3 <sup>rd</sup> Avenue Fort corner 31 <sup>st</sup> Street, Bonifacio Global City, Taguig City
PNX Indonesia	– The Prominence Office Tower, 12 <sup>th</sup> Floor B, Jl. Jalur Sutera Barat No. 15, Alam Sutera, Indonesia
Galaxi	– 1846 FB Harrison Street Pasay City

PPMI's registered office is located at Penthouse, Valero Tower, 122 Valero Street, Salcedo Village, Makati City and its principal place of business is located at 26<sup>th</sup> Floor, The Fort Legend Tower, 3<sup>rd</sup> Avenue corner 31<sup>st</sup> Street, The Fort Global City, Taguig City.

### 1.4 Business Combinations

- a) On January 11, 2018, the Parent Company has signed a deed of absolute sale and concluded the acquisition of the 100.00% shares in PFM from its previous shareholders, namely: SIAL CVS Retailers, Inc., FamilyMart Co. Ltd. and ITOCHU Corporation, for P352.1 million. Objective of the acquisition is to broaden Group's portfolio of retail offers.
- b) On May 25, 2018, the Parent Company entered into a deed of absolute sale of shares with Wildlemon, Inc. And Seawood Prime Limited for the acquisition of the voting rights for AAI and TAL, respectively (referred to as "AAI Group"). Total non-controlling interests from the acquisition of AAI Group amounted to P27.8 million and is measured at the proportionate share of the net identifiable assets.

AAI and TAL are the owner of Pos!ble.net, a two and a half year old digital payment-platform. The acquisition supports business operations of the Parent Company, aside from synergies on its retail network development, for its various fuel products as well as the business operations of PFM.

- c) On August 14, 2017, the Parent Company finalized the purchase and sale agreements with PDB (Netherlands) B.V., an entity organized under the laws of Netherlands and is an investment holdings Company of PETRONAS Dagangan Berhad (a Malaysia-listed entity), for the acquisition of the 100.00% voting rights of PLPI and Duta Group for P6,481.1 million and P394.2 million, respectively.
- d) The Parent Company acquired 100.00% of voting rights of SPTT in 2011, and PGMI and PPMI in 2011. These acquisitions prior to 2017 resulted to a total goodwill of P11.5 million as the total cash consideration paid of P9.5 million exceeded the Parent Company's acquired fair values of the identifiable net assets.

The acquisition of PLPI and Duta Group strategically supports the Parent Company's expansion in operation as well as product lines.

Aggregate information of the entities at the acquisition date are as follows:

Reference	Entities Acquired			
	2017		2018	
	PLPI	DUTA Group	PFM	AAI Group
Fair value of assets acquired and liabilities assumed				
Cash and cash equivalents	P 145,913,427	P 23,743,964	P 21,601,695	P 5,009,121
Trade and other receivables (i)	361,001,122	11,249,647	22,534,222	1,110,622
Inventories	63,146,150	-	80,744,545	772,585
Prepayments and other current assets	26,606,283	219,695	158,786,825	3,384,490
Property, plant and equipment	2,046,988,346	-	369,603,000	537,357
Investment properties	-	1,074,502,000	-	-
Intangible asset	-	-	21,476,320	-
Other non-current assets	155,581,389	-	46,832,211	344,712
Total assets	2,799,236,717	1,109,715,306	721,578,818	11,158,887
Trade and other payables	298,619,669	65,316,461	642,639,484	94,208,594
Total identifiable net assets (liabilities)	2,500,617,048	1,044,398,845	78,939,334	(83,049,707)
Fair value of cash consideration transferred	6,481,061,805	394,216,518	352,070,202	71,995,652
Goodwill	P 3,980,444,757	n/a	P 273,130,868	P 155,045,359
Excess of fair value of net assets acquired over cash consideration transferred (ii)	n/a	P 650,182,327	n/a	n/a
Cash consideration settled in cash	P 6,481,061,805	P 394,216,518	P 352,070,202	P 71,995,652
Less: Cash and cash equivalents acquired	145,913,428	23,743,964	21,601,695	5,009,122
Net Cash Flow of Acquisition	P 6,335,148,377	P 370,472,554	P 330,468,507	P 66,986,530
Acquisition costs charged to expenses	P 84,018,826	P 679,767	P 6,440,651	P 1,738,116
Pre-acquisition income (iii)	273,205,535	6,244,345	-	1,628,790
Revenue contribution	1,531,240,882	48,283,182	1,307,944,277	34,957,821
Net profit (loss) contribution	134,147,822	42,017,785	(193,507,767)	(36,310,130)

- (i) The carrying amount of the acquired trade and other receivables is determined to be the reasonable approximation of fair value as these are only short-term and are expected to be collectible in whole.
- (ii) The excess of the fair value of the nets assets of Duta Group over the acquisition cost amounting to P650.2 million is presented in the 2017 consolidated statement of comprehensive income as Excess of Fair Value of Net Assets Acquired Over Acquisition Cost (see Note 2.12). The acquisition of DUTA Group resulted to gain on bargain purchase because the fair value of net assets acquired exceeded the total cash consideration paid. The real properties of Duta Group, which pertain to investment properties, and property plant and equipment of PFM were appraised by an independent appraiser [see Note 3.2(h)]. The fair values of the said properties are determined by reference to market-based evidence, which are the amounts for which the assets could be exchanged between the knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transactions as at the valuation date.
- (iii) The 2018 and 2017 consolidated statements of comprehensive income are presented net of the pre-acquisition income of the entities acquired.

### 1.5 Disposal of Investment of Shares of Chelsea Shipping Corporation (CSC) and Calaca Industrial Seaport Corp. (CISC)

On November 24, 2016, the Parent Company sold its entire investments in CSC to Chelsea Logistics Holdings Corp. (CLHC) for P2,000.0 million, and in CISC to Udenna Development (UDEVCO) Corporation (UDEVCO) for P1,000.0 million. CLHC and UDEVCO are related parties under common ownership. Business combinations and disposals that are under common ownership are accounted for under the pooling-of-interest method (see Note 2.12). The account balances of CSC and CISC were deconsolidated in the 2016 consolidated financial statements. The difference between the considerations received and net asset values as of disposal date of CSC and CISC amounting to P730.4 million was recognized and presented as Other Reserves in the consolidated statement of financial position.

## **1.6 Approval of Consolidated Financial Statements**

The consolidated financial statements of the Group as of and for the year ended December 31, 2018 (including the comparative consolidated financial statements as of and for the year ended December 31, 2017 and the corresponding figures as of and for the year ended January 1, 2017) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 22, 2019.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of Preparation of Consolidated Financial Statements**

#### **(a) Statement of Compliance with Philippine Financial Reporting Standards**

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### **(b) Presentation of Consolidated Financial Statements**

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single consolidated statement of comprehensive income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

- (i) In 2018, the Group adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Group not to restate its prior periods' financial statements. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Retained Earnings in the current year [see Note 4.2(b)].
- (ii) Also in 2018, Group changed its accounting policy on recognition of its parcels of land presented under Property, Plant and Equipment from cost to revaluation model. PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, makes a specific exception for a change in accounting policy to measure property, plant and equipment at a revalued amount for the first time. Such initial adoption is indeed a change in policy, however, the change due to the revaluation is accounted for as a revaluation in the year of adoption rather than prior year adjustment. Accordingly, the prior periods are not restated. In addition, the Group changed its accounting policy on recognition of its real properties presented under Investment Properties from cost to fair value model. Such change in the accounting policy is reflected only at the current year since the 2017 revalued amounts are already recognized at the time of business combination (see Note 1.4).

The management believes that the new policy results in the consolidated financial statements providing reliable and more relevant information as it is more closely aligned with the current actual valuation of the real properties. Further, the Group intends to maximize the value of the Group by capitalizing and/or leveraging on its assets in its strategic business ventures.

- (iii) In addition, the Group has made prior period adjustments that resulted in retrospective restatements of certain accounts in the 2017 comparative consolidated statement of financial position and 2017 comparative consolidated statement of comprehensive income. These adjustments pertain to: (1) restatements of the foreign subsidiary's financial statements to correct certain accounting treatment; and, (2) recognition of deferred tax liability on the fair value adjustment of the investment properties acquired through business combination (see Note 1.4). Accordingly, the Group presents a third statement of financial position as at January 1, 2017 without the related notes, except for the disclosures required under PAS 8. The balance of Retained Earnings of the Group as at December 31, 2017, has been restated from the amount previously reported. Because of the restatements, the 2017 comparative consolidated financial statements contained in these consolidated financial statements differ from those previously presented in the Group's consolidated financial statements as at and for the year ended December 31, 2017. The prior period adjustments had no effect on 2016 comparative consolidated financial statements.
- (iv) Lastly, certain items in the 2017 and 2016 consolidated statements of financial position and consolidated statements of comprehensive income have been reclassified to conform to the 2018 consolidated statement of financial position presentation and classification. The deferred tax asset – net amounting to P231.9 million in 2017 was previously presented as net amount of the deferred tax asset and deferred tax liability, is now separately being presented at gross [see Note 2.1(b)(vi)]. Rebates amounting to P258.7 million in 2017 and P125.7 million in 2016 that are previously presented as part of selling and administrative expenses are reclassified as reduction to sale of goods under Revenues on the 2017 and 2016 consolidated statements of comprehensive income.
- (v) The table below shows the impact of the adoption of PFRS 9, change in accounting policy and prior period adjustments to the Group's total equity as of January 1, 2018:

Notes	Effects on		
	Retained Earnings	Accumulated Translation Adjustment	Total Equity
Balance at January 1, 2018	P 5,524,581,532	(P 6,065,195)	P 11,951,690,104
Impact of PFRS 9 [see Note 4.2(b)(ii)]:			
Increase in allowance for credit losses on trade and other receivables	2.1(b)(i) ( 109,607,783 )	-	( 109,607,783 )
Increase in deferred tax asset arising from increase in credit loss allowance	2.1(b)(i) 32,882,335	-	32,882,335
Prior period adjustments – increase in deferred tax liability on fair value adjustment from business combination	2.1(b)(iii) ( 220,817,016 )	-	( 220,817,016 )
Prior period adjustments – restatements of foreign subsidiary's financial statements	2.1(b)(iv) ( 49,609,291 )	2,273,708	( 47,335,583 )
	<u>P 5,177,429,777</u>	<u>(P 3,791,487)</u>	<u>P 11,606,812,057</u>



- (vi) The analyses of the impact on the affected accounts due to prior period adjustments in the Group's consolidated statement of financial position as at December 31, 2017 is presented below.

	Notes		As Previously Reported		Adjustments		As Restated
Changes in assets:							
Cash and cash equivalents	6	P	1,831,542,441	P	15,442	P	1,831,557,883
Trade and other receivables	7		7,509,198,377		196,109,385		7,705,307,762
Inventories	8		12,969,947,045	(	553,709,972)		12,416,237,073
Prepayments and other current assets	10		581,435,883		28,835,293		610,271,176
Property, plant and equipment	11		13,400,687,345	(	707,537)		13,399,979,808
Intangible assets	12		274,931,452		20,526,790		295,458,242
Deferred tax assets - net	26		231,866,237		4,129,992		235,996,230
Changes in liabilities:							
Trade and other payables	19		3,832,668,620	(	248,044,822)		3,584,623,798
Deferred tax liabilities - net	26		-		225,027,052		225,027,052
Income tax payable			17,301,439		13,630,237		3,671,202
Decrease in Equity					(P 268,152,599)		
Changes in equity:							
Accumulated translation adjustments		(P	6,065,195)	P	2,273,709	(P	3,791,486)
Retained earnings			5,524,581,532	(	270,426,308)		5,254,155,224
Decrease in Equity					(P 268,152,599)		

- (vii) The analyses of the affected line items in the consolidated statement of comprehensive income of the Group for the year ended December 31, 2017 are shown below.

	Notes		As Previously Reported		Adjustments		As Restated
Changes in profit or loss:							
Sale of goods		P	44,051,471,509	P	97,480,743	P	44,148,952,252
Fuel service and other revenues			281,941,966		19,460,828		301,402,792
Cost of sales and services	21	(	37,908,797,906)	(	436,306,623)	(	38,345,104,529)
Selling and administrative expenses	22	(	4,411,742,322)		204,714,371	(	4,207,027,951)
Finance income	23.2		56,629,280	(	315,804)		56,313,476
Finance costs	23.1	(	855,043,260)		50,335,399	(	804,707,861)
Tax expense	26	(	202,272,019)	(	205,795,219)	(	408,067,238)
Decrease in net income					(P 270,426,305)		
Basic earnings per share	29		<u>P1.16</u>				<u>P0.97</u>
Diluted earnings per share	29		<u>P1.16</u>				<u>P0.96</u>

- (viii) The analyses of the affected line items in the consolidated statement of cash flows of the Group for the year ended December 31, 2017 are shown below.

			As Previously Reported		Adjustments		As Restated
Changes in cash flows from operating activities							
Profit before tax	P		1,994,121,173	(P	64,631,088)	P	1,929,490,085
Translation adjustments	(		6,065,195)		2,273,709	(	3,791,486)
Decrease in trade and other receivables			1,980,678,107	(	196,109,385)		1,784,568,722
Decrease in inventories			11,170,166,814		553,709,572		11,723,876,386
Increase in prepayments and other current assets	(		206,291,369)	(	29,535,370)	(	235,826,739)
Increase in trade and other payables			362,759,847	(	261,675,060)		101,084,787
Changes in cash flows from investing activities							
Acquisitions of property, plant and equipment	(		3,175,635,973)	(	707,537)	(	3,176,343,510)
Acquisitions of intangible assets	(		30,021,932)	(	20,526,790)	(	50,548,722)

- (ix) There are no changes in the total comprehensive income and in the consolidated statement of cash flows as a result of the reclassification of accounts in 2016. Hence, analysis is not presented.

(c) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency (see Note 2.15), and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

## 2.2 Adoption of New and Amended PFRS

### (a) Effective in 2018 that are Relevant to the Group

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification

Discussed below are the relevant information about these amendments and improvements.

- (i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. The application of this amendment has no impact on the Group's consolidated financial statements.
- (ii) PFRS 2 (Amendments), *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*. The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The application of this amendment has no significant impact on the Group's consolidated financial statements.
- (iii) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:
  - three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);

- an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The Group's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in Notes 2.4 and 2.10.

The impact of the adoption of this new accounting standard to the Group's financial statements are as follows:

- On classification and measurement of the Group's financial assets, management holds most financial assets to hold and collect the associated cash flows. All of the financial assets continue to be accounted for at amortized cost as the management assessed that the cash flows are solely payments for principal and interest (SPPI). There are no resulting reclassifications of financial assets.
  - The application of the ECL methodology based on external benchmarking assessment for trade and other receivables resulted in the recognition of additional allowance for credit losses for trade and other receivables and due from related parties amounting P107.7 million and P1.9 million, respectively; as of January 1, 2018. Such amount, together with the total related deferred tax asset amounting to P32.9 million, were charged against the opening balance of Retained Earnings account.
  - The adoption of PFRS 9 has no significant impact on the Group's financial liabilities.
- (iv) PFRS 15, *Revenue from Contract with Customers*, together with the Clarifications to PFRS 15 (herein referred to as PFRS 15). This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and *Standing Interpretations Committee 31, Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group's revenue arises mainly from sale of fuel, lubricants, LPG, other petroleum products and merchandise inventories. Revenue from the sale of goods are recognized at a point in time when the control has been transferred to the customer. Certain revenues are recognized over time but management has assessed that such are not significant to the consolidated financial statements.

The Group adopted PFRS 15 using the modified retrospective approach. The adoption of PFRS 15 did not result in significant change in the Group's accounting policies. Accordingly, no cumulative effects from the initial application of the standard was made to the opening balance of the Retained Earnings account at January 1, 2018. The disaggregation of the Group's sources of revenues is presented in Note 21.

- (v) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this amendment has no significant impact on the Group's financial statements.
- (vi) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, only PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification* is relevant to the Group but had no material impact on the Group's financial statements as this amendment merely clarify existing requirements. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

(b) *Effective in 2018 that are not Relevant to the Group*

The following annual amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's consolidated financial statements:

Annual Improvements to	
PFRS (2014-2016 Cycle)	
PFRS 1 (Amendments)	: First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-Term Exceptions
PFRS 4 (Amendments)	: Insurance Contracts – Applying PFRS 9 with PFRS 4

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).
- (ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.
- (iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

- (iv) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Group’s consolidated financial statements.

- (v) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.
- (vi) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor’s financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor’s interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.
- (vii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the amendments presented in the succeeding page are relevant to the Group but had no material impact on the Group’s consolidated financial statements as these amendments merely clarify existing requirements.

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

### **2.3 Basis of Consolidation**

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries (see Note 1) after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

The Parent Company accounts for its investments in subsidiaries, joint ventures and non-controlling interests as follows.

#### **(a) Investments in Subsidiaries**

Subsidiaries are entities (including structured entities) over which the Parent Company has control. Parent Company controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Parent Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill (see Note 14). If the consideration received is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.12).

On the other hand, business combinations arising from transfers or acquisition of interests in entities that are under the common control of the shareholder that controls the Group are normally accounted for under the pooling-of-interests method and reflected in the consolidated financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognized in the Group's consolidated financial statements at the carrying amounts previously recognized. The difference between the consideration transferred and the net assets of the subsidiary acquired is recognized as Other Reserves as part of the equity (see Notes 2.12 and 2.23).

If the Parent Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, derecognizes the cumulative translation differences recorded in equity, recognizes the fair value of the consideration received and reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets and liabilities. The difference between the consideration received and the net asset of the subsidiary disposed is recognized as Other Reserves as part of the equity (see Notes 2.12 and 2.23).

*(b) Investments in Joint Venture*

A joint venture pertains to a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture entity pertains to whose economic activities are controlled jointly by the Group and by other venturers independent of the Group (joint venturers). Investment in a joint venture is accounted for under the equity method of accounting. Under this method, on initial recognition the investment in joint venture is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share in the profit or loss of the investee after the date of the acquisition.

The Group's share of the investee's profit or loss is recognized as equity share in the net income of joint venture in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for a change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

The investments in joint ventures is subject to impairment testing (see Note 2.16). The management has assessed that no impairment loss is required to be recognized for its investments in joint ventures in 2018.

*(c) Transactions with Non-controlling interests*

The Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

The Parent Company holds interests in various subsidiaries and joint ventures as presented in Notes 1.2 and 13, respectively.

## **2.4 Financial Assets**

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

### **(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9**

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The financial assets are classified into the following categories: financial assets at amortized cost, financial assets at fair value through comprehensive income and financial assets at fair value through profit or loss. Currently, the financial assets category relevant to the Group is financial assets at amortized costs.

#### ***Financial Assets at Amortized Cost***

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (excluding advances to suppliers and advances subject to liquidation), Due from Related Parties, Restricted Deposits, and Refundable Rental Deposits (presented as part of Other Non-Current Assets in the consolidated statement of financial position).

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Group may irrevocably elect at initial application to classify a financial asset that meets the amortized cost criteria as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2018, the Group has not made such designation.

Refundable rental deposits are initially recognized at fair value. Interest on the rental deposits arising from subsequent amortization is accounted for using the effective interest method and is presented as part of Finance Income under Other Charges (Income) in the consolidated statement of comprehensive income. The excess of the principal amount of the deposit over its present value is immediately recognized as deferred minimum lease payments (presented as part of Other Non-Current Assets in the consolidated statement of financial position). Meanwhile, rent expense arising from subsequent amortization of deferred minimum lease payments is accounted for using the straight-line method over the lease term and is presented as part of Rent under Selling and Administrative Expenses in the consolidated statement of comprehensive income.



Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated financial statement of comprehensive income as part of Other Charges (Income).

*(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39*

Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets.

Currently, the financial assets category relevant to the Group is loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding certain advances to suppliers and advances subject to liquidation), Due from Related Parties, Restricted Deposits, and Refundable Rental Deposits (presented as part of Other Non-Current Assets in the consolidated statement of financial position). Cash and cash equivalents include cash on hand, savings and demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Refundable rental deposits are initially recognized at fair value. Interest on the rental deposits arising from subsequent amortization is accounted for using the effective interest method and is presented as part of Finance Income under Other Charges (Income) in the consolidated statement of comprehensive income. The excess of the principal amount of the deposit over its present value is immediately recognized as deferred minimum lease payments (presented as part of Other Non-Current Assets in the consolidated statement of financial position). Meanwhile, rent expense arising from subsequent amortization of deferred minimum lease payments is accounted for using the straight-line method over the lease term and is presented as part of Rent under Selling and Administrative Expenses in the consolidated statement of comprehensive income.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

*(c) Impairment of Financial Assets Under PFRS 9*

From January 1, 2018, the Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The allowance for credit losses for financial assets at amortized cost is based on ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial asset, in such case, a lifetime ECL for a purchased or originated credit impaired, the allowance for credit losses is based on the change in the ECL over the life of the asset. The Group recognized a loss allowance for such losses at each reporting date.

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – It is an estimate of likelihood of default over a given time horizon.
- *Loss given default (LGD)* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral.
- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

*(d) Impairment of Financial Assets Under PAS 39*

All income and expenses relating to financial assets that are recognized in profit or loss are presented as part of Finance Income or Finance Costs account in the consolidated statement of profit or loss.

As of December 31, 2017, the Group assessed impairment of loans and receivables as follows.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

*(e) Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## **2.5 Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. The cost of inventories includes all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Allowance is made, where necessary, for obsolete, slow-moving and defective inventories (see Note 8).

## **2.6 Prepayments and Other Current Assets**

Prepayments and other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

## **2.7 Property, Plant and Equipment**

Prior to 2018, the Group measured land at cost [see Note 2.1(b)]. Currently, land is measured at fair value less any impairment in value. As no finite useful life for land can be determined, related carrying amount are not depreciated. All other property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other expenditures for repairs and maintenance are charged to expense as incurred (see Note 2.13).

Following initial recognition at cost, land is carried at revalued amounts which are the fair values at the date of the revaluation, as determined by independent appraisers, less any accumulated impairment losses.

Revalued amounts are fair market values determined based on appraisals by external professional appraiser once every two years or more frequently if market factors indicate a material change in fair value (see Note 5.5).

Any revaluation surplus is recognized in other comprehensive income and credited to the Revaluation Reserves account in the consolidated statement of changes in equity. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Annually, an amount from the Revaluation Reserves account is transferred to Retained Earnings account for the impairment, if any, relating to the revaluation surplus. Upon disposal of revalued assets, amounts included in Revaluation Reserves account relating to them are transferred to Retained Earnings account.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

LPG cylinders	30 years
Buildings, depot, plant and pier facilities	5-25 years
Transportation and other equipment	1-10 years
Gasoline and LPG station equipment	1-5 years
Hauling and heavy equipment	1-5 years
Office furniture and equipment	1-3 years

LPG cylinders, which are circulating and are utilized by customers in their households or business premises, are presented at cost less accumulated depreciation and provision for losses on lost LPG cylinders. The Group performs an internal simulation and assessment of the quantity of LPG cylinders circulating and being stored in the market. A provision is provided for lost assets in accordance with the computed quantities. The assessment will be conducted every other year and when the lost LPG cylinders are ascertained, the lost cylinders will be written-off.

Leasehold and land improvements are amortized over the terms of the related leases or the useful lives of the improvements, whichever is shorter.

Construction in progress represents properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.18) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

The residual values, estimated useful lives and method of depreciation of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment, including the related accumulated depreciation, amortization and impairment losses, if any, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

## **2.8 Investment Properties**

Investment properties, which include parcels of land and lot improvements, are properties held to earn rental income under operating lease, but not for sale in the ordinary course of business, use in services or for administrative purposes.

Land classified as investment property is accounted for under the fair value model. It is revalued every two years and is reported in the consolidated statement of financial position at its fair value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property (see Note 5.5).

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains (losses) from investment property as part of Other Charges (Income) in the consolidated statement of comprehensive income.

Lot improvements is stated at cost, which includes acquisition price plus directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs, less accumulated depreciation (except for land) and any impairment losses.

Depreciation of lot improvements is computed on a straight-line basis over the estimated useful life of five years. The residual values, estimated useful lives and method of depreciation of investment properties are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

## **2.9 Intangible Assets**

Intangible assets include acquired computer software licenses and basketball franchise, which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition. The useful lives of intangible assets are assessed as either finite or indefinite.

Capitalized costs for computer software licenses are amortized on a straight-line basis over the estimated useful lives (ranging from one to ten years) as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.16.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets if, and only if, the Group can demonstrate all of the following recognition requirements:

- (i) technical feasibility of completing the prospective product for internal use or sale;
- (ii) the intangible asset will generate probable economic benefits through internal use or sale;
- (iii) intention and ability to complete, i.e., availability of sufficient technical, financial and other resources necessary for completion, and use or sell the asset; and,
- (iv) ability to measure reliably the expenditure attributable to the intangible asset during development.

Development costs not meeting these criteria for capitalization are expensed as incurred. Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs.

The Group assessed the useful life of basketball franchise to be indefinite because this is expected to contribute to net cash flows indefinitely. The basketball franchise is not amortized but is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The intangible asset account also includes store franchise acquired from business combination with PFM. Such is for taking in the name and management know-how of the FamilyMart mark. The store franchise is carried at cost, less any accumulated amortization and any impairment in value. Amortization is computed on a straight-line method over its estimated useful life of 10.50 years (see Note 12).

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

## **2.10 Financial Liabilities**

Financial liabilities, which include interest-bearing loans and borrowings, trade and other payables (excluding tax-related payables), security deposits, customers' cylinder deposits and cash bond deposits (which are presented under Other Non-Current Liabilities in the consolidated statement of financial position), are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.18). All other interest related charges are recognized as an expense in the consolidated statement of comprehensive income under the caption Finance Costs.

Interest-bearing loans and borrowings are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables (excluding tax-related payables), security deposits, customers' cylinder deposits and cash bond deposits are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Security deposits are initially recognized at fair value. Interest on security deposits arising from subsequent amortization is accounted for using the effective interest method and is presented as part of Finance Costs. The excess of the principal amount of the deposit over its present value is immediately recognized as Unearned rent (presented as part of Other Non-Current Liabilities in the consolidated statement of financial position). Meanwhile, the rent income arising from subsequent amortization of unearned rent is accounted for using the straight-line method over the lease term and is presented as part of Rent Income in the consolidated statement of comprehensive income.

The Group purchases LPG cylinders, which are loaned to dealers upon payment by the latter of an amount equivalent to 44.00-79.00% of the acquisition cost of the cylinders. At the end of each reporting date, customers' cylinder deposits, shown under Other Non-Current Liabilities in the consolidated statements of financial position, are reduced for estimated non-returns. Estimated non-returns are determined through amortization of the balance over the estimated useful life of cylinders and/or estimated proportion of the provision for lost cylinders (see Note 2.8). The reduction is recognized directly in the consolidated statement of comprehensive income as part of Fuel Service and Other Revenues.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### ***2.11 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

## **2.12 Business Combinations**

Business acquisitions are accounted for using the acquisition method of accounting and pooling-of-interest method.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

Negative goodwill which is the excess of the Group's interest in the fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Under the pooling-of-interest method which is applicable for the acquisition and disposal of an entity under common control, similar accounts of the entities are combined on a line-by-line basis except for the equity accounts which were offset with the new shares issued by the new entity in which the difference between the net assets received and the amount of the consideration (shares issued and cash) is accounted for as Other Reserves (see Note 2.23).

## **2.13 Revenue and Expense Recognition**

Revenue arises mainly from the sales of goods (fuels and by-products, lubricants, LPG, and merchandise inventories) and from rendering into-plane, terminalling and hauling services

To determine whether to recognize revenue, the Group follows a five-step process:

- (1) identifying the contract with a customer;
- (2) identifying the performance obligation;
- (3) determining the transaction price;
- (4) allocating the transaction price to the performance obligations; and,
- (5) recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

- (1) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- (2) each party's rights regarding the goods or services to be transferred or performed can be identified;
- (3) the payment terms for the goods or services to be transferred or performed can be identified;
- (4) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
- (5) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- the Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of goods* – Revenue is recognized when or as the Group transfers control of the assets at a point in time to the customer. Invoices for goods transferred are due upon receipt by the customer. Sale of goods include fuel and by-products (such as CME); lubricants; LPG; and, merchandise inventories.
- (b) *Fuel service and other revenues* – Revenue, which mainly consists of hauling, into-plane services, and transport services, is recognized over time and is based on a fixed agreed fee. These services are generally performed within the day. Invoices for services transferred are due upon receipt by the customer.

The Group presents a contract asset when performing services to a customer before the customer pays consideration or before payment is due. A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer.

The Group presents a contract liability when a customer pays the consideration, or a Group has the right to an amount of consideration that is unconditional (i.e., a receivable), before the Group performs services to the customer. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.



In obtaining customer contracts, the Group incurs incremental costs. As the expected amortization period of these costs, if capitalized, would be less than one year, the Group uses the practical expedient in PFRS 15 and expenses such costs as incurred. The Group also incurs costs in fulfilling contracts with customers. However, as those costs are within the scope of other financial reporting standards, the Group accounts for those costs in accordance with accounting policies related to those financial reporting standards.

In 2017 and prior periods, the Group recognized revenues based on the provisions of PAS 18, which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Group. Specifically, for sale of goods, revenues were recognized when the risks and rewards of ownership of the goods have passed to the buyer. For fuel services and other revenues, charter fees and other charges and port revenues, revenue is recognized when the performance of the contractually agreed task has been substantially rendered.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.18).

#### **2.14 Leases**

The Group accounts for its leases as follows:

##### **(a) Group as Lessee**

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

##### **(b) Group as Lessor**

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### **2.15 Foreign Currency Transactions and Translations**

##### **(a) Transactions and Balances**

Except for PNX SG, PEIH, PNX Vietnam, which use the Singapore Dollars as its functional currency, and PTPPI, which uses Indonesian Rupiah, the accounting records of the Parent Company and its subsidiaries are maintained in Philippine Peso. Foreign currency transactions during the year are translated into functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

*(b) Translation of Financial Statements of Foreign Subsidiaries*

The operating results and financial position of a foreign subsidiaries, in which their functional currency are measured as stated in Note 2.15(a), are translated to Philippine pesos, to the Group's functional currency as follows:

- i. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- ii. Income and expenses for each profit or loss account are translated at the average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- iii. All resulting exchange differences are recognized in other comprehensive income and in a separate component of equity under Accumulated Translation Adjustments account (see Note 2.23).

On consolidation, exchange differences arising from the translation of the net investment in the foreign subsidiaries are recognized under Translation Adjustment Related to Foreign Subsidiaries in the 2018 and 2017 consolidated statements of comprehensive income. When a foreign operation is partially disposed or sold, such exchange differences are recognized in the consolidated statement of comprehensive income as part of gains or loss on sale.

The translation of the consolidated financial statements into Philippine peso should not be construed as a representation that the Singapore Dollar and Indonesian Rupiah amounts could be converted into Philippine Peso amounts at the translation rates or at any other rates of exchange.

**2.16 Impairment of Non-financial Assets**

The Group's property, plant and equipment, intangible assets, goodwill, investments in joint venture and other non-financial assets are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, except for goodwill and franchise with indefinite useful lives that are tested for impairment at least annually.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The cash-generating units or groups of cash-generating units are identified according to operating segment.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

Except for goodwill and franchise with indefinite useful lives, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss, except impairment loss on goodwill (see Note 2.12), is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

## **2.17 Employee Benefits**

The Group provides post-employment benefits to employees through a defined benefit plan and a defined contribution plan, and other employee benefits which are recognized as follows:

### **(a) Post-employment Defined Benefit Plan**

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets, if any, for funding the defined benefit plan have been acquired. Plan assets, if any, may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is noncontributory and administered by a trustee.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs or Finance Income in the consolidated statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

### **(b) Post-employment Defined Contribution Plans**

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

### **(c) Termination Benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) *Profit-sharing and Bonus Plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

**2.18 Borrowing Costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

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

**2.19 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets, if any, are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities, the carrying amount of such properties is presumed to be recovered entirely through sale, unless the presumption is rebutted, that is when the land held for sale and development costs are held within the business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

## **2.20 Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

## **2.21 Related Party Transactions and Relationships**

Related party transactions are transfer of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

## **2.22 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Parent Company's BOD and management committee responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 30, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements, except that post-employment benefit expenses are not included in arriving at the operating profit of the operating segments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

## **2.23 Equity**

Preferred and common stock represents the nominal value of shares that have been issued.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves comprise of gains arising from the revaluation in 2018 of the Group's parcels of land under property, plant and equipment and from the remeasurements of post-employment defined benefit obligation, net of applicable taxes.

Other reserves pertain to the difference between the Parent Company's consideration received and the disposed net assets of CSC and CISC (see Note 1.5).

Accumulated translation adjustment pertains to translation adjustments resulting from the translation of foreign-currency denominated financial statements of a certain foreign subsidiary into the Group's functional and presentation currency [see Note 2.15(b)].

Retained earnings include all current and prior period results of operations as reported in the profit or loss section of the consolidated statement of comprehensive income, reduced by the amounts of dividends declared.

## **2.24 Earnings per Share**

Basic earnings per share (EPS) is computed by dividing net profit attributable to common shareholders by the weighted average number of common shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares, if any.

## **2.25 Share-based Payments**

The Parent Company grants share options to qualified employees of the Parent Company eligible under a share option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any.

The share-based remuneration, if any, is recognized as an expense in profit or loss and the corresponding credit to retained earnings.

The expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number that ultimately vests on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as additional paid-in capital.

## **2.26 Events After the End of the Reporting Period**

Any post-year-end event that provides additional information about the Group's position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

#### 3.1 Critical Management Judgments in Applying Accounting Policies

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

##### (a) *Determination of Timing of Satisfaction of Performance Obligations (2018)*

###### (i) *Rendering of Fuel Services and Other Revenues*

The Group determines that its revenue from rendering of fuel services and other revenues shall be recognized over time. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided by the Group to the customers. The Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. However, significant services are generally performed within the day.

###### (ii) *Sale of Goods*

The Group determines that its revenue from sale of goods shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer has acknowledged delivery of the goods.

##### (b) *Determination of ECL of Financial Assets at Amortized Costs (2018)*

The Group uses an external benchmarking to calculate ECL for financial assets at amortized cost. The Group applies the PFRS 9 using internal credit ratings translated to external credit ratings [i.e. Standard & Poor's (S&P)] in order to reference/benchmark with published equivalent external cumulative PD.

The Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument (see Note 4.2).

##### (c) *Evaluation of Business Model Applied in Managing Financial Instruments (2018)*

Upon adoption of PFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment and trading strategies.

*(d) Distinction between Operating and Finance Leases*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement, either as a lessor or a lessee, as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Certain hauling and heavy equipment are acquired and accounted for under finance lease.

*(e) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant contingencies are presented in Note 31.

*(f) Determination of Qualifying Assets on Borrowing Costs*

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Determining if an asset is a qualifying asset will depend on the circumstances and requires the use of judgment in each case. In making judgment, the management takes into account its planned use when it determines whether the asset is a qualifying asset and considers the facts and circumstances and uses its judgment to determine whether an asset takes a substantial period of time to get ready for its intended use or sale. Based on the facts and circumstances affecting the Group's qualifying asset, the management concludes that the Group's retail station, depot facilities, tankers and land held for sale and development costs are qualifying assets as the management assesses that it takes substantial period of time for the completion of those assets.

*(g) Distinction between Investment Properties and Owner-Managed Properties*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity.

Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

**3.2 Key Sources of Estimation Uncertainty**

Presented below and in the succeeding pages are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

*(a) Estimation of Allowance for ECL (2018)*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.2(b).

*(b) Determination of Net Realizable Value of Inventories*

In determining the net realizable values of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. Future realization of the carrying amounts of inventories, as presented in Note 8, is affected by price changes and action from competitors. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial reporting period.



(c) *Estimation of Useful Lives of Property, Plant and Equipment, Intangible Assets and Investment Properties*

The Group estimates the useful lives of property, plant and equipment, intangible assets and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property, plant and equipment and intangible assets are analyzed in Notes 11 and 12, respectively. The carrying amount of investment properties is disclosed in Note 15. Based on management's assessment as of December 31, 2018 and 2017, there is no change in the estimated useful lives of the property, plant and equipment, intangible assets and investment properties during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Fair Value Measurement of Property, Plant and Equipment and Investment Properties (2018)*

The Group's property, plant and equipment and investment properties include parcels of land, that are carried at revalued amount at the end of the reporting period. These assets were previously recorded under the cost model [see Note 2.1(b)]. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 5.5.

The amounts of revaluation and fair value gains recognized on parcels of land under property, plant and equipment and investment properties are disclosed in Notes 11 and 15, respectively.

(e) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2018 and 2017 will be fully utilized in the coming years. The carrying value of deferred tax assets as of December 31, 2018 and 2017 is disclosed in Note 26.

(f) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24 and include, among others, discount rates and salary increase rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 24.3.

(g) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.16). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2018, 2017 and 2016.

(h) *Fair Value Measurements of Business Combinations*

On initial recognition in a business combination using the purchase method of accounting, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates and obtains assistance from third party valuation specialists on the acquired investment properties (see Note 1.4). Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in profit or loss in the subsequent period.

(i) *Provision for Losses on Lost LPG Cylinders*

Management estimates provision for losses on lost LPG cylinders based on the quantities computed from its internal simulations and computations. The estimated quantities do not represent the exact quantities of the LPG cylinders but they are assessed based on management's assumptions and historical loss experience representing the management's best estimate of the quantities of lost cylinders. Management will arrange for the appraisal by an external expert to take place every other year to obtain confidence in the estimate of the provision amount.

The Management has recognized provision for losses on lost LPG cylinders amounting to P24.3 million and nil in 2018 and 2017, respectively (see Note 11). Relatively, the gain on reversal of cylinder deposits amounted to P91.8 million and nil in 2018 and 2017, respectively (see Notes 2.10 and 20). LPG cylinders were only acquired as result of business combination in 2017 [see Note 1.4(c)].

#### **4. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its Parent Company, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

##### **4.1 Market Risk**

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from both its operating, investing and financing activities.

(a) *Foreign Currency Risk*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's sales to a certain customer and, fuel and tanker importations, which are primarily denominated in U.S. dollars (U.S.\$). The liability covering the fuel importation is covered by letter of credits (LCs) which is subsequently closed to Philippine peso trusts receipts (TRs). The Group also holds U.S. and Singapore dollar-denominated cash and cash equivalents. Financial instruments that are Indonesian Rupiah denominated are considered immaterial, hence, not included in the analyses below.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and financial liabilities, translated into Philippine pesos at the closing rate follow:

	2018		2017 [As restated - see Note 2.1(b)]	
	U.S. Dollar	Singapore Dollar	U.S. Dollar	Singapore Dollar
Financial assets	P 5,361,837,054	P 5,566,810	P 1,220,868,767	P 72,694,628
Financial liabilities	( 5,253,328,012)	( 14,176,750)	( 1,566,782,434)	( 17,705,741)
Net exposure	P 108,509,042	( P 8,609,940)	( P 345,913,667)	P 54,988,887

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine peso against U.S. and Singapore dollar exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99.00% confidence level.

	2018		2017 [As restated - see Note 2.1(b)]	
	U.S. Dollar	Singapore Dollar	U.S. Dollar	Singapore Dollar
Reasonably possible change in rate	11.14%	16.28%	10.77%	16.88%
Effect in profit before tax	P 12,087,907	( P 1,401,698)	( P 37,254,902)	P 9,282,124
Effect in equity after tax	8,461,535	( 981,189)	( 26,078,431)	6,497,487

Exposures to foreign exchange 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.

(b) *Interest Rate Risk*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowings are therefore usually made at fixed rates. As of December 31, 2018 and 2017, the Group is exposed to changes in market interest rates through its cash and cash equivalents and certain interest-bearing loans and borrowings which are subject to variable interest rates (see Notes 6 and 17). All other financial assets and financial liabilities have fixed rates.

Cash in banks are tested on a reasonably possible change of +/-1.93% and +/-0.47% in 2018 and 2017, respectively, for Philippine Peso and nil and +/-0.50% in 2018 and 2017, respectively, for Singapore dollar. Short-term money placements and time deposits are tested on a reasonably possible change of +/-2.28% and +/-0.90% in 2018 and 2017, respectively. Banks loans subject to variable interest rates (or repricing) are tested on a reasonably possible change of +/-0.79% and +/-0.30% for Philippine peso in 2018 and 2017, respectively, and nil for U.S. dollar for both years. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99.00% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/-P470.5 million and +/-P94.5 million for the year ended December 31, 2018 and 2017, respectively, and equity after tax by +/-P329.3 million and +/-P66.2 million for the year ended December 31, 2018 and 2017, respectively.

(c) *Other Price Risk*

The Group's market price risk arises from its purchases of fuels. It manages its risk arising from changes in market prices by monitoring the daily movement of the market price of fuels and to some extent, using forward and other similar contracts to manage the fluctuation of the fuel price.

## 4.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting of loans and selling goods and services to customers including related parties; and placing deposits with banks.

The Group employs a range of policies and practices to mitigate credit risk. The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, collaterals such as advance payments are received to mitigate credit risk. Estimates of fair values are based on the value of collaterals assessed at the time of first dealing with the customer and are updated and monitored periodically, e.g., annually for real estate properties.

Estimate of the fair value of collateral held against trade and other receivables as of December 31 follows:

	<u>2018</u>	<u>2017</u>
Standby letter of credits	<b>P 940,522,926</b>	P 668,797,536
Cash bond	<b>318,976,639</b>	281,709,354
Real estate mortgage	<b><u>68,138,850</u></b>	<u>69,292,121</u>
	<b><u>P 1,327,638,425</u></b>	<b><u>P 1,019,799,011</u></b>

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position or in the detailed analysis provided in the notes to the consolidated financial statements, as summarized below.

	Notes	<u>2018</u>	2017 [As restated – see Note 2.1(b)]
Cash and cash equivalents	6	<b>P 7,889,708,807</b>	P 1,831,557,883
Trade and other receivables – net*	7	<b>11,363,226,589</b>	7,039,808,333
Due from related parties - net	27.4	<b>937,904,172</b>	518,004,898
Construction bond**	10	<b>5,504,822</b>	-
Restricted deposits	9	<b>52,719,265</b>	51,281,559
Refundable deposits	16	<b><u>289,572,937</u></b>	<u>182,480,300</u>
		<b><u>P20,538,636,592</u></b>	<b><u>P 9,623,132,973</u></b>

\*excluding advances to suppliers and advances subject to liquidation

\*\*included as part of Others under Prepayments and Other Current Assets

### (a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corp. up to a maximum coverage of P0.5 million for every depositor per banking institution.

### (b) Trade and Other Receivables and Due from Related Parties

The Group applies the PFRS 9 using internal credit ratings translated to external credit ratings [i.e. Standard & Poor's (S&P)] in order to reference/benchmark with published equivalent external cumulative PD. The Group's definition of Trade and Other Receivables and Due from Related Parties classification [known as Phoenix Risk Rating (PRR)] and corresponding credit risk ratings are presented in the next page.

Phoenix Risk Rating (PRR)	Description (PRR)		Equivalent S&P Rating	S&P PD (%)
	Financial and Business Profiles	Other Information		
PRR 3A	Counterparties with both very strong financial and business profiles. Lowest risk of default in the scale.	These counterparties do not have a greater-than-normal risk. The track record of the client in terms of profit is very good and exhibits highest quality under virtually all economic conditions. Probability of default is quite low and it bears some degree of stability and substance. However, client may be susceptible to cyclical changes and more concentration of business risk, by product or by market.	BBB	0.14 – 0.61
PRR 2A	Counterparties with strong financial profile and very strong business profile or vice versa.		BBB	0.14 – 0.61
PRR 1A	Counterparties with a strong to adequate financial profile and very strong to adequate business profile.		BBB	0.14 – 0.61
PRR 3B	Counterparties with a sustainable financial profile and adequate business profile.	Counterparties whose risk elements are sufficiently pronounced to withstand normal business cycles but any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.	BB	0.63 – 1.90
PRR 2B	Counterparties with an average financial profile and sustainable business profile.		BB	0.63 – 1.90
PRR 1B	Counterparties with both average financial and business profile.	Credit exposure is not at risk of loss at the moment but performance of the client has weakened and unless present trends are reversed, could lead to losses.	B	3.16 – 6.53
PRR 3C	Counterparties with an average financial profile and adequate business profile.	This rating is given to a client where repayment of the receivable, through normal course of business, may be in jeopardy due to adverse events. There exists the possibility of future losses to the institution unless given closer supervision.	CCC/C	17.97 – 22.33
PRR 2C	Counterparties with a weak financial profile and adequate business profile.		CCC/C	17.97 – 22.33
PRR 1C	Counterparties with a weak financial profile and sustainable business profile.	Counterparties credits or portions thereof which exhibit more severe weaknesses. This rating is given to a counterparties whose receivables or portions thereof are considered uncollectible. The collectible amount, with no collateral or which collateral is of little value, is difficult to measure and more practical to write-off than to defer even though partial recovery may be obtained in the future.	D	100
PRR D	Counterparties with a weak financial profile and average business profile.		D	100
PRR F	Counterparties with both weak financial profile and business profiles.		D	100

A reconciliation of the closing loss allowance for trade and other receivables and due from related parties as at December 31, 2018 to the opening loss allowance is presented below:

	Trade and Other Receivables	Due from Related Parties
Loss allowance at December 31, 2017 – PAS 39	P 478,153,676	P -
Additional loss allowance charged to opening retained earnings	<u>107,699,501</u>	<u>1,908,282</u>
Loss allowance at January 1, 2018 – PFRS 9	585,853,177	1,908,282
Increase in credit loss allowance during the year	68,465,111	-
Write-offs	( 17,153,577 )	-
Recoveries	( <u>2,768,583</u> )	<u>-</u>
Credit loss allowance at December 31, 2018	<b><u>P 634,396,128</u></b>	<b><u>P 1,908,282</u></b>

The credit loss allowance provided as of December 31, 2018 is as follows:

Trade and Other Receivables				
PRR	S&P Rating	PD Rate Range	Estimated Gross Carrying Amount at Default	Credit Loss Allowance
PRR 3A	BBB	0.14 – 0.62	P 52,149,981	P 215,228
PRR 2A	BBB	0.14 – 0.62	2,436,112,580	5,789,403
PRR 1A	BBB	0.14 – 0.62	3,376,579,304	5,932,107
PRR 3B	BB	0.63 – 1.90	3,228,077,624	21,232,653
PRR 2B	BB	0.63 – 1.90	1,569,274,748	6,774,836
PRR 1B	B	3.16 – 6.53	405,322,564	25,020,588
PRR 3C	CCC/C	17.97 – 22.33	68,521,800	13,649,151
PRR 2C	CCC/C	17.97 – 22.33	335,572,541	64,998,979
PRR 1C/D/F	D	100	490,783,183	490,783,183
			<b>P 11,997,622,718</b>	<b>P 634,396,128</b>
Due From Related Parties				
PRR	S&P Rating	PD Rate Range	Estimated Gross Carrying Amount at Default	Credit Loss Allowance
PRR 3A	BBB	0.14 – 0.62	P 61,149,279	P 85,609
PRR 1A	BBB	0.14 – 0.62	808,510,976	1,414,100
PRR 3B	BB	0.63 – 1.90	70,152,199	408,573
			<b>P 939,812,454</b>	<b>P 1,908,282</b>

#### 4.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Group maintains cash and cash equivalents to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of December 31, 2018, the Group's financial liabilities have contractual maturities, which are summarized as follows:

	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	More than 5 years
Interest-bearing loans and borrowings	<b>P21,479,255,558</b>	<b>P6,272,692,441</b>	<b>P11,302,340,399</b>	<b>P4,925,525,000</b>
Trade and other payables (excluding tax-related payables)	<b>819,565,247</b>	<b>6,452,331,850</b>	-	-
Security deposits	-	-	<b>266,616,512</b>	-
Customers' cylinder deposits	-	-	-	<b>276,285,588</b>
Cash bond	-	-	-	<b>56,702,491</b>
	<b><u>P22,316,820,805</u></b>	<b><u>P12,725,024,291</u></b>	<b><u>P11,568,956,911</u></b>	<b><u>P5,258,513,079</u></b>

As of December 31, 2017 [As Restated – See Note 2.1(b)], the Group's financial liabilities have contractual maturities which are summarized as follows:

	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	More than 5 years
Interest-bearing loans and borrowings	P 17,093,687,980	P 770,678,974	P 9,934,502,651	P 2,318,636,250
Trade and other payables (excluding tax-related payables)	3,482,001,666	-	-	-
Security deposits	-	-	245,488,541	-
Customers' cylinder deposits	-	-	-	196,380,513
Cash bond	-	-	-	33,492,002
	<u>P 20,575,689,646</u>	<u>P 770,678,974</u>	<u>P 10,179,991,192</u>	<u>P 2,548,508,765</u>

The contractual maturities of the financial liabilities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

## 5. CATEGORIES, FAIR VALUE MEASUREMENTS AND DISCLOSURES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the consolidated statements of financial position are presented below.

		2018		2017 [As restated – See Note 2.1(b)]	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Assets</b>					
Loans and receivables:					
Cash and cash equivalents	6	P 7,889,708,807	P 7,889,708,807	P 1,831,557,883	P 1,831,557,883
Trade and other receivables-net*	7	11,363,226,589	11,363,226,589	7,039,808,333	7,039,808,333
Due from related parties	27.4	937,904,172	937,904,172	518,004,898	518,004,898
Construction bond***	10	5,504,822	5,504,822	-	-
Restricted deposits	9	52,719,265	52,719,265	51,281,559	51,281,559
Refundable deposits	16	289,572,937	289,572,937	182,480,300	182,480,300
		<b>P 20,538,636,592</b>	<b>P 20,538,636,592</b>	<b>P 9,623,132,973</b>	<b>P 9,623,132,973</b>
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	17	P 39,945,245,450	P 36,188,613,995	P 28,171,433,998	P 26,474,273,801
Trade and other payables**	19	7,271,897,097	7,271,897,097	3,482,001,666	3,482,001,666
Customers' cylinder deposits	20	276,285,588	276,285,588	196,380,513	196,380,513
Security deposits	20	266,616,512	266,616,512	245,488,541	245,488,541
Cash bond deposits	20	56,702,491	56,702,491	33,492,002	33,492,002
		<b>P 47,816,747,138</b>	<b>P 44,060,115,683</b>	<b>P 32,128,796,720</b>	<b>P 30,431,636,523</b>

\* Excluding advances to suppliers and advances subject to liquidation

\*\* Excluding tax-related payables

\*\*\* Included as part of Others under Prepayments and Other Current Assets



See Notes 2.4 and 2.10 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 4. The carrying values of refundable deposits, customers' cylinder deposits, security deposits and cash bond deposits are reasonable approximation of their fair values.

## **5.2 Fair Value Hierarchy**

In accordance with PFRS 13, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

## **5.3 Financial Instruments Measurement at Fair Value**

There are no financial assets and financial liabilities that are measured at fair value as of December 31, 2018 and 2017.

#### 5.4 Fair Value Hierarchy of Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

		2018			
	Notes	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
<i>Loans and receivables:</i>					
Cash and cash equivalents	6	P 7,889,708,807	P -	P -	P 7,889,708,807
Trade and other receivables	7	-	-	11,363,226,589	11,363,226,589
Due from related parties	27.4	-	-	937,904,172	937,904,172
Construction bond	10	-	-	5,504,822	5,504,822
Restricted deposits	9	52,719,265	-	-	52,719,265
Refundable deposits	16	-	-	289,572,937	289,572,937
		<b>P 7,942,428,072</b>	<b>P -</b>	<b>P 12,596,208,520</b>	<b>P 20,538,636,592</b>
<b>Financial Liabilities</b>					
<i>Financial liabilities at amortized cost:</i>					
Interest-bearing loans and other borrowings	17	P -	P -	P 36,188,613,995	P 36,188,613,995
Trade and other payables	19	-	-	7,271,897,097	7,271,897,097
Customers' cylinder deposits	20	-	-	276,285,588	276,285,588
Security deposits	20	-	-	266,616,512	266,616,512
Cash bond deposits	20	-	-	56,702,491	56,702,491
		<b>P -</b>	<b>P -</b>	<b>P 44,060,115,683</b>	<b>P 44,060,115,683</b>
		2017 [As restated – see Note 2.1(b)]			
	Notes	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
<i>Loans and receivables:</i>					
Cash and cash equivalents	6	P 1,831,557,883	P -	P -	P 1,831,557,883
Trade and other receivables	7	-	-	7,039,808,333	7,039,808,333
Due from related parties	27.4	-	-	518,004,898	518,004,898
Restricted deposits	9	51,281,559	-	-	51,281,559
Refundable deposits	16	-	-	182,480,300	182,480,300
		<b>P 1,882,839,442</b>	<b>P -</b>	<b>P 7,740,293,531</b>	<b>P 9,623,132,973</b>
<b>Financial Liabilities</b>					
<i>Financial liabilities at amortized cost:</i>					
Interest-bearing loans and other borrowings	17	P -	P -	P 26,474,273,801	P 26,474,273,801
Trade and other payables	19	-	-	3,482,001,666	3,482,001,666
Security deposits	20	-	-	245,488,541	245,488,541
Customers' cylinder deposits	20	-	-	196,380,513	196,380,513
Cash bond deposits	20	-	-	33,492,002	33,492,002
		<b>P -</b>	<b>P -</b>	<b>P 30,431,636,523</b>	<b>P 32,128,796,720</b>

For financial assets with fair value included in Level 1, management considers that the carrying amount of this short-term financial instrument approximates their fair values.

## 5.5 Fair Value Measurement for Non-financial Assets

The fair values of the Group's parcels of land, included as part of Property, Plant and Equipment and Investment Properties accounts, were determined based on the appraisal reports of Asian Appraisal Company, Inc. and Cuervo Appraisers, Inc., respectively, who are professional and independent appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the vessels. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's non-financial assets indicated above is their current use.

The Level 2 fair value of the parcels of land for both recognized under property, plant and equipment and investment properties was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

These properties were revalued in 2018 due to the change in the Group's accounting policy [see Note 2.1(b)]. The reconciliation of the carrying amount of investment properties is presented in Note 15.

## 5.6 Offsetting of Financial Assets and Financial Liabilities

The following financial assets with net amounts presented in the consolidated statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

December 31, 2018						
Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set-off in the consolidated statement of financial position			
Financial assets	Financial liabilities set-off		Financial instruments	Cash collateral received	Net amount	
Trade and Other Receivables	P 11,498,383,599 (P 135,157,010)	P 11,363,226,589	P -	(P 323,319,003)	P 11,039,907,586	
Restricted deposits	52,719,265 -	52,719,265	( 52,719,265 )	-	-	
<b>Total</b>	<b>P 11,551,102,864 (P 135,157,010)</b>	<b>P 11,415,945,854</b>	<b>(P 52,719,265)</b>	<b>(P 323,319,003)</b>	<b>P 11,039,907,586</b>	

December 31, 2017 [As Restated – see Note 2.1(b)]						
Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set-off in the consolidated statement of financial position			
Financial assets	Financial liabilities set-off		Financial instruments	Cash collateral received	Net amount	
Trade and Other Receivables	P 7,039,808,333 P -	P 7,039,808,333	P -	(P 278,980,543)	P 6,760,827,790	
Restricted deposits	51,281,559 -	51,281,559	( 51,281,559 )	-	-	
<b>Total</b>	<b>P 7,091,089,892 P -</b>	<b>P 7,091,089,892</b>	<b>(P 51,281,559)</b>	<b>(P 278,980,543)</b>	<b>P 6,760,827,790</b>	

The following financial liabilities with net amounts presented in the consolidated statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

December 31, 2018						
Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set-off in the consolidated statement of financial position			
Financial liabilities	Financial assets set-off		Financial instruments	Cash collateral received	Net amount	
Interest-bearing loans and borrowings	P 39,945,245,450	P -	P 39,945,245,450 (P 52,719,265 )	P -	P 39,892,526,185	
Security deposits	266,616,512	-	266,616,512	( 266,616,512 )	-	
Cash bond deposits	56,702,491	-	56,702,491	( 56,702,491 )	-	
Total	<u>P 40,268,564,453</u>	<u>P -</u>	<u>P40,268,564,453 (P 52,719,265 )</u>	<u>(P 323,319,003 )</u>	<u>P 39,892,526,185</u>	

December 31, 2017 [As Restated – see Note 2.1(b)]						
Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set-off in the consolidated statement of financial position			
Financial liabilities	Financial assets set-off		Financial instruments	Cash collateral received	Net amount	
Interest-bearing loans and borrowings	P 28,171,433,998	P -	P28,171,433,998 (P 51,281,559 )	P -	P 28,120,152,440	
Security deposits	245,488,541	-	245,488,541	( 245,488,541 )	-	
Cash bond deposits	33,492,002	-	33,492,002	( 33,492,002 )	-	
Total	<u>P 28,450,414,541</u>	<u>P -</u>	<u>P 28,450,414,54 (P 51,281,559 )</u>	<u>(P 278,980,543 )</u>	<u>P 28,120,152,440</u>	

For financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements presented above, each agreement between the Group and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2018	2017 [As restated - see Note 2.1(b)]
Cash in banks	<b>P 7,728,117,276</b>	P 1,549,265,669
Cash on hand	<b>4,082,617</b>	412,846
Revolving fund	<b>16,968,918</b>	11,527,561
Short-term placements	<b><u>140,539,996</u></b>	<u>270,351,807</u>
	<b><u>P 7,889,708,807</u></b>	<b><u>P 1,831,557,883</u></b>

Cash in banks generally earn interest based on daily bank deposit rates ranging from 0.10% to 2.50% per annum in all years presented. Short-term placements are made for varying periods ranging from 7 to 90 days and earn effective interest ranging from 0.25% to 1.00% per annum in all years presented. Interest income earned amounted to P27.2 million, P15.7 million and P3.9 million in 2018, 2017 and 2016, respectively, and is included as part of Finance income under Other Charges (Income) in the consolidated statements of comprehensive income (see Note 23.2).

The balances of cash in banks as of December 31, 2018 and 2017 exclude restricted time deposits totalling to P52.7 million and P51.3 million, respectively, which are shown as Restricted Deposits account (see Note 9) in the consolidated statements of financial position. Such amounts are not available for the general use of the Group under the loan agreement (see Note 17).

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	2018	2017 (As restated - see Note 2.1[b])
Trade receivables:			
Third parties		<b>P 8,367,158,668</b>	P 5,437,450,799
Related parties	27.1	<b>1,851,415,359</b>	955,539,554
		<b>10,218,574,027</b>	6,392,990,353
Advances to suppliers:			
Third parties		<b>925,791,098</b>	219,626,441
Related parties	27.12	<b>2,692,341,658</b>	424,838,624
		<b>3,618,132,756</b>	644,465,065
Non-trade receivables:			
Third parties		<b>698,518,436</b>	517,507,971
Related parties	27.6, 27.9, 27.10	<b>1,045,301,862</b>	586,598,808
		<b>1,743,820,298</b>	1,104,106,779
Advances subject to liquidation		<b>49,355,359</b>	21,034,364
Other receivables		<b>35,228,394</b>	20,864,877
		<b>15,665,110,832</b>	8,183,461,438
Allowance for impairment		<b>( 634,396,128)</b>	( 478,153,676)
		<b>P 15,030,714,704</b>	P 7,705,307,762

Trade and other receivables generally do not bear any interest. All receivables are subject to credit risk exposure (see Note 4.2).

PLPI entered into deferred payment agreement (DPA) with customers that are unable to pay their due and outstanding payable to PLPI. PLPI agreed to collect, inclusive of interest, through instalments as stated in the terms and conditions of the agreement. As of December 31, 2018 and 2017, the balances of receivables under DPA amounted to P47.5 million and P28.3 million, respectively, and is presented as part of Trade Receivables – Third Parties in the Trade and Other Receivables account in the 2018 and 2017 consolidated statements of financial position. There are no non-current trade receivables as of the said cut-offs.

The parties have agreed to enter into the DPA for the full and final settlement of the debt subject to the following terms and conditions enumerated below and in the next page:

- i) Customer promises to pay PLPI through monthly instalment payment and by way of post-dated checks;
- ii) The customer shall undertake to make full and final settlement of the remaining outstanding amount of the debt in the event that the customer obtains any financial assistance from any banks and/or financial institutions to finance its business operation. The entire remaining outstanding amount of the debt shall become immediately due without further demand, formal or informal advice in the event any of the monthly instalments are not received by the PLPI on or before the due date;

- iii) Should PLPI be compelled to institute extra-judicial foreclosure of the collateral and/or judicial actions to foreclose or collect unpaid amounts, the customer shall be liable for the costs and fees incurred by PLPI in the preparation, monitoring and enforcement of the DPA, as well as costs and fees incurred by the PLPI on account filing and prosecution and enforcement of any judicial foreclosures, extra-judicial foreclosures, and collection suits; and,
- iv) The customer further agrees that in the event it fails to pay any of the monthly instalments, then PLPI shall be at liberty to recover the same through the process of court, in which event all costs and expenses incurred by the PLPI including the legal costs on a solicitor and client basis shall be solely borne by them.

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables, which are due from customers, were found to be impaired; hence, adequate amount of allowance for impairment has been recorded as of December 31, 2018 and 2017.

Impairment losses amounting to P68.5 million, P50.3 million and P113.0 million in 2018, 2017 and 2016, respectively, are presented as part of Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 22). Recovery of bad debts are presented as part of Others under Other Income (Charges) in the consolidated statements of comprehensive income.

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

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year, as previously reported		<b>P 478,153,676</b>	P 339,048,847
Effect of application of PFRS 9	2.1(b)	<b>107,699,501</b>	-
As restated		<b>585,853,177</b>	-
Business combination	1.4	-	138,498,702
Impairment loss for the year	22	<b>68,465,111</b>	46,167,713
Written-off during the year		<b>( 17,153,577)</b>	( 44,844,753)
Recovery of bad debts		<b>( 2,768,583)</b>	( 716,833)
Balance at end of year		<b><u>P 634,396,128</u></b>	<b><u>P 478,153,676</u></b>

In 2018 and 2017, the Group directly written off past due accounts amounting to nil and P4.1 million, respectively, which is also presented as part of Impairment losses on trade and other receivables under Selling and Administrative Expenses (see Note 22.1).

## 8. INVENTORIES

The breakdown of inventories are as follows:

	<u>Note</u>	<u>2018</u>	<u>2017</u> [As restated - see Note 2.1(b)]
At cost:			
Fuels and by-products		<b>P 10,303,317,190</b>	P 12,017,877,179
Lubricants		<b>427,496,011</b>	271,868,702
Merchandise		<b>185,837,405</b>	-
LPG		<b>157,495,582</b>	124,305,656
Others		<b>61,348,098</b>	2,185,536
	21.2	<b><u>P 11,135,494,286</u></b>	<b><u>P 12,416,237,073</u></b>

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of P3,045.6 million and P5,139.1 million as of December 31, 2018 and 2017, respectively, have been released to the Group in trust for by the bank. The Group is accountable to the bank for the trusted inventories or their sales proceeds (see Note 17.1).

There were no inventory write-down in 2018 and 2017.

An analysis of the cost of inventories included in the cost of fuels, lubricants, LPG and merchandise sold in each year is presented in Note 21.2.

## 9. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Notes 6 and 17.1) amounting to P52.7 million and P51.3 million as of December 31, 2018 and 2017, respectively. As such, these are restricted as to withdrawals. The proceeds from availment of the banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies. Interest rates for this type of deposit range from 0.80% to 3.68% per annum for December 31, 2018, 2017 and 2016. Interest income earned from restricted deposits amounted to P1.4 million, P0.1 million, P0.7 million in 2018, 2017 and 2016, respectively, and is included as part of Finance Income in the consolidated statements of comprehensive income (see Note 23.2).

## 10. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account as of December 31, 2018 and 2017 is shown below.

	Note	2018	2017 [As restated - see Note 2.1(b)]
Prepayments	27.3	P 388,805,646	P 299,066,139
Supplies		165,373,021	159,214,128
Creditable withholding tax		124,698,086	151,609,200
Others		16,822,026	381,709
		<u>P 695,698,779</u>	<u>P 610,271,176</u>

## 11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property, plant and equipment at the beginning and end of 2018 and 2017 are shown below.

	<u>Buildings, Depot, Plant and Pier Facilities</u>	<u>Leasehold and Land Improvements</u>	<u>Gasoline and LPG Station Equipment</u>	<u>LPG Cylinders</u>	<u>Office Furniture and Equipment</u>	<u>Hauling and Heavy Equipment</u>	<u>Transportation and Other Equipment</u>	<u>Land</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2018										
Cost or revalued amount	P 8,755,732,757	P 559,063,602	P 4,916,628,325	P 2,065,608,639	P 504,464,581	P 739,542,684	P 71,943,639	P 3,836,203,184	P3,323,038,453	P 24,772,225,864
Accumulated depreciation, amortization and impairment	( 2,202,616,943)	( 269,784,374)	( 1,886,469,891)	( 860,115,301)	( 259,737,242)	( 519,693,346)	( 57,814,262)	-	-	( 6,056,231,359)
Net carrying amount	<u><b>P 6,553,115,814</b></u>	<u><b>P 289,279,228</b></u>	<u><b>P 3,030,158,434</b></u>	<u><b>P 1,205,493,338</b></u>	<u><b>P 244,727,339</b></u>	<u><b>P 219,849,338</b></u>	<u><b>P 14,129,377</b></u>	<u><b>P 3,836,203,184</b></u>	<u><b>P3,323,038,453</b></u>	<u><b>P 18,715,994,505</b></u>
December 31, 2017										
Cost	P 7,938,264,335	P 278,440,237	P 4,307,161,317	P 1,725,126,080	P 176,628,000	P 723,956,478	P 60,325,908	P 2,431,765,273	P 761,915,936	P 18,403,583,564
Accumulated depreciation, amortization, and impairment	( 1,853,643,912)	( 172,468,591)	( 1,547,282,631)	( 776,460,696)	( 106,368,564)	( 491,547,359)	( 55,832,003)	-	-	( 5,003,603,756)
Net carrying amount [As restated - see Note 2.1(b)]	<u><b>P 6,084,620,423</b></u>	<u><b>P 105,971,646</b></u>	<u><b>P 2,759,878,686</b></u>	<u><b>P 948,665,384</b></u>	<u><b>P 70,259,436</b></u>	<u><b>P 232,409,119</b></u>	<u><b>P 4,493,905</b></u>	<u><b>P 2,431,765,273</b></u>	<u><b>P 761,915,936</b></u>	<u><b>P 13,399,979,808</b></u>
January 1, 2017										
Cost	P 4,634,286,358	P 294,381,659	P 3,115,535,438	P -	P 105,444,580	P 652,099,361	P 38,154,152	P 1,696,586,766	P1,081,354,000	P 11,617,842,314
Accumulated depreciation and amortization	( 1,135,333,357)	( 89,335,859)	( 857,037,528)	-	( 84,301,661)	( 411,366,616)	( 38,154,152)	-	-	( 2,615,529,173)
Net carrying amount	<u><b>P 3,498,953,001</b></u>	<u><b>P 205,045,800</b></u>	<u><b>P 2,258,497,910</b></u>	<u><b>P -</b></u>	<u><b>P 21,142,919</b></u>	<u><b>P 240,732,745</b></u>	<u><b>P -</b></u>	<u><b>P 1,696,586,766</b></u>	<u><b>P1,081,354,000</b></u>	<u><b>P 9,002,313,141</b></u>



A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017 of property, plant and equipment is shown below.

	<b><u>Buildings, Depot, Plant and Pier Facilities</u></b>	<b><u>Leasehold and Land Improvements</u></b>	<b><u>Gasoline and LPG Station Equipment</u></b>	<b><u>LPG Cylinders</u></b>	<b><u>Office Furniture and Equipment</u></b>	<b><u>Hauling and Heavy Equipment</u></b>	<b><u>Transportation and Other Equipment</u></b>	<b><u>Land</u></b>	<b><u>Construction in Progress</u></b>	<b><u>Total</u></b>
Balance at January 1, 2018 net of accumulated depreciation and amortization – as previously reported	P 6,084,620,423	P 108,321,362	P 2,759,878,686	P 948,665,384	P 68,617,257	P 232,409,119	P 4,493,905	P 2,431,765,273	P 761,915,936	P 13,400,687,345
Restatement – cost	-	( 2,110,086)	-	-	1,797,340	-	-	-	-	( 312,746)
Restatement – accumulated depreciation	-	( 239,630)	-	-	( 155,161)	-	-	-	-	( 394,791)
As restated – see Note 2.1(b)	6,084,620,423	105,971,646	2,759,878,686	948,665,384	70,259,436	232,409,119	4,493,905	2,431,765,273	761,915,936	13,399,979,808
Business combination - cost (see Note 1.4)	-	209,860,851	-	-	330,791,968	-	4,361,691	-	5,176,388	550,190,898
Business combination - accumulated depreciation (see Note 1.4)	-	( 65,849,711)	-	-	( 111,527,344)	-	( 2,673,486)	-	-	( 180,050,541)
Additions	1,038,828,696	60,964,354	96,270,515	393,588,977	6,418,615	33,809,407	11,494,707	184,591,868	2,953,396,335	4,779,363,474
Revaluation increments	-	-	-	-	-	-	-	1,219,846,043	-	1,219,846,043
Transfers (see Note 12)	( 221,360,274)	27,229,763	585,048,375	( 47,135,953)	2,542,575	44,072,911	-	-	( 397,450,206)	( 7,052,809)
Cost of asset disposed	-	( 17,680,364)	( 71,851,882)	( 5,970,465)	( 12,195,514)	( 62,296,112)	( 4,238,667)	-	-	( 174,233,004)
Accumulated depreciation of asset disposed	-	4,709,356	66,892,056	3,942,624	10,550,372	62,296,112	4,230,176	-	-	152,620,696
Depreciation and amortization charges for the year	( 348,973,031)	( 36,175,428)	( 406,079,316)	( 63,306,743)	( 52,391,706)	( 90,442,099)	( 3,538,949)	-	-	( 1,000,907,272)
Provision for loss on lost cylinders	-	-	-	( 24,290,486)	-	-	-	-	-	( 24,290,486)
Translation adjustment	-	248,761	-	-	278,937	-	-	-	-	527,698
Balance at December 31, 2018 net of accumulated depreciation and amortization	<b><u>P 6,553,115,814</u></b>	<b><u>P 289,279,228</u></b>	<b><u>P 3,030,158,434</u></b>	<b><u>P 1,205,493,338</u></b>	<b><u>P 244,727,339</u></b>	<b><u>P 219,849,338</u></b>	<b><u>P 14,129,377</u></b>	<b><u>P 3,836,203,184</u></b>	<b><u>P 3,323,038,453</u></b>	<b><u>P 18,715,994,505</u></b>

	<b><u>Buildings, Depot, Plant and Pier Facilities</u></b>	<b><u>Leasehold and Land Improvements</u></b>	<b><u>Gasoline and LPG Station Equipment</u></b>	<b><u>LPG Cylinders</u></b>	<b><u>Office Furniture and Equipment</u></b>	<b><u>Hauling and Heavy Equipment</u></b>	<b><u>Transportation and Other Equipment</u></b>	<b><u>Land</u></b>	<b><u>Construction in Progress</u></b>	<b><u>Total</u></b>
Balance at January 1, 2017 net of accumulated depreciation and amortization	P 3,498,953,001	P 205,045,800	P 2,258,497,910	P -	P 21,142,919	P 240,732,745	P -	P 1,696,586,766	P1,081,354,000	P 9,002,313,141
Business combination - cost (see Note 1.4)	1,475,209,901	-	494,487,528	1,665,092,760	20,693,043	-	18,814,376	-	4,753,049	3,679,050,657
Business combination - accumulated depreciation and provision for loss on lost cylinders (see Note 1.4)	( 507,141,325)	-	( 333,104,296)	( 757,139,740)	( 16,551,492)	-	( 18,125,459)	-	-	( 1,632,062,312)
Additions	915,256	6,799,404	5,402,980	74,504,679	57,390,498	103,659,961	4,227,327	735,178,507	2,207,257,158	3,195,335,770
Restatement – cost	-	( 2,110,086)	-	-	1,797,340	-	-	-	-	( 312,746)
Restatement – accumulated depreciation	-	( 239,630)	-	-	( 155,161)	-	-	-	-	( 394,791)
Transfers	1,827,852,820	( 19,666,168)	723,567,010	( 521,536)	-	-	-	-	( 2,531,232,126)	-
Cost of asset disposed	-	( 964,572)	( 31,831,639)	( 13,949,823)	( 8,697,461)	( 31,802,844)	( 869,947)	-	( 216,145)	( 88,332,431)
Accumulated depreciation of asset disposed	-	964,572	23,068,476	4,610,559	8,567,528	26,568,472	855,448	-	-	64,635,055
Depreciation and amortization charges for the year	( 211,169,230)	( 83,857,674)	( 380,209,283)	( 23,931,515)	( 13,927,778)	( 106,749,215)	( 407,840)	-	-	( 820,252,535)
Balance at December 31, 2017 net of accumulated depreciation and amortization [As restated – see Note 2.1(b)]	<u>P 6,084,620,423</u>	<u>P 105,971,646</u>	<u>P 2,759,878,686</u>	<u>P 948,665,384</u>	<u>P 70,259,436</u>	<u>P 232,409,119</u>	<u>P 4,493,905</u>	<u>P 2,431,765,273</u>	<u>P 761,915,936</u>	<u>P 13,399,979,808</u>

### 11.1 Borrowing Costs

Construction in progress includes accumulated costs incurred on the various depot facilities and retail stations being constructed as part of the Group's expansion program, including capitalized borrowing costs of P261.6 million, P19.7 million and P61.7 million as of December 31, 2018, 2017 and 2016, respectively (see Note 17.5), representing the actual borrowing costs incurred on loans obtained to fund the construction of depot facilities and retail stations. The average capitalization rate used was 8.50% both in 2018 and 2017.

### 11.2 Finance Lease

There are no hauling and heavy equipment held under finance lease as of December 31, 2018 and 2017.

### 11.3 Depreciation and Amortization

The Group retired in its books fully-depreciated transportation equipment with a total cost of P21.6 million and P24.9 million in 2018 and 2017, respectively. As of December 2018 and 2017, the cost of fully-depreciated assets that are still being used in the Group's operations amounted to P987.4 million and P1,044.8 million, respectively.

The amount of depreciation and amortization is allocated as follows:

	Notes	2018	2017	2016
Cost of sales and services	21.2, 21.3	P 63,306,743	P 23,964,493	P 402,281,752
Selling and administrative expenses		<u>937,600,529</u>	<u>796,288,042</u>	<u>582,127,726</u>
	22	<u>P 1,000,907,272</u>	<u>P 820,252,535</u>	<u>P 984,409,478</u>

### 11.4 Fair Value of Land

The Group's parcels of land are stated at their revalued amounts as of December 31, 2018 (see Note 2.1[b]), being the fair value at December 31, 2018, the date of appraisal report, less any subsequent impairment losses. The revaluation surplus, net of applicable deferred income taxes, is presented as part of the Revaluation Reserves account in the equity section of the 2018 consolidated statement of financial position.

The information on the fair value measurement and disclosures related to the revalued parcels of land are presented in Note 5.5.

If the parcels of land were carried at cost model as of December 31, 2018, the cost would be P2,597.7 million.

## 12. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of 2018 and 2017 are shown below.

		Basketball Franchise		Store Franchise		Computer Software Licenses		Software Development Cost		Others		Total
December 31, 2018												
Cost	P	176,861,660	P	42,028,644	P	244,288,416	P	47,571,271	P	1,334,093	P	512,084,084
Accumulated amortization		-		( 19,675,619)		( 150,259,211)		( 13,986,616)		( 108,288)		( 184,029,734)
Net carrying amount		<u>P 176,861,660</u>		<u>P 22,353,025</u>		<u>P 94,029,205</u>		<u>P 33,584,655</u>		<u>P 1,225,805</u>		<u>P 328,054,350</u>
December 31, 2017												
Cost	P	176,861,660	P	-	P	216,578,945	P	9,638,891	P	1,262,393	P	404,341,889
Accumulated amortization		-		-		( 101,764,923)		( 7,118,724)		-		( 108,883,647)
Net carrying amount		<u>P 176,861,660</u>		<u>P -</u>		<u>P 114,814,022</u>		<u>P 2,520,167</u>		<u>P 1,262,393</u>		<u>P 295,458,242</u>
January 1, 2017												
Cost	P	176,861,660	P	-	P	166,374,580	P	9,275,320	P	933,694	P	353,445,254
Accumulated amortization		-		-		( 72,935,492)		( 5,472,272)		-		( 78,407,764)
Net carrying amount		<u>P 176,861,660</u>		<u>P -</u>		<u>P 93,439,088</u>		<u>P 3,803,048</u>		<u>P 933,694</u>		<u>P 275,037,490</u>

A reconciliation of the carrying amounts of intangible assets at the beginning and end of 2018 and 2017 are shown below.

		Basketball Franchise		Store Franchise		Computer Software Licenses		Software Development Cost		Others		Total
Balance at January 1, 2018, net of accumulated amortization – as previously reported	P	176,861,660	P	-	P	94,287,232	P	2,520,167	P	1,262,393	P	274,931,452
Restatement – cost		-		-		20,874,703		-		-		20,874,703
Restatement – accumulated amortization		-		-		( 347,913)		-		-		( 347,913)
As restated – see Note 2.1(b)		176,861,660		-		114,814,022		2,520,167		1,262,393		295,458,242
Business combination -cost (see Note 1.4)		-		41,078,000		-		402,438		-		41,480,438
Business combination -accumulated amortization		-		( 19,675,619)		-		( 328,499)		-		( 20,004,118)
Additions		-		950,644		26,563,038		30,477,133		71,700		58,062,515
Transfers from property, plant, and equipment (see Note 11)		-		-		-		7,052,809		-		7,052,809
Amortization expense for the year		-		-		( 48,494,288)		( 6,539,393)		( 108,288)		( 55,141,969)
Reclassification/ adjustment		-		-		1,146,433		-		-		1,146,433
Balance at December 31, 2018, Net of accumulated amortization		<u>P 176,861,660</u>		<u>P 22,353,025</u>		<u>P 94,029,205</u>		<u>P 33,584,655</u>		<u>P 1,225,805</u>		<u>P 328,054,350</u>
Balance at January 1, 2017, net of accumulated amortization	P	176,861,660	P	-	P	93,439,088	P	3,803,048	P	933,694	P	275,037,490
Additions		-		-		49,856,452		363,571		328,699		50,548,722
Amortization expense for the year		-		-		( 28,481,518)		( 1,646,452)		-		( 30,127,970)
Balance at December 31, 2017, net of accumulated amortization [As restated – see Note 2.1(b)]		<u>P 176,861,660</u>		<u>P -</u>		<u>P 114,814,022</u>		<u>P 2,520,167</u>		<u>P 1,262,393</u>		<u>P 295,458,242</u>

In 2018, computer software licenses amounting to P7.5 million were transferred from property, plant and equipment (see Note 11). The amount of amortization is presented as part of selling and administrative expenses in the consolidated statements of comprehensive income (see Note 22).

Store franchise was acquired as a result of business combination in 2018 [see Notes 1.4(a) and 31.5].

Intangible assets are subject to annual impairment testing and whenever there is an indication of impairment. The Group assessed that the useful life of the basketball franchise to be indefinite. Based on analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate inflows for the Group. No impairment losses were recognized in 2018, 2017 and 2016 on such basis.

### 13. INVESTMENTS IN JOINT VENTURES

#### 13.1 Joint venture of the Parent Company

The Parent Company has entered into a joint venture (JV) agreement with TIPCO Asphalt Public Company Limited (TIPCO Asphalt) and certain individual to set-up and incorporate a JV company – Phoenix Asphalt Philippines, Inc. (PAPI). The JV company – PAPI was incorporated on March 23, 2018 primarily to import, store, manufacture, sell, market, distribute bitumen, bitumen-related products and such other by-products of crude oil and such other petroleum products including the operation of terminals and depots.

Under the JV agreement, PAPI's authorized share capital is P275.0 million divided into 275.0 million shares with par value of P1 per share. The Parent Company owns P110.0 million shares or 40.00% of the outstanding capital stock of PAPI. The JV has no restrictions as to transfer of funds in the forms of cash dividend, or to pay advances made by PAPI. Moreover, the Parent Company shall be responsible to enter into a lease agreement for land identified as part of a certain industrial park in Batangas for the construction of terminal at fair rental value, and to cause to provide a minimum of 20 to 30 years' access rights to the oil, gas and chemical jetty for receiving and importing bulk bitumen cargo and other rights necessary for the construction and operations of terminal.

#### 13.2 Joint ventures of PPMI

PPMI entered into an agreement with Per Petroleum Corporation for the operation and management of PPMI retail network including collateral businesses that may complement the operation or the retail network in the whole of the Bicol Region. The JV company, Phoenix Southern Petroleum Corp. (PSPC), was incorporated and registered with the SEC on June 1, 2018. The primary purpose of this company is to buy and sell refined liquefied petroleum gas, various kinds of lubricants, car care products and to operate, manage and carry out gasoline retail stations, convenience store and other non-fuel related businesses.

PPMI owns P30.6 million worth of shares or 51.00% of the outstanding capital stock, but does not has significant control on the entity. PPMI has no significant commitments relating to PSPC.

PPMI entered into a JV agreement with certain individuals for the management and operation of Galaxi Petroleum Fuel, Inc. (Galaxi). Galaxi was primarily established to sell petroleum products. PPMI owns P5.0 million worth of shares or 51.00% of the outstanding capital stock, but does not have significant control of the entity. PPMI has no significant commitments relating to Galaxi.

#### 13.3 JVs financial information

Presented below are the financial information of the Group's joint ventures and the movements of the carrying value as of December 31, 2018:

	Joint Ventures			
	PAPI	PSPC	Galaxi	
Total current assets	P 275,278,082	P 67,459,164	P 172,295,310	
Total non-current assets	8,786,996	-	68,143,118	
Total current liabilities	10,613,773	7,988,212	152,326,905	
Total non-current liabilities	-	-	1,756,000	
Total revenues	6,828,601	-	398,627,902	
Total other comprehensive income	-	-	-	
				<b>Total</b>
Net income (loss)	(P 1,124,499)	(P 529,048)	P 15,807,567	
Percentage of ownership	40.00%	51.00%	51.00%	
Equity share in net income (loss) during the year	(P 449,800)	(P 269,814)	P 8,061,859	P 7,342,245
Total acquisition costs				448,094,125
Carrying value				<b>P 455,436,370</b>

No dividends were received from the joint ventures during the year. In addition, there are no share of contingent liabilities for all of the JVs. As of December 31, 2018, management believes that the investments in joint ventures are not impaired.

#### 14. GOODWILL

Goodwill represents the excess of acquisition cost over the Group's share in the fair value of identifiable net assets of the acquired subsidiaries at the date of the acquisition and relates mainly to business synergy for economies of scale and scope. The movements of this account as of December 31 are as follows:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year			
– net of allowance on impairment loss		<b>P 3,990,666,606</b>	P 10,221,849
Additions due to business combinations	1.4	<b><u>428,176,225</u></b>	<u>3,980,444,757</u>
Balance at end of year		<b><u>P 4,418,842,831</u></b>	<u>P 3,990,666,606</u>

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. In 2013, the Parent Company has assessed that the goodwill pertaining with PGMI is impaired; hence, full impairment loss amounting to P1.3 million was recognized.

The Group tests whether goodwill is impaired on an annual basis. The recoverable amount of the cash generating units [identified as PLPI (LPG), PFM (CVS) and AAI Group (Digital platform)] was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on budgets approved by the management covering a five-year period with an assumed a terminal growth rate of 3.0% and is based on the discount rate of weighted average cost of capital of 12.00%. Budgeted earnings before interest, taxes, depreciation and amortization (EBITDA) were based on expectations of future outcomes taking in to past experience of five years, adjusted for anticipated revenue growth. It is also further assumed that revenues coming from sales volume and sales prices would grow at a constant margin above forecast inflation over the next five years. Based on these, the estimated recoverable amount of each of the cash generating units exceeded its carrying amount. The carrying values of goodwill for each of the cash-generating units are disclosed in Note 1.4.

Based on these analyses, management has assessed that no impairment of goodwill is required to be recognized in 2018 and 2017.

#### 15. INVESTMENT PROPERTIES

The Group's investment properties were acquired through business combinations in 2017 (see Note 1.4) and consist of several parcels of land and lot improvements, which are held for investment purposes only. Rental income from investment property amounted to P1.8 million in 2018, P1.1 million in 2017 and nil in 2016 are presented as part of Rent Income in the 2018 and 2017 consolidated statements of comprehensive income.

Related real property taxes amounted to P0.7 million and P0.2 million was recognized as a related expense in 2018 and 2017, respectively, and are presented as part of Taxes and Licenses under Selling and Administrative Expenses in the 2018 and 2017 consolidated statements of comprehensive income (see Note 22).

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2018 and 2017 are shown below and in the next page.

	<u>Land</u>	<u>Lot Improvements</u>	<u>Total</u>
December 31, 2018			
Revalued amount / cost [see Note 2.1(b)]	P 1,742,840,628	P 3,500,390	P 1,746,341,018
Accumulated impairment loss	( 4,633,374 )	-	( 4,633,374 )
Accumulated depreciation	-	( 2,686,439 )	( 2,686,439 )
Net carrying amount	<u>P 1,738,207,254</u>	<u>P 813,951</u>	<u>P 1,739,021,205</u>
December 31, 2017			
Cost	P 1,117,899,628	P 3,500,390	P 1,121,400,018
Accumulated impairment loss	( 4,633,374 )	-	( 4,633,374 )
Accumulated depreciation	-	( 2,001,986 )	( 1,986,362 )
Net carrying amount	<u>P 1,113,266,254</u>	<u>P 1,514,028</u>	<u>P 1,114,780,282</u>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2018 and 2017 is shown below.

	<u>Land</u>	<u>Lot Improvements</u>	<u>Total</u>
Balance at January 1, 2018 net of accumulated depreciation and impairment loss	P 1,113,266,254	P 1,514,028	P 1,114,780,282
Fair value gains	624,941,000	-	624,941,000
Depreciation charges for the year	-	( 700,077 )	( 700,077 )
Balance at December 31, 2018 net of accumulated depreciation	<u>P 1,738,207,254</u>	<u>P 813,951</u>	<u>P 1,739,021,205</u>
Balance at January 1, 2017 net of accumulated depreciation and impairment loss	P 336,839,553	P 2,214,105	P 339,053,658
Business combination	736,056,721	-	736,056,721
Depreciation charges for the year	-	( 700,077 )	( 700,077 )
Reversal of accumulated impairment losses	40,785,503	-	40,785,503
Cost of disposed property	( 415,523 )	( 715,701 )	( 1,131,224 )
Accumulated depreciation of disposed property	-	715,701	715,701
Balance at December 31, 2017 net of accumulated depreciation and impairment loss	<u>P 1,113,266,254</u>	<u>P 1,514,028</u>	<u>P 1,114,780,282</u>

In 2017, the carrying amount of the investment properties totaled to P1,114.8 million as a result of the acquisition of Duta Group. As a result of the increase in the appraisal values, the Group recognized in 2017 a gain on reversal of impairment amounting to P40.3 million, which was previously recognized before the business combination (see Note 1.4). Such is presented as part of Others under the Other Charges (Income) in the 2017 consolidated statement of comprehensive income.

In 2018, the Group has appraised its investment properties where fair value gains were recognized at the opening balance amounting to P624.9 million [see Note 2.1(b)].

Other information about the fair value measurement and disclosures related to the investment property are presented in Note 5.5.

## 16. OTHER NON-CURRENT ASSETS

The composition of this account as of December 31 are shown below.

	Note	2018	2017
Advances to suppliers	27.2	<b>P 1,167,194,841</b>	P -
Refundable rental deposits	27.3	<b>289,572,937</b>	182,480,300
Deferred minimum lease payments		<b>48,242,728</b>	39,079,505
Other prepayments		<b>83,386,615</b>	-
Others		<b>7,270,409</b>	1,907,263
		<b><u>P 1,595,667,530</u></b>	<b><u>P 223,467,068</u></b>

Advances to suppliers pertain to advances made to related parties for future acquisition of real properties (see Note 27.2).

Refundable rental deposits represent deposits of the Group for the lease of various parcels of land. These deposits are refundable at the end of the term of agreement and are measured at amortized cost. The fair values on initial recognition of the lease deposits were determined by calculating the present value of the estimated future cash flows anticipated until the end of the lease terms using the market interest rate of comparable financial instrument at the inception of the lease (i.e. BVAL). Meanwhile, interest on subsequent amortization of rental deposits using effective interest method amounted to P2.8 million in 2018, P2.7 million in 2017 and P2.6 million in 2016 and is presented as part of Finance Income in the consolidated statements of comprehensive income (see Note 23.2).

The excess of the principal amount of the rental deposit over its present value is recognized in the consolidated statements of financial position as Deferred Minimum Lease Payments. Rent expense on subsequent amortization of the deferred minimum lease payments amounted to P3.2 million, P2.7 million and P2.4 million in 2018, 2017 and 2016, respectively, and is presented as part of Rent under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 22).

## 17. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings are broken down as follow:

	2018	2017
Current:		
Liabilities under LC and TR	<b>P 3,045,567,756</b>	P 5,139,141,223
Term loans	<b>16,667,005,937</b>	11,657,732,922
Liabilities under short-term commercial papers	<b>6,596,913,591</b>	-
	<b>26,309,487,284</b>	16,796,874,145
Non-current Term loans	<b>13,590,520,166</b>	11,374,559,853
	<b><u>P 39,900,007,450</u></b>	<b><u>P 28,171,433,998</u></b>

### 17.1 Liabilities under Letters of Credits and Trust Receipts

The Group avails of LC and TR lines with local banks to finance its purchases of inventories (see Note 8). These short-term trust receipts bear interests based on prevailing market interest rates at an average of 6.14% and 3.97% per annum in 2018 and 2017, respectively.

The Group is required by the banks to maintain certain collaterals for the credit line facility provided to the Group for working capital requirements. The collaterals are in the form of compensating deposits, inventories and surety of certain stockholders (see Notes 6, 8, 9 and 27.5).



## 17.2 Term Loans

The breakdown of the outstanding balances of the term loans per creditor as at December 31 are as follows:

	Explanatory Notes	Term	Interest Rates	Outstanding Balance	
				2018	2017
BDO Unibank, Inc. (BDO)					
i. Term Loan Agreement	(a)	7 years	4.77%	P 5,142,186,833	P 5,799,559,853
ii. Notes Facility Agreements	(b), (c)	1 month to 5 years	5.72% - 7.59%	<u>3,200,000,000</u>	<u>4,600,000,000</u>
				<u>8,342,186,833</u>	<u>10,399,559,853</u>
Philippine National Bank (PNB)					
i. Short-Term Commercial Papers	(17.3)	6 to 12 months	7.10% - 7.50%	6,596,913,591	-
ii. Notes Payable	(c)	2 months to 6 months	4.63% - 7.00%	<u>3,670,000,000</u>	<u>2,150,000,000</u>
				<u>225,000,000</u>	<u>325,000,000</u>
ii. Term Loan Agreement	(d)	5 years	5.30% - 6.21%	<u>10,491,913,591</u>	<u>2,475,000,000</u>
Land Bank of the Philippines (LBP)					
i. Term Loan Agreement	(f)	7 years	4.85%	5,000,000,000	-
	(f)	3 years	4.00%	666,666,667	1,000,000,000
ii. Notes Payable	(c)	2 to 3 months	6.00%	<u>1,100,000,000</u>	<u>900,000,000</u>
				<u>6,766,666,667</u>	<u>1,900,000,000</u>
Multinational Investment Bancorporation (MIB)					
i. Notes Payable	(c)	3 to 7 months	4.75% - 6.50%	4,304,042,213	2,385,732,922
ii. Medium-term loan	(e)	1 year and 6 months	3.75%	<u>200,000,000</u>	<u>-</u>
				<u>4,504,042,213</u>	<u>2,385,732,922</u>
Robinsons Bank Corporation (RBC)					
i. Notes Payable	(c)	2 to 6 months	6.75%	375,000,000	625,000,000
ii. Term Loan Agreement	(b), (g)	5 years	5.50%	<u>200,000,000</u>	<u>347,000,000</u>
				<u>575,000,000</u>	<u>972,000,000</u>
Development Bank of the Philippines (DBP)	(c)	2 to 3 months	5.30% - 5.90%	<u>1,715,000,000</u>	<u>1,200,000,000</u>
Asia United Bank (AUB)	(c)	3 months	6.75%	<u>1,009,630,390</u>	<u>400,000,000</u>
China Banking Corporation	(c)	3 months to 18 months	4.63%	<u>1,005,000,000</u>	<u>-</u>
Rizal Commercial Banking Corporation	(c)	2 to 3 months	7.25%	<u>985,000,000</u>	<u>1,000,000,000</u>
Bank of Commerce	(c)	1 month	6.38%	<u>810,000,000</u>	<u>500,000,000</u>
United Coconut Planters Bank	(c)	1 month	7.00%	<u>450,000,000</u>	<u>500,000,000</u>
Maybank Philippines, Inc.	(c)	3 months	6.00%	<u>200,000,000</u>	<u>-</u>
Pentacapital Investment Corporation	(c)	3 months	5.00%	<u>-</u>	<u>400,000,000</u>
Philippine Veterans Bank (PVB)	(c)	1 month	3.50%	<u>-</u>	<u>600,000,000</u>
Union Bank of the Philippines (UBP)	(c)	2 months	3.50%-4.00%	<u>-</u>	<u>300,000,000</u>
				<u>P 36,854,439,694</u>	<u>P 23,032,292,775</u>

**(a) TLA with BDO**

In 2017, the Parent Company obtained a seven-year term loan amounting to P6,000.0 million to finance the 100.00% acquisition of PLPI, including the refinancing of the deposit, and Duta, Inc. The loan was approved on a clean basis and is subject to an interest rate computed as the sum of the prevailing three-month BVAL rate (which replaced and succeeded the PDST-R2 as the benchmark rate effective October 29, 2018) and 150 basis points divided by 0.99, or 4.00% divided by 0.99 per annum for the period commencing from the availment of the commitment up to the end of the eighth quarter, whichever is higher. The interest rate shall be repriced at the start of the ninth quarter up to the final repayment date based on the higher of sum of the prevailing three-month BVAL and 150 basis points divided by 0.95, or 4.00% divided by 0.95 per annum, whichever is higher. The principal loan is payable quarterly in 28 installments. The first 27 installments shall be for the amount of P165.0 million quarterly while the last installment shall be P1,545.0 million.

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ratio of at least 1.1, and debt coverage ratio of at least 1.5.

As of December 31, 2018 and 2017, the Parent Company has complied with its debt covenants.

**(b) Notes Facility Agreement**

In 2011, the Parent Company availed of a P750.0 million clean loan under the notes facility agreement entered into with BDO, Maybank International, Ltd. and RBC. The long-term loan amounting to P700.0 million with interest rate of 7.40% annually is payable on August 24, 2016 and the remaining P50.0 million with interest rate of 7.70% is payable on August 23, 2018. The outstanding balance of the note facility as of December 31, 2018 and 2017 amounted to nil and P47.0 million, respectively. This loan does not include any covenant.

**(c) Notes Payable**

The promissory notes represented the borrowings from local banks or investment houses with interest rates ranging from 4.63% to 7.00% per annum and normally has a tenor of less than a year. Some of these loans are clean and unsecured. Certain loans are guaranteed by certain stockholders through surety agreement with the Banks (see Note 27.5).

The total outstanding balance of the various promissory notes as of December 31, 2018 and 2017 are P18,683.7 million and P14,560.7 million, respectively.

**(d) TLA with PNB**

On January 29, 2016, the Parent Company signed with PNB a five-year term clean loan amounting to P500.0 million to be used for capital expenditures and general corporate purposes. The loan is subject to annual interest rate of 6.21% and is payable in twenty quarterly installments. As of December 31, 2018 and 2017, the outstanding principal balance amounted to P225.0 million and P325.0 million, respectively. This loan does not include any covenant.

**(e) Medium-Term Loan with MIB**

The Parent Company signed with MIB a clean medium-term loan amounting to P200.0 million with a tenor of 547 days. The loan proceeds were used for working capital requirements. The loan is subject to a fixed annual interest rate of 3.75% and is maturing on April 30, 2019. This loan does not include any covenant.

**(f) TLA with LBP**

On November 3, 2017, the Parent Company signed with LBP a three-year term clean loan amounting to P1,000.0 million to partially finance the permanent working capital requirements of the Parent Company. The loan is subject to a floating rate of 4.00% per annum subject to repricing semi-annually. Interest is payable semi-annually in arrears and the principal is payable in equal semi-annual amortization starting at the end of the first semester. As of December 31, 2018 and 2017, the outstanding principal balance amounted to P666.7 million and P1,000.0 million, respectively.

On July 5, 2018, the Parent Company signed with LBP a seven-year term loan with no grace period amounting to P5,000.0 million to partially finance the general corporate requirement of the company. The loan was approved on a clean basis and is subject to an interest rate of 4.85% and shall be repriced semi-annually. The principal loan is payable in semi-annually. The first 13 installments shall be for the amount of P25.0 million semi-annually while the last installment shall be P4.675.0 million.

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1.

As of December 31, 2018 and 2017, the outstanding principal balance amounted to P5,000.0 million and nil, respectively. The Parent Company has complied with its debt covenants.

**(g) TLA with RBC**

On October 9, 2015, the Parent Company signed with RBC a five-year clean term loan amounting to P500.0 million to be used for capital expenditures and general corporate purposes. The loan is subject to annual interest rate of 5.50% and is payable in twenty equal quarterly installments. As of December 31, 2018 and 2017, the outstanding principal balance amounted to P200.0 million and P300.0 million, respectively. This loan does not include any covenant.

**17.3 Liabilities under Short-term Commercial Papers (STCPs)**

In December 2018, the Parent Company issued STCPs amounting to P7,000.0 million with PNB Capital and Investment Corporation being the Sole Issue Manager and the Lead Underwriter. The amount represented the first of the two tranches totalling to P10,000.0 million of STCP registered with the SEC. Half of the first tranche consisted of 180-day paper that carries a discount rate of 7.10% while 350-day paper with discount rate of 7.50%. The Parent Company used 70.00% of the proceeds to finance the working capital requirements for the importation of fuels and lubricants, and the rest will be used to repay outstanding short-term loans with various banks.

The outstanding liabilities under STCP as of December 31, 2018 and 2017 amounted to P6,596.9 million and nil, respectively. The outstanding balance as of December 31, 2018 is net of the capitalized and unamortized debt issuance cost of P45.2 million.

**17.4 Credit Line**

The Parent Company has an available credit line under LC/TR of P17,111.3 million and P8,902.3 million and as of December 31, 2018 and 2017, respectively. These lines obtained from various banks are being utilized by the Parent Company for procurement of inventories both local and foreign. The credit lines are mostly granted on a clean basis while some of the credit lines are partially secured by the Joint Several Signatures of certain stockholders.

**17.5 Interest Expense**

Interest expense for 2018, 2017 and 2016 are presented as part of Finance Costs in the consolidated statements of comprehensive income amounted to P1,377.0 million, P780.9 million and P863.4 million (see Note 23.1), respectively, which is already exclusive of the capitalized borrowing cost of P261.6 million, P19.7 million and P61.7 million as of December 31, 2018, 2017 and 2016, respectively (see Note 11.1).

## 18. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Group's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Liabilities under LC and TR (see Note 17)	Term Loans (see Note 17)	Liabilities under STCP (see Note 17)	Obligations under finance lease (see Note 17)	Other Non-current Liabilities (see Note 20)	Total
Balance as of January 1, 2018	P 5,139,141,223	P 23,032,292,775	P -	P -	P 504,947,844	P 28,676,381,842
Cash flows from financing activities						
Additional borrowings	-	50,798,571,804	7,000,000,000	-	-	57,798,571,804
Repayment of borrowings and TR	( 28,300,249,382 )	( 43,573,338,476 )	-	-	-	( 71,873,587,858 )
Increase in non-current liability	-	-	-	-	78,717,366	78,717,366
Bond issue cost	-	-	( 45,238,000 )	-	-	( 45,238,000 )
Non-cash financing activities						
Availment of LC and TR	25,780,675,915	-	-	-	-	25,780,675,915
Business combination	426,000,000	-	-	-	3,664,685	429,664,685
Unamortized discount	-	-	( 357,848,409 )	-	-	( 357,848,409 )
<b>Balance as of December 31, 2018</b>	<b><u>P 3,045,567,756</u></b>	<b><u>P 30,257,526,193</u></b>	<b><u>P 6,596,913,591</u></b>	<b><u>P -</u></b>	<b><u>P 587,329,895</u></b>	<b><u>P 40,487,337,345</u></b>
Balance as of January 1, 2017	P 2,163,936,859	P 9,911,509,730	P 1,107,711,982	P 1,265,272	P 258,584,286	P 13,443,008,129
Cash flows from financing activities						
Additional borrowings	-	35,895,647,657	1,121,000,000	-	-	37,016,647,657
Repayment of borrowings and TR	( 18,099,859,838 )	( 22,776,136,983 )	( 2,228,711,982 )	-	-	( 43,104,708,803 )
Increase in non-current liability	-	-	-	-	63,749,068	63,749,068
Non-cash financing activities						
Availment of LC and TR	21,075,064,202	-	-	-	-	21,075,064,202
Business combination	-	-	-	-	182,614,490	182,614,490
Interest amortization on finance lease obligation	-	-	-	( 1,265,272 )	-	( 1,265,272 )
Amortization of unrecorded discount	-	1,272,371	-	-	-	1,272,371
<b>Balance as of December 31, 2017</b>	<b><u>P 5,139,141,223</u></b>	<b><u>P 23,032,292,775</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 504,947,844</u></b>	<b><u>P 28,676,381,842</u></b>

## 19. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2018	2017 [As Restated - Note 2.1(b)]
Trade payables:			
Third parties		P 6,142,277,375	P 2,844,928,495
Related parties	27.2, 27.3, 2.11	<u>84,630,306</u>	<u>20,995,548</u>
		<b>6,226,907,681</b>	<b>2,865,924,043</b>
Accrued expenses		<b>895,209,882</b>	<b>439,067,334</b>
Retention payable		<b>137,666,139</b>	<b>78,959,503</b>
Non-trade payables		<b>112,877,855</b>	<b>13,344,313</b>
Advances from customers		<b>7,208,523</b>	<b>108,796,437</b>
Others		<u>54,969,172</u>	<u>78,532,168</u>
		<b><u>P 7,434,839,252</u></b>	<b><u>P 3,584,623,798</u></b>

Trade payables are non-interest bearing and are generally settled within 30 to 90 days.

Accrued expenses mostly pertain to payables to various contractors for the construction of retail stations that remain unpaid at the end of the year. In addition, this comprises amounts to be paid in relation to charter hire cost, repairs and maintenance, interest expense arising from loans and professional fees.

Retention payable is the amount withheld by the Group from its contractors for the construction of buildings, depot and pier facilities. The amount of retention, which is equivalent to ten percent of the total contract price, is payable upon the completion and turnover by the contractor of a construction project and the acceptance thereof by the Group. Moreover, significant portion of the retention payable pertains to the construction of gasoline and LPG stations equipment, which are expected to be completed within one year after the reporting period.

Non-trade payables pertain to liabilities to various suppliers of goods and services which are not related to primary business activities of the Group, such as, utility bills, travel expenses and purchase of office supplies, among others.

## 20. OTHER NON-CURRENT LIABILITIES

This account consists of:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Customers' cylinder deposits		<b>P 276,285,558</b>	P 196,380,513
Security deposits		<b>266,616,512</b>	245,488,541
Cash bond		<b>56,702,491</b>	33,492,002
Unearned rent		<b>20,226,494</b>	20,724,633
Post-employment defined benefit obligation	24.4	<b>771,210</b>	1,720,623
		<b><u>P 620,602,265</u></b>	<b><u>P 497,806,312</u></b>

Security deposits represent deposits received from dealers for the lease of retail stations and equipment that are installed in retail stations. These deposits are refundable at the end of the lease terms and are measured at amortized cost. The fair values on initial recognition of the security deposits were determined by calculating the present value of the estimated future cash flows anticipated until the end of the lease terms using the market interest rate of comparable financial instrument at the inception of the lease. Meanwhile, interest on subsequent amortization of rental deposits using effective interest method amounted to P3.6 million, P6.3 million and P11.7 million in 2018, 2017 and 2016, respectively, and is presented as part of Finance Costs in the consolidated statements of comprehensive income (see Note 23.1).

The excess of the principal amount of the security deposit over its present value is recognized in the consolidated statements of financial position as unearned rent. Subsequent amortization of the unearned rent amounted to P5.6 million, P6.4 million and P8.1 million as of December 31, 2018, 2017, and 2016, respectively, and is presented as part of Rent Income in the consolidated statements of comprehensive income.

Customers' cylinder deposits represent the net amounts received for LPG cylinders loaned out to various dealers/customers. These deposits are non-interest bearing and refunded to the dealers upon return of the cylinders. This account is amongst the assumed liabilities as a result of business combination with PLPI in 2017 (see Note 1.4). In 2018 and 2017, there were no refunds made to the dealers. The composition of this account in 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Deposits for cylinders	<b>P 431,736,323</b>	P 248,173,086
Less:		
Gain on reversal of cylinder deposits	<b>( 91,841,621 )</b>	-
Amortization of cylinder deposits	<b>( 63,609,144 )</b>	( 51,792,573 )
	<b><u>P 276,285,558</u></b>	<b><u>P 196,380,513</u></b>

Cash bond deposits consists of cash received from PLPI dealers upon entering dealership agreement.

This serves as a bond or security in case a dealer defaults from payment. The deposit will be returned to the dealer upon termination of the agreement. The Group recognized gain on reversal of cylinder deposits amounting to P91.8 million and nil in 2018 and 2017, respectively, and is presented as part of Fuel Service and Other Income in the consolidated statements of comprehensive income.

## 21. REVENUES AND COST OF SALES AND SERVICES

### Revenues

#### Disaggregation of Contract Revenues

The Group derives revenue from the transfer of goods and services in the following primary geographical markets and major goods or service lines:

	Trading (point in time)	Depot and Logistics (over time)	Total
Primary geographical markets			
Philippines	P 66,671,556,143	P 824,182,312	P 67,495,738,455
Singapore	<u>21,001,166,720</u>	<u>-</u>	<u>21,001,166,720</u>
	<b><u>P 87,672,722,863</u></b>	<b><u>P 824,182,312</u></b>	<b><u>P 88,496,905,175</u></b>
Major goods/service lines			
Fuel and by-products	P 81,478,209,826	P 3,214,286	P 81,481,424,112
LPG	4,241,227,274	-	4,241,227,274
Merchandise	1,437,531,031	-	1,437,531,031
Lubricants	699,008,147	-	699,008,147
Hauling and into-plane	-	820,968,026	820,968,026
Others	<u>61,175,962</u>	<u>-</u>	<u>61,175,962</u>
	<b><u>P 87,672,722,863</u></b>	<b><u>P 824,182,312</u></b>	<b><u>P 88,496,905,175</u></b>

All of the Group's revenues except revenues from hauling and into-plane services and franchise fees (insignificant in amount), which are presented as part of Fuel services and other revenues are transferred at a point in time.

#### Contract Balances

The Group recognizes contract assets, due to timing difference of payment and satisfaction of performance obligation, to the extent of satisfied performance obligation on all open contracts as of the end of the reporting period. However, the management assess that contract assets, if any, are of insignificant amounts.

Changes in the contract assets and contract liabilities are recognized by the Group a right to receive payment is already established and upon performance of unsatisfied performance obligation, respectively. However, the management assess that contract liabilities, if any, are of insignificant amounts.

## Cost of Sales and Services

### 21.1 Costs of Sales and Services

This account is composed of the following as of December 31:

	Notes	2018	2017 [As Restated - see Note 2.1(b)]	2016
Cost of fuels and lubricants	21.2	P 74,428,515,179	P 37,251,184,765	P 23,914,378,824
Cost of LPG	21.2	3,439,226,822	1,093,919,764	-
Cost of merchandise	21.2	971,222,819	-	-
Cost of services	21.3	-	-	1,209,570,405
	22	<u>P 78,838,964,820</u>	<u>P 38,345,104,529</u>	<u>P 25,123,949,229</u>

### 21.2 Cost of Fuels, Lubricants, LPG and Merchandise Sold

The cost of inventories sold are broken down as follows:

	Notes	2018	2017 [As Restated - see Note 2.1(b)]	2016
Inventories at beginning of year		P 12,416,237,073	P 2,998,780,146	P 2,638,614,688
Net purchases during the year		77,380,780,757	47,660,988,176	24,274,544,282
Overhead costs	11.3	95,924,146	38,427,130	-
Business combination	1.4	81,517,130	63,146,150	-
Goods available for sale		89,974,459,106	50,761,341,602	26,913,158,970
Inventories at end of year	8	( 11,135,494,286)	( 12,416,237,073)	( 2,998,780,146)
		<u>P 78,838,964,820</u>	<u>P 38,345,104,529</u>	<u>P 23,914,378,824</u>

### 21.3 Cost of Services

There are no cost of services as of December 31, 2018 and 2017. The details of cost of services as of December 31, 2016 follows:

	Notes	
Charter hire fees		P 219,480,628
Depreciation and amortization	11.3, 12	402,281,752
Salaries and employee benefits		223,104,624
Bunkering		128,272,479
Port expenses		69,045,193
Repairs and maintenance		47,398,625
Insurance		41,880,302
Taxes and licenses		18,061,125
Outside services		6,060,643
Service fees		5,228,607
Security services		2,650,929
Fuel, gas and lubricants		148,605
Professional fees		-
Others		45,956,893
		<u>P 1,209,570,405</u>

## 22. COSTS AND EXPENSES BY NATURE

The details of the Group's costs and expenses by nature are shown below.

	Notes	2018	2017 [As Restated - see Note 2.1(b)]	2016
Cost of inventories sold	21.1	<b>P 78,743,040,674</b>	P 38,306,677,397	P 23,914,378,824
Depreciation and amortization	11, 12, 15	<b>1,056,749,318</b>	851,080,582	1,002,088,441
Salaries and employee benefits	24.1	<b>868,282,821</b>	438,875,069	549,545,236
Rent	16, 27.3, 31.3	<b>865,873,379</b>	654,110,277	638,617,179
Freight and trucking charges		<b>859,631,739</b>	667,780,304	594,195,277
Taxes and licenses	15	<b>531,258,432</b>	581,832,247	336,339,378
Advertising and promotions		<b>373,530,774</b>	267,197,963	85,071,762
Repairs and maintenance		<b>167,873,962</b>	90,491,317	118,676,191
Utilities		<b>154,238,778</b>	73,874,917	60,577,393
Service fees		<b>123,721,448</b>	134,022,166	88,540,285
Security fees		<b>114,708,711</b>	82,623,951	69,578,620
Donations and contributions	27.13	<b>91,762,500</b>	-	-
Travel and transportation		<b>82,991,673</b>	58,361,503	50,971,497
Professional fees		<b>78,808,924</b>	53,176,668	107,609,032
Insurance		<b>71,827,325</b>	40,957,246	71,213,196
Fuel, oil and lubricants		<b>69,321,906</b>	50,194,019	27,084,236
Impairment losses on trade and other receivables	7	<b>68,465,111</b>	50,335,399	112,986,854
Office supplies		<b>42,948,909</b>	16,634,489	12,914,083
Dues and Subscriptions		<b>37,887,492</b>	-	-
Representation		<b>27,946,580</b>	9,814,799	16,204,648
Provision for loss on lost cylinders	11	<b>24,290,486</b>	-	-
Sales incentives		<b>20,965,232</b>	13,481,660	17,120,040
Outside services		<b>14,924,503</b>	2,881,506	7,753,440
Deficiency taxes		<b>45,858</b>	5,295,972	81,276,439
Charter hire fees		-	-	152,635,025
Bunkering		-	-	128,272,479
Port expenses		-	-	40,173,775
Miscellaneous	27.11	<b>89,103,852</b>	102,433,029	167,191,742
		<b><u>P 84,580,715,117</u></b>	<b><u>P 42,552,132,480</u></b>	<b><u>P 28,576,725,128</u></b>

The expenses are classified in the consolidated statements of comprehensive income as follows:

	Note	2018	2017	2016
Cost of sales and services	21.1	<b>P 78,838,964,820</b>	P 38,345,104,529	P 25,123,949,229
Selling and administrative expenses		<b><u>5,741,750,297</u></b>	<u>4,207,027,951</u>	<u>3,327,065,843</u>
		<b><u>P 84,580,715,117</u></b>	<b><u>P 42,552,132,480</u></b>	<b><u>P 28,451,015,072</u></b>



## 23. FINANCE COSTS AND FINANCE INCOME

The breakdown of these accounts follows:

### 23.1 Finance Costs

	Notes	2018	2017	2016
Interest expense on bank loans and other borrowings	17.5	P 1,376,994,786	P 780,917,196	P 863,399,371
Bank charges		54,113,374	16,779,298	18,828,373
Foreign currency exchange losses – net		14,575,031	92,823	-
Interest expense from security deposits	20	3,564,480	6,341,824	11,680,584
Interest expense from post-employment defined benefit obligation – net	24.3	-	576,720	1,678,468
Others		-	-	10,703,374
		<u>P 1,449,247,671</u>	<u>P 804,707,861</u>	<u>P 906,290,170</u>

### 23.2 Finance Income

	Notes	2018	2017 [As Restated - see Note 2.1(b)]	2016
Foreign currency exchange gains – net		P 37,007,589	P 37,832,533	P 200,196,556
Interest income from cash in banks	6	27,225,602	15,662,627	3,874,299
Interest income on amortization of rental deposits	16	2,761,638	2,711,436	2,566,528
Interest income from overdue trade receivables		1,796,910	-	380,957
Interest income from restricted deposits	9	1,437,706	106,880	669,278
Interest income on retirement benefits	24.3	1,148,645	-	-
Others		<u>1,996,252</u>	<u>-</u>	<u>-</u>
		<u>P 73,374,342</u>	<u>P 56,313,476</u>	<u>P 207,687,618</u>

## 24. EMPLOYEE BENEFITS

### 24.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below.

	Notes	2018	2017	2016
Short-term benefits:				
Salaries and wages		P 673,553,312	P 323,104,897	P 434,209,853
Employee welfare and other benefits		103,315,524	63,959,232	76,840,351
13 <sup>th</sup> month pay and bonuses		67,321,587	30,893,578	23,944,763
Post-employment defined benefit	24.3	16,848,732	9,327,496	8,792,489
Employee share options	24.2	7,243,666	11,589,866	5,757,780
	22	<u>P 868,282,821</u>	<u>P 438,875,069</u>	<u>P 549,545,236</u>

### 24.2 Employee Share Option Plan (ESOP)

On January 24, 2013, the BOD of the Parent Company approved the ESOP. Under the ESOP program, the Parent Company will allocate up to a total of 2.20% of its issued and outstanding common shares to be granted to eligible employees. Share options benefit expense included as part of Salaries and employee benefits under Selling and Administrative Expenses in the consolidated statements of comprehensive income amounted to P7.2 million, P11.6 million and P5.8 million in 2018, 2017 and 2016, respectively, while the corresponding credit to Retained Earnings of the same amount are presented under the Equity section of the consolidated statements of financial position.

### 24.3 Post-employment Defined Benefit Plan

#### (a) Characteristics of the Defined Benefit Plan

The Group has maintained a partially funded, tax-qualified, noncontributory post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. Normal retirement benefit is an amount equivalent to 75.00% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

#### (b) Explanation of Amounts Presented in the Consolidated Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2018 and 2017.

The amounts of post-employment defined benefit obligation, which is presented as part of Other Non-current Liabilities account (see Note 20) in the consolidated statements of financial position, are determined as follow:

	<u>2018</u>	<u>2017</u>
Present value of obligation	<b>P 169,428,265</b>	P 123,569,725
Fair value of plan assets	<b>( 170,568,742)</b>	<b>( 122,023,565)</b>
Funded status	<b>( 1,140,477)</b>	1,546,160
Effect of asset ceiling	<b><u>1,911,687</u></b>	<u>174,463</u>
	<b><u>P 771,210</u></b>	<b><u>P 1,720,623</u></b>

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 123,569,725</b>	P 59,336,376
Current service cost	<b>16,848,732</b>	9,327,496
Effect of business combination	<b>3,664,685</b>	75,111,933
Remeasurements:		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	<b>( 32,969,509)</b>	( 12,276,998)
Experience adjustments	<b>51,934,933</b>	( 5,001,689)
Changes in demographic assumptions	<b>3,091,223</b>	( 355,175)
Benefits paid from:		
Plan assets	<b>( 4,036,824)</b>	( 7,100,000.)
Book reserves	-	( 5,453,559)
Settlement loss	-	3,582,092
Interest expense	<b><u>7,325,300</u></b>	<u>6,399,249</u>
Balance at end of year	<b><u>P 169,428,265</u></b>	<b><u>P 123,569,725</u></b>

The movements in the fair value of plan assets are presented below.

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 122,023,565</b>	P 86,148,347
Contributions to the plan	<b>54,718,273</b>	41,209,772
Benefits paid from plan assets	<b>( 4,036,824)</b>	( 7,100,000)
Interest income	<b>8,473,945</b>	5,164,769
Loss on plan assets (excluding amounts included in net interest)	<b><u>( 10,610,217)</u></b>	<b><u>( 3,399,323)</u></b>
Balance at end of year	<b><u>P 170,568,742</u></b>	<b><u>P 122,023,565</u></b>

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	<b><u>P 14,929,101</u></b>	<u>P 17,064,860</u>
Quoted equity securities:		
Holding	<b>1,036,800</b>	6,115,830
Property	<b>7,374,000</b>	3,199,153
Construction	<b>2,658,740</b>	2,966,310
Telecommunications	<b>2,044,800</b>	2,226,695
Manufacturing (Preferred)	<b><u>1,799,780</u></b>	<u>1,831,803</u>
	<b><u>14,914,120</u></b>	<u>16,339,791</u>
Government bonds	<b><u>55,700,985</u></b>	<u>43,642,587</u>
Unit investment trust funds (UITF)	<b><u>68,001,187</u></b>	<u>27,611,035</u>
Unit Corporate Bonds	<b><u>17,023,349</u></b>	<u>16,227,865</u>
Others	<b><u>-</u></b>	<u>1,137,427</u>
	<b><u>P 170,568,742</u></b>	<u>P 122,023,565</u>

The fair value of the above investments are determined based on quoted market prices in active markets (classified as Level 1 in the fair value hierarchy). Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>Reported in profit or loss:</i>				
Current service cost	24.1	<b>P 16,848,732</b>	P 9,327,496	P 8,792,489
Settlement loss		-	3,582,092	-
Net interest expense (income)	23.1, 23.2	<b>( <u>1,148,645</u> )</b>	<u>576,720</u>	<u>1,678,468</u>
		<b><u>P 15,700,087</u></b>	<u>P 13,486,308</u>	<u>P 10,470,957</u>
<i>Reported in other comprehensive income:</i>				
Actuarial gains or losses arising from changes in:				
Experience adjustments		<b>P 51,934,933</b>	( P 5,001,689 )	( P 10,503,288 )
Financial assumptions		<b>( 32,969,509 )</b>	( 12,276,998 )	( 3,020,965 )
Demographic assumptions		<b>3,091,223</b>	( 355,175 )	-
Effect of asset ceiling		<b>1,727,069</b>	174,463	-
Return (loss) on plan assets (excluding amounts included in net interest expense)		<b><u>10,610,217</u></b>	<u>3,399,323</u>	<u>( 1,836,547 )</u>
		<b><u>P 34,393,933</u></b>	<u>( P 14,060,076 )</u>	<u>( P 15,360,800 )</u>

Current service cost is presented as part of salaries and employee benefits under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 22).

The net interest expense is included as part of Finance Costs under the Other Charges (Income) (see Note 23.1).

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Discount rates	<b>7.53% to 7.97%</b>	5.70% to 5.82%	5.38%
Expected rate of salary increases	<b>2.00% to 6.00%</b>	5.00% to 6.00%	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 for both males and females is 25.7 and 20.9 for the Parent Company and PLPI, respectively.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*(c) Risks Associated with the Retirement Plan*

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

*(i) Investment and Interest Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond 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. Currently, the plan has relatively balanced investment in cash and cash equivalents, quoted equity securities and UITF.

*(ii) Longevity and Salary Risks*

The present value of the defined benefit 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.

*(d) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31:

	<b>Impact on Post-employment Benefit Obligation</b>		
	<b>Change in Assumption</b>	<b>Increase in Assumption</b>	<b>Decrease in Assumption</b>
Discount rate	+/- 1.00%	(P 13,482,291 )	P 15,252,253
Salary increase rate	+/- 1.00%	15,529,199	( 13,461,468 )
<b>2017</b>			
	<b>Impact on Post-employment Benefit Obligation</b>		
	<b>Change in Assumption</b>	<b>Increase in Assumption</b>	<b>Decrease in Assumption</b>
Discount rate	+/- 1.00%	(P 13,204,709 )	P 15,537,569
Salary increase rate	+/- 1.00%	14,128,498	( 12,313,513 )

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. A large portion of the plan assets as of December 31, 2018 and 2017 is allocated to market gains and losses and accrued receivables.

(iii) *Funding Arrangements and Expected Contributions*

As of December 31, 2018, the plan is overfunded by P1.1 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 21 years' time when a significant number of employees is expected to retire.

The Group expects to make contribution of P10.0 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within ten years as of December 31 follows:

	<b>2018</b>	<b>2017</b>
Within one year	<b>P 23,403,502</b>	P 5,296,457
More than one year to five years	<b>71,661,736</b>	23,841,856
More than five years to ten years	<b><u>149,066,180</u></b>	<u>81,961,568</u>
	<b><u>P 244,131,418</u></b>	<u>P 111,099,881</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is ten years.

## 25. REGISTRATION WITH THE BOARD OF INVESTMENTS

The Parent Company and PLPI were registered with the Board of Investments (BOI) for certain terminal and facilities that entitled the entities certain tax and non-tax incentives. Terminal and facilities registered with the BOI are as follows:

Note	Location of Project	Entity Registered	Date of Registration	Income Tax Holiday (ITH) Period	Expiry
25.1	Bacolod City	PPPI	May 10, 2012	5 Years	May 9, 2017
25.2	Cagayan De Oro City	PPPI	May 10, 2012	5 Years	May 9, 2017
25.3	Naga City, Cebu	PLPI	March 7, 2013	5 years	March 6, 2018
25.4	Tayud, Consolacion	PPPI	Nov 24, 2017	5 Years	Nov 24, 2022
25.5	Calapan, Oriental Mindoro	PPPI	Sep 9, 2017	5 Years	Sep 9, 2022
25.6	Villanueva, Misamis Oriental	PPPI	Oct 12, 2017	5 Years	Oct 12, 2022
25.7	Calaca, Batangas Expansion	PPPI	Dec 22, 2017	5 Years	Dec 22, 2022

### 25.1 BOI Registration for New Investment – Bacolod Storage Terminal

The Parent Company was registered with the BOI as a new industry participant with new investment in storage, marketing and distribution and bulk marketing of petroleum products under Republic Act 8479, *Downstream Oil Industry Deregulation Act* (RA 8479) for its storage terminal in Bacolod City. Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

### 25.2 BOI Registration for New Investment – Cagayan De Oro City Storage Terminal

On May 10, 2012, the Parent Company was registered with the BOI as a new industry participant with new investment in storage, marketing and distribution and bulk marketing of petroleum products under RA 8479 for its storage terminal in Cagayan de Oro City. Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Parent Company's transaction relating Cagayan de Oro City storage terminal is also entitled to certain tax and non-tax incentives as also mentioned previously.

The ITH for Cagayan de Oro City Storage expired on May 10, 2017.

### 25.3 BOI Registration for New LPG Import Terminal and Lubricant Storage Facilities in Naga City, Cebu

On March 7, 2013, the PLPI has registered with the BOI under Registration No. 2013-060 for its new investment for the construction of New LPG Import Terminal and Lubricant Storage Facilities in Naga City, Cebu. PLPI's Naga Plant Site is entitled to avail the incentives, which include, among others, ITH for a period of five years without extension from March 2014 or date of registration whichever is earlier but in no case earlier than the date of registration. The ITH for this terminal and storage facility expired on March 6, 2018.

### 25.4 BOI Registration for New Investment in Tayud, Consolacion, Cebu Oil Depot

On September 19, 2017, the Parent Company has registered with BOI under Registration No. 2017-267 its new project for the Bulk Marketing of Petroleum Products in Tayud, Consolacion, Cebu Oil Depot with 16.7 million liters combined capacity of six storage tanks. Under its new registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987. The Parent Company's transactions relating to Cebu Oil Depot are entitled to avail the incentives which include, among others, ITH for a period of five years without extension from September 2017 or date of registration whichever is earlier but in no case earlier than the date of registration.

### 25.5 BOI Registration for New Investment in Calapan, Oriental Mindoro Oil Depot

On October 12, 2017, the Parent Company has registered with BOI under Registration No. 2017-287 its new project for the Bulk Marketing of Petroleum Products in Calapan, Oriental Mindoro Oil Depot with 5.0 million liters combined capacity of two storage tanks. Under its new registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987. The Parent Company's transactions relating to Calapan, Oriental Mindoro Oil Depot are entitled to avail the incentives which include, among others, ITH for a period of five years without extension from October 2017 or date of registration whichever is earlier but in no case earlier than the date of registration.

### 25.6 BOI Registration for New Investment in Villanueva, Misamis Oriental Oil Depot

On November 24, 2017, the Parent Company has registered with BOI under Registration No. 2017-320 its new project for the Bulk Marketing of Petroleum Products in Villanueva, Oriental Mindoro Oil Depot with 49.7 million liters combined capacity of six storage tanks. Under its new registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987. The Parent Company's transactions relating to Villanueva, Oriental Mindoro Oil Depot are entitled to avail the incentives which include, among others, ITH for a period of five years without extension from November 2017 or date of registration whichever is earlier but in no case earlier than the date of registration.

### 25.7 BOI Registration for New Investment in Calaca, Batangas Oil Depot

On December 22, 2017, the Parent Company has registered with BOI under Registration No. 2017-353 its new project for the Bulk Marketing of Petroleum Products in Calapan, Batangas Oil Depot with 78.3 million liters combined capacity of seven storage tanks. Under its new registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987. The Parent Company's transactions relating to Oriental Mindoro Oil Depot are entitled to avail the incentives which include, among others, ITH for a period of five years without extension from January 2018 or date of registration whichever is earlier but in no case earlier than the date of registration.

As of December 31, 2018 and 2017, the Parent Company and PLPI have complied with the terms and conditions under their ITH registrations.

## 26. TAXES

The components of tax expenses reported in the consolidated profit or loss and in the consolidated other comprehensive income is presented below.

	2018	2017 [As restated see Note 2.1(b)]	2016
<i>Reported in profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30.00% and 17.00%	P 723,376,187	P 558,801,190	P 195,720,139
Final tax at 20.00% and 7.50%	9,174,318	3,157,079	1,928,511
Minimum corporate income tax (MCIT) at 2.00%	12,308,333	1,657,937	3,214,611
	<u>744,858,838</u>	<u>563,616,206</u>	<u>200,863,261</u>
Deferred tax expense (income) relating to origination and reversal of temporary differences	( <u>138,270,517</u> )	( <u>155,548,968</u> )	( <u>31,060,370</u> )
	<u>P 606,588,321</u>	<u>P 408,067,238</u>	<u>P 169,802,891</u>
<i>Reported in other comprehensive income:</i>			
Deferred tax expense relating to origination and reversal of temporary differences	<u>P 355,635,633</u>	<u>P 4,218,023</u>	<u>P 4,608,240</u>



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

	<b>2018</b>		2017 [As restated see Note 2.1(b)]		<b>2016</b>	
Tax on pretax profit at 30.00% and 17.00%	<b>P</b>	<b>893,992,261</b>	<b>P</b>	804,031,571	<b>P</b>	378,683,336
Adjustment for income subjected to lower income tax rates	(	<b>1,671,503</b>	(	186,606,000)	(	982,323 )
Tax effects of:						
Adjustment for income and expenses under ITH	(	<b>353,339,769</b>	(	190,713,945)	(	212,788,085 )
Unrecognized DTA		<b>72,038,868</b>		-		-
Non-deductible expenses		<b>17,551,587</b>		62,995,167		69,479,619
Recognition of previously unrecognized DTA on impairment losses	(	<b>16,415,482</b>	-		(	69,375,158 )
Non-taxable income	(	<b>7,656,113</b>	(	2,732,284)	(	3,205,464 )
Reversal of MCIT		<b>2,696,116</b>		3,157,282		3,051,968
Share benefit expense on on exercised stock options	(	<b>2,533,289</b>	(	2,528,710)		-
Reversal of net operating loss carry over (NOLCO)		<b>1,881,501</b>		2,761,014		179,839
Reversal of deferred tax liability (DTL) on 2016 unrealized forex gain, realized in 2017		<b>44,144</b>	(	83,181,314)		-
Derecognition of previously recognized deferred tax assets (DTA)		<b>-</b>		<b>884,457</b>		<b>4,759,159</b>
Tax expense reported in consolidated statements of comprehensive income [As restated – see Note 2.1 (b)(vii)]	<b>P</b>	<b><u>606,588,321</u></b>	<b>P</b>	<b><u>408,067,238</u></b>	<b>P</b>	<b><u>169,802,89</u></b>

The net deferred tax assets and liabilities as of December 31, 2018 and 2017 pertain to the following:

	Consolidated Statements of		Effects of Business Combination	Consolidated Statements of Comprehensive Income					
	Financial Position			Profit or Loss			Other Comprehensive Income (Loss)		
	2018	2017		2018	2017	2016	2018	2017	2016
Deferred tax assets:									
Impairment losses on trade and other receivables	P 150,061,918	P 135,499,033	P -	P 14,562,885	( P 3,955,666)	P 93,522,541	P -	P -	P -
Provision for losses on lost cylinders	78,914,501	71,627,356	-	7,287,145	-	-	-	-	-
Unamortized past service cost	33,066,105	7,730,775	-	25,335,330	1,600,550	-	-	-	-
Accrued rent expense	13,465,656	-	-	13,465,656	( 2,593,275)	1,776,960	-	-	-
Impairment losses – effect of PFRS 9	32,882,335	-	-	-	-	-	-	-	-
MCIT	6,967,764	6,620,729	-	347,035	( 1,037,884)	( 1,248,706)	-	-	-
NOLCO	1,570,632	15,291,370	-	( 13,720,738)	4,116,765	4,808,625	-	-	-
Post-employment benefit obligation	587,075	3,110,141	( 1,216,855)	( 11,624,391)	( 6,006,157)	( 618,401)	10,318,180	( 4,218,023)	( 4,608,240)
Unrealized foreign currency loss – net	-	1,849,446	-	( 1,849,446)	1,110,382	-	-	-	-
Others	-	761,427	-	( 761,428)	( 1,041,871)	-	-	-	-
	<u>307,197,806</u>	<u>242,490,277</u>	<u>( 1,216,855)</u>	<u>33,042,048</u>	<u>( 7,807,156)</u>	<u>98,241,019</u>	<u>10,318,180</u>	<u>( 4,218,023)</u>	<u>( 4,608,240)</u>
Deferred tax liabilities:									
Fair value gains on investment property	( 408,299,316)	( 220,817,016)	-	( 187,482,300)	( 220,817,016)	-	-	-	-
Gain on revaluation of land	( 365,953,813)	-	-	-	-	-	( 365,953,813)	-	-
Accrued rent income	( 13,987,805)	( 10,704,083)	( 137,881)	( 3,145,841)	( 10,106,110)	-	-	-	-
Unrealized foreign currency gains – net	( 3,248,580)	-	-	( 3,248,580)	83,181,314	( 67,180,649)	-	-	-
	<u>( 791,489,514)</u>	<u>( 231,521,099)</u>	<u>( 137,881)</u>	<u>( 193,876,721)</u>	<u>( 147,741,812)</u>	<u>-</u>	<u>( 365,953,813)</u>	<u>-</u>	<u>-</u>
Net deferred tax asset (liability), [As restated - see Note 2.1(b)]	<u>(P 484,291,708)</u>	<u>P 10,969,178</u>	<u>( P 1,354,736)</u>						
Net deferred tax income (expense)				<u>(P 138,270,517)</u>	<u>(P 155,548,968)</u>	<u>P 31,060,370</u>	<u>(P 355,635,633)</u>	<u>(P 4,218,023)</u>	<u>(P 4,608,240)</u>

The amounts of NOLCO and the applicable years these are valid and deductible from the taxable income are shown below.

<u>Taxable Years</u>		<u>Original Amount</u>		<u>Tax Effect</u>	<u>Valid Until</u>
2018	P	1,946,439	P	583,932	2021
2017		<u>3,289,001</u>		<u>986,700</u>	2020
	P	<u>5,235,440</u>	P	<u>1,570,632</u>	

The Group is subject to the MCIT, which is computed at 2.00% of gross income net of allowable deductions, as defined under the tax regulations or RCIT, whichever is higher. PGMI's RCIT was higher than MCIT in 2018 and 2016 while in 2017, MCIT was higher than RCIT. MCIT was higher than RCIT for all the years presented for PPMI and SPTT, respectively.

The amounts of MCIT and the applicable years that are valid and deductible from future regular income tax payable are shown below.

<u>Taxable Years</u>		<u>Normal Income Tax</u>	<u>MCIT</u>	<u>Excess of MCIT over Income Tax</u>	<u>Tax Effect</u>	<u>Valid Until</u>
2018	P	-	P 3,033,658	P 3,033,658	P 3,033,658	2021
2017		-	1,667,430	1,667,430	1,667,430	2020
2016		-	<u>2,266,676</u>	<u>2,266,676</u>	<u>2,266,676</u>	2019
	P	-	<u>P 6,967,764</u>	<u>P 6,967,764</u>	<u>P 6,967,764</u>	

In 2018, 2017 and 2016, the Group claimed itemized deductions in computing for its income tax due.

## 27. RELATED PARTY TRANSACTIONS

The Group's related parties include the ultimate Parent Company, PPHI, stockholders, the Group's key management personnel, entities under common ownership by the ultimate parent Company and others as described in the succeeding pages.

The summary of the Group's transactions with its related parties as of December 31, 2018, 2017 and 2016 is presented in the next page.

Category*	Related Party Notes	Amount of Transactions			Outstanding Balance	
		2018	2017	2016	2018	2017
Other related parties under common ownership						
Sale of subsidiaries*	1.5,7,27.9	P -	P -	P 3,000,000,000	P 500,000,000	P 500,000,000
Sale of goods*	7,27.1	4,732,957,659	2,038,584,803	120,662,536	1,851,288,462	955,539,554
Sale of services	7,27.10	322,703,055	-	-	346,703,054	-
Purchase of goods	21,27.2	1,035,334,676	-	-	56,511,741	-
Purchase of services*	19,27.2	352,010,893	115,202,871	72,601,698	2,467,366	20,995,548
Purchase of land	19,27.11	92,880,000	-	-	19,876,320	-
Advances to suppliers*	7,27.2	115,305,467	-	( 438,294,800)	115,305,467	-
Management fees*	7,27.7	-	( 2,139,028)	24,255,000	86,598,808	86,598,808
Rentals	19,27.3	104,531,407	41,194,056	74,840,032	5,774,879	2,740,627
Advances for option to purchase properties	7,27.12	2,577,036,191	-	-	2,577,036,191	-
Due from related parties	27.4	421,266,746	( 988,966,628)	-	939,271,644	518,004,898
Donations	22,27.13	30,610,000	-	-	-	-
Udenna Corporation						
Advances to suppliers	7,27.2	742,356,217	13,456,176	438,294,800	1,167,194,841	424,838,624
Rentals	19,27.3	7,106,449	1,101,775	9,616,314	-	710,545
Sale of services	7,27.10	100,000,000	-	-	112,000,000	-
Sale of goods	7,27.1	392,022	-	-	126,897	-
Key management personnel						
Salaries and Employee benefits	22,27.7	258,103,179	80,182,994	66,518,009	-	-

\*As a result of the deconsolidation of CISC and CSC (see Note 1.5), these formerly wholly-owned subsidiaries fall under related party under common ownership in 2016.

## 27.1 Sale of Goods

The Group sells products to certain related parties under common ownership. Goods are sold on the basis of the price lists in force with non-related parties. Revenues arising from these transactions are presented as part of Sale of Goods in the consolidated statements of comprehensive income. The outstanding receivables from sales of goods to other related parties are presented as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from related parties are unsecured, do not bear any interest and collectible in cash on demand. As a result of adoption of PFRS 9, allowance for impairment losses for trade receivables from related parties that is charged to opening retained earnings amounted to P17.2 million (see Notes 4.3 and 7). No additional impairment loss was recognized in 2018 based on management's assessment.

## 27.2 Purchases of Goods and Services

The Group purchased goods and services from related parties on the basis of price lists in force with non-related parties. Total purchase of goods and services from related parties is presented as part of Cost of Sales in the consolidated statements of comprehensive income and the related outstanding payables for goods purchased and services obtained are presented as part of trade payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 19).

The outstanding balances are unsecured, non-interest bearing, payable on demand and normally settled in cash.

In addition, the Group advances certain amount to certain related parties for the purchase of services. The amount is credited upon the performance of the contractual obligation by the related parties. The outstanding balances are presented as part of advances to suppliers under Trade and Other Receivables account in the consolidated statements of financial position (see Note 7). Certain advances were also made for the purchase of properties and is presented as Advances to Supplier under other non-current assets in the 2018 consolidated statement of financial position. The outstanding balances are unsecured, non-interest bearing, payable on demand and normally settled in cash.

### **27.3 Rentals**

The Group has the following lease agreements with the following related parties under common ownership:

- (a) Udenna Corporation – of which total rent expense incurred in the years 2018, 2017 and 2016 amounted to P7.1 million, P1.1 million and P9.6 million, respectively. The outstanding rental payable amounting to nil and P0.7 million in 2018 and 2017, respectively, is presented as part of trade payables under Trade and Other Payables in the consolidated statements of financial position (see Note 19).
- (b) UDEVCO – of which total rent expense in the years 2018, 2017 and 2016 amounted to P7.2 million, P6.3 million and P48.3 million, respectively. Prepaid rent amounted to P1.3 million both in 2018 and 2017 (see Note 10). Rental deposit for the lease amounted to P6.5 million as of both December 31, 2018 and 2017, respectively, is presented as part of refundable rental deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 16).
- (c) Valueleases, Inc. (VLI) – of which total rent expense in the years 2018, 2017 and 2016 amounted to P72.4 million, P34.9 million and P25.7 million, respectively. Prepaid rent amounted to P17.8 million in 2018 and 2017 (see Note 10). Refundable rental deposits amounted to P19.0 million and P15.0 million as of December 31, 2018 and 2017, respectively, and is presented as part of refundable rental deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 16).

The rent expenses aforementioned are presented as part of Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 22) and the related outstanding rent payables for UDEVCO and VLI are presented as part of Trade Payables while the outstanding rent payable to Udenna Corporation is presented as part of Accrued Expenses, both under Trade and Other Payables account in the consolidated statements of financial position (see Note 19).

### **27.4 Due from Related Parties**

The Group grants and obtains unsecured advances to and from related parties under common ownership for working capital requirements and other purposes.

As of December 31, 2018 and 2017, the outstanding receivable from related parties are shown as Due From Related Parties in the consolidated statements of financial position. Due from Related Parties are either receivable in cash or paid through offsetting, unsecured non-interest-bearing liabilities and are expected to be paid within one year. Interest income earned on the Parent Company's advances to CISC amounted to P6.2 million in 2018, nil in 2017 and P5.0 million in 2016. However, the income and cost are eliminated in the 2016 consolidated statement of comprehensive income.

The breakdown of the Due from Related Parties as of December 31 is as follows:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
CISC		<b>P 933,096,022</b>	P 496,819,699
PAPI		<b>5,241,248</b>	-
Galaxi Petroleum Fuels, Inc.		<b>876,256</b>	-
Udenna Corporation		<b>540,810</b>	-
P-H-O-E-N-I-X Philippines Foundation, Inc. (PPFI)		<b>58,118</b>	20,236,382
CSC		<b>-</b>	<b>948,817</b>
		<b>939,812,454</b>	518,004,898
Allowance for impairment	4.3(b)	<b>( 1,908,282 )</b>	-
		<b><u>P 937,904,172</u></b>	<b><u>P 518,004,898</u></b>

The movement of Due from Related Parties as of December 31 is as follows:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year		<b>P 518,004,898</b>	P 1,506,997,926
Additions		<b>524,778,830</b>	669,526,678
Reclassification	7	<b>( 77,018,291 )</b>	( 500,000,000 )
Collections		<b>( 25,952,983 )</b>	( 1,158,519,706 )
Allowance for impairment	4.3(b)	<b>( 1,908,282 )</b>	-
Balance at end of year		<b><u>P 937,904,172</u></b>	<b><u>P 518,004,898</u></b>

As a result of adoption of PFRS 9, allowance for impairment losses on due from related parties that is charged to opening retained earnings amounted to P1.9 million [see Note 4.3 (b)].

## 27.5 Loan Collaterals

The TLA with DBP, OLSA with BDO and PBCComm, loan agreement with RBC and certain banks loans of the Parent Company were guaranteed by certain stockholders through a surety agreement with the respective banks (see Note 9).

## 27.6 Management Fees

The Parent Company's non-trade receivables include receivable from CISC representing management fees for the services rendered by the Parent Company to CISC when the latter is still a wholly-owned subsidiary by the former. Under the Management Contract entered into by the Parent Company and CISC, the former will manage CISC:

- (a) to secure and maintain a strong market position for CISC in the real estate industry;
- (b) sustain the long-term profitability of CISC; and,
- (c) develop a core of competent and effective management professionals in CISC.

In return, CISC will pay a certain amount of management fee annually. Previous to the deconsolidation, the outstanding balance pertaining to the management fees were being eliminated in the consolidated financial statements. Total receivable from CISC is presented as part of Non-trade receivables under Trade and Other Receivables in the consolidated statements of financial position (see Note 7) and are unsecured, non-interest bearing, payable on demand and normally settled in cash.

As a result of adoption of PFRS 9, allowance for impairment losses on the receivables from CISC that is charged to opening retained earnings is included as part of amount to the total P1.8 million allowance for impairment on trade and other receivables (see Note 4.3).

### 27.7 Key Management Compensations

The compensation of key management personnel are broken down as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Salaries and wages	<b>P 215,217,266</b>	P 59,621,546	P 53,164,063
13 <sup>th</sup> month pay and bonuses	<b>17,622,482</b>	5,488,660	7,384,629
Honoraria and allowances	<b>13,192,196</b>	6,242,372	5,566,274
Post-employment benefits	<b>8,494,913</b>	3,623,132	403,043
Share-based payment	<b>3,576,322</b>	5,207,284	-
	<b><u>P 258,103,179</u></b>	<b><u>P 80,182,994</u></b>	<b><u>P 66,518,009</u></b>

### 27.8 Retirement Plan

The Group's retirement fund for its defined benefit post-employment plan is administered and managed by a trustee bank. The fair value and composition of the plan assets as of December 31, 2018 and 2017 is shown in Note 24.3. As of December 31, 2018 and 2017, the retirement plan has no investment in shares of stocks of the Parent Company and other listed related parties.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments covered by any restrictions or liens.

The details of the contributions of the Group and the benefits paid out by the plan are presented in Note 24.3.

### 27.9 Sale of Subsidiaries

In 2016, the Parent Company disposed its equity share in CSC to CLHC, and in CISC to UDEVCO. Total consideration of the sale of subsidiaries amounted to P3,000.0 million, in which a total of P500.0 million and P550.0 million is still receivable in 2018 and 2017, respectively. The outstanding receivables arising from the sale of subsidiaries is presented as part of Non-trade receivables under Trade and Other Receivables in the 2018 and 2017 consolidated statement of financial position (see Note 7).

### 27.10 Sale of Service

In 2018, the Group entered into a service agreement with UDEVCO, CISC, Le Penseur Inc. (LPI) and Udenna Corporation to temporarily operate and manage the related parties' operations. Total service income recognized in 2018 to P37.5 million from LPI and P100.0 million each from UDEVCO, CISC and UC. The outstanding balance from services rendered to related parties amounted to P37.5 million from LPI and P112.0 million each from UDEVCO, CISC and UC.

The service income aforementioned are presented as part of Fuel Service and Other Revenues in the consolidated statements of comprehensive income and the related outstanding receivables are presented as part of Non-Trade Receivables under Trade and Other Receivables account in the consolidated statements of financial position (Note 7). The outstanding balances are unsecured, non-interest bearing, payable on demand and normally settled in cash.

### 27.11 Purchase of Land

The Group acquired land from CISC amounting to P92.9 million, with outstanding balance of P19.9 million presented as part of Trade Payables under Trade and Other Payables account in the consolidated statements of financial position (Note 19). The outstanding balances are unsecured, non-interest bearing, payable on demand and normally settled in cash.

## 27.12 Advances for Option to Purchase Properties

In 2018, the Group entered into reservation agreements with a one year option period with Global Gateway Development Corporation (GGDC) and Udenna Tower Corporation (UTOWCO) for option to purchase leasehold rights and properties, respectively. The consideration paid for GGDC and UTOWCO amounted to P2,322.7 million and P254.2 million, respectively. The payments made are creditable to the payment of the purchase price of the leasehold rights and properties in the event that a Contract of Sublease covering the purchase of the sublease rights of the properties is executed or returned or refunded to the Group in the event that the referenced Contract of Sublease is not executed within the option period. The related advances are presented as part of Advances to Suppliers under Trade and Other Receivables in the 2018 consolidated statement of financial position (Note 7).

## 27.13 Others

The Group granted P30.6 million and nil donations to Udenna Foundation, Inc. in 2018 and 2017, respectively. These are presented as part of Donations and Contributions under the Selling and Administrative expenses account in the consolidated statements of comprehensive income (see Note 22).

## 28. EQUITY

### 28.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2018	2017	2016	2018	2017	2016
Preferred – cumulative, nonvoting, non-participating, non-convertible into common shares - P1 par value						
Authorized:	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>
Issue						
Balance at beginning of year	30,000,000	30,000,000	30,000,000	30,000,000	P 30,000,000	P 30,000,000
Issuance during the year	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>32,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>	<u>32,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>
Treasury shares						
Balance at beginning of year	( 5,000,000)	( 5,000,000)	( 5,000,000)	( 5,000,000)	( 5,000,000)	( 5,000,000)
Redemption	<u>( 5,000,000)</u>	<u>-</u>	<u>-</u>	<u>( 5,000,000)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>( 10,000,000)</u>	<u>( 5,000,000)</u>	<u>( 5,000,000)</u>	<u>( 10,000,000)</u>	<u>( 5,000,000)</u>	<u>( 5,000,000)</u>
Issued and outstanding	<u>22,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>	<u>P 22,000,000</u>	<u>P 25,000,000</u>	<u>P 25,000,000</u>
Common – P1 par value						
Authorized:	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>P2,500,000,000</u>	<u>P2,500,000,000</u>	<u>P2,500,000,000</u>
Issued:						
Balance at beginning of year	1,431,538,232	1,428,777,232	1,428,777,232	P1,431,538,232	P1,428,777,232	P1,428,777,232
Issuance during the year	<u>2,766,000</u>	<u>2,761,000</u>	<u>-</u>	<u>2,766,000</u>	<u>2,761,000</u>	<u>-</u>
Balance at end of year	<u>1,434,304,232</u>	<u>1,431,538,232</u>	<u>1,428,777,232</u>	<u>1,434,304,232</u>	<u>1,431,538,232</u>	<u>1,428,777,232</u>
Treasury shares	<u>( 31,000,000)</u>	<u>-</u>	<u>( 54,393,300)</u>	<u>( 344,300,000)</u>	<u>-</u>	<u>( 330,679,783)</u>
Issued and outstanding	<u>1,403,304,232</u>	<u>1,431,538,232</u>	<u>1,374,383,932</u>	<u>P1,090,004,232</u>	<u>P1,431,538,232</u>	<u>P1,098,097,449</u>
				<u>P1,112,004,232</u>	<u>P1,456,538,232</u>	<u>P1,123,097,449</u>

- (a) On April 23, 2012, the SEC approved the Parent Company's increase in authorized capital stock from P800.0 million divided into 750.0 million common shares with a par value of P1 and P50.0 million preferred shares with par value of P1 per share to P2,550.0 million divided into 2,500.0 common shares with par value of P1 per share and 50.0 million preferred shares with par value of P1 per share.
- (b) In 2016, the Parent Company's BOD approved the buy-back share program of PNx (common) shares of up to P450.0 million. In various dates in 2016, the Parent Company purchased its 54.4 million of its shares with corresponding total cost of P330.7 million.



- (c) In 2017, the Parent Company purchased 15.8 million of its shares with corresponding total cost of P109.4 million. Subsequently, the Parent Company sold all of its treasury shares amounting to P440.1 million. The total consideration received on November 6, 2017 for the sale of treasury shares amounted to P807.2 million which resulted to an additional paid-in capital of P367.1 million (see Note 28.4).
- (d) In 2018, the Parent Company purchased a total of 31.0 million of its common shares with corresponding total cost of P344.3 million.
- (e) The preferred shares shall have the following features:
- Non-convertible into common shares;
  - Non-participating in any other corporation activities or other further dividends, non-voting, except in cases specified by law;
  - No pre-emptive rights over the holders of common shares as to distribution of net assets in the event of dissolution or liquidation and in the payment of dividends at a specified rate. The BOD shall determine its issued value at the time of issuance and shall determine its dividend rates and the dividends shall be paid cumulatively; and,
  - The preferred shares shall be redeemable at the Parent Company's option under such terms as the BOD may provide at the time of issuance. It shall also be re-issuable when fully redeemed.

Moreover, preferred shares have the following features among others as provided in the subscription agreement;

- Dividends on the preferred shares shall have a fixed rate of 11.50% per annum calculated in respect of each share with reference to the Issue Price thereof in respect to each dividend period.
- Dividends shall be payable every September 21, December 21, March 21 and June 21 of each year (each a "Dividend Payment Date"). The dividends on the Preferred Shares shall be calculated on a 30/360 day basis and shall be paid quarterly in arrears on the last day of each 3-month dividend period (each a Dividend Payment Date), as and if declared by the BOD. If the Dividend Payment Date is not a banking day, dividends shall be paid on the next succeeding banking day, without adjustment as to the amounts of dividends to be paid.
- The preferred shares shall have priority in the payment of dividends at the stipulated rate at the time of issuance and in the distribution of corporate assets in the event of liquidation and dissolution of the Parent Company. As such, the BOD to the extent permitted by law shall declare dividends each quarter sufficient to pay the equivalent dividend. Dividends on the shares shall be cumulative. If for any reason the Parent Company's BOD does not declare a dividend on the Preferred Shares for a particular dividend period, the Parent Company shall not pay a dividend for said dividend period. However, on any future Dividend Payment Date on which dividends are declared, the holders of the shares shall receive the dividends accrued and unpaid to the holders of the Preferred Shares prior to such Dividend Payment Date. Holders of Preferred Shares shall not be entitled to participate in any other further dividends beyond the dividends specifically payable on the Preferred Shares.

Moreover, the subscription agreement requires that the Parent Company undertakes to maintain a long-term debt to equity ratio of 1:1 throughout the life of the preferred shares.

- (f) On December 20, 2013, the Parent Company redeemed the preferred shares issued in 2010 and re-issued the same amount and features of preferred shares except for the rate, which was reduced to 8.25% per annum.

- (g) On December 18, 2015, the Parent Company issued and listed its 20.0 million perpetual preferred shares (P1.0 par value) Series 3 with the PSE (the 3rd tranche). The preferred shares' offer price is P100 per share and issued to various subscribers in two subseries – PNX3A and PNX3B (see Note 28.2).

The 3<sup>rd</sup> tranche of preferred shares have the same features with the 1<sup>st</sup> and 2<sup>nd</sup> tranche of preferred shares except for the following:

Dividend rates:	PNX3A	7.43% per annum
	PNX3B	8.11% per annum
Dividend payment dates:	Dividends shall be payable on March 18, June 18, September 18 and December 18 on each year. The dividends on these shares shall be calculated on a 30/360 day basis and shall be paid quarterly in arrears on the last day of each three-month dividend period based on the offer price calculated in respect of each share for each dividend period, as and if declared by the Parent Company's BOD.	
Debt-to-equity ratio:	The Parent Company shall maintain a debt-to-equity ratio of 3:1 throughout the life of these preferred shares.	

- (h) On December 3, 2018, the Parent Company entered into a Subscription Agreement for a perpetual preferred shares with RCBC Capital Corporation, which was taken from the unissued portion of the authorized capital stock of the Parent Company. The preferred shares with the same features under Note 28.1(e) were issued on December 5, 2018. The issuance was by way of private placement of P2,000.0 million, consisting of 2,000.0 million preferred shares at an offered price of P1,000.0 per share. Initial dividend rate is at 8.25% per annum.

## 28.2 Listing with PSE

On July 11, 2007, the Parent Company offered a portion of its common stocks for listing with the PSE. Number of common shares registered was 29.0 million with an issue price of P9.80.

The Parent Company' successfully listed its perpetual preferred shares Series 3 with the PSE on December 18, 2015 (see Note 28.1).

The market prices of the shares as of December 31 are as follows:

	2018	2017	2016
PNX (Common)	P 10.74	P 12.88	P 5.63
PNX 3A (Preferred)	100.00	103.70	105.00
PNX 3B (Preferred)	102.00	108.80	115.00

## 28.3 Track Registration of Shares

The number of shareholders as of December 31 are as follows:

	2018	2017	2016
Common	66	60	66
Preferred			
a) First tranche	-	-	-
b) Second tranche	1	1	1
c) PNX 3A	5	5	5
d) PNX 3B	4	4	4

In accordance with Securities Regulation Commission Rule 68, as amended, Annex 68-D; presented below is a summary of the Parent Company's track record of registration of securities.

Transaction	Type of Stock Common or Preferred	No. of Shares Registered	Issue/Offer Price and Par Value	Date of Approval	Issued and Outstanding
Registered, not listed	Common	10,000,000	P 1 Par value	1/11/2004	2,500,000
			1 Issue price		
Registered, not listed	Common	40,000,000	1 Par value	1/12/2006	25,000,000
			1 Issue price		
Registered, not listed	Common	50,000,000	1 Par value	8/7/2006	13,500,000
			1 Issue price		
Registered, not listed	Common	300,000,000	1 Par value	12/29/2006	75,000,000
			1 Issue price		
Initial public offering	Common		1 Par value	7/11/2007	29,000,000
			9.80 Issue price		
30% stock dividends	Common		1 Par value	8/6/2008	43,000,198
40% stock dividends	Common		1 Par value	8/3/2009	73,660,476
Placement SSS	Common		1 Par value	11/13/2009	7,500,000
			5.60 Issue price		
Increase	Common	350,000,000	1	9/7/2010	
Increase	Preferred	50,000,000	1	9/7/2010	
40% stock dividends	Common		1	10/20/2010	107,664,266
30% stock dividends	Common		1	5/6/2011	113,047,475
Increase	Common	1,750,000,000	1	4/23/2012	
50% stock dividends	Common		1	4/26/2012	244,936,203
CSC Acquisitions	Common		1 Par value	9/6/2012	171,250,798
			1.01 Issue price		
Placements	Common		1 Par value	3/11/2013	130,000,000
			9.40 Issue price		
30% stock dividends	Common		1	6/10/2013	329,717,816
Payment for PPHI subscription	Common		1 Par value	10/8/2013	63,000,000
			5.10 Issue price		
Issuance	Preferred		1 Par value	9/21/2010	5,000,000
			100 Issue price		
Redeemed treasury shares	Treasury Shares		1	12/20/2013	( 5,000,000 )
Issuance	Preferred		1 Par value	12/20/2013	5,000,000
Issuance	Preferred		1 Par value	12/18/2015	20,000,000
			100 Issue price		
Redeemed treasury shares	Common		1	5/31/2016	( 500,000 )
Redeemed treasury shares	Common		1	6/13/2016	( 500,000 )
Redeemed treasury shares	Common		1	6/21/2016	( 500,000 )
Redeemed treasury shares	Common		1	6/23/2016	( 1,100,000 )
Redeemed treasury shares	Common		1	6/27/2016	( 250,000 )
Redeemed treasury shares	Common		1	6/28/2016	( 500,000 )
Redeemed treasury shares	Common		1	6/30/2016	( 900,000 )
Redeemed treasury shares	Common		1	7/1/2016	( 897,700 )
Redeemed treasury shares	Common		1	7/4/2016	( 1,900 )
Redeemed treasury shares	Common		1	7/5/2016	( 498,900 )
Redeemed treasury shares	Common		1	7/7/2016	( 228,400 )
Redeemed treasury shares	Common		1	7/8/2016	( 2,650,000 )
Redeemed treasury shares	Common		1	7/11/2016	( 4,001,700 )
Redeemed treasury shares	Common		1	7/12/2016	( 2,000,000 )
Redeemed treasury shares	Common		1	7/14/2016	( 3,000,000 )

(Amounts carried forward)

2,550,000,000

P1,436,248,632

Transaction	Type of Stock Common or Preferred	No. of Shares Registered	Issue/Offer Price and Par Value	Date of Approval	Issued and Outstanding
<i>(Amounts brought forward)</i>		<u>2,550,000,000</u>			<u>P1,436,248,632</u>
Redeemed treasury shares	Common	1		7/15/2016	( 3,600,700 )
Redeemed treasury shares	Common	1		7/19/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		7/22/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/1/2016	( 150,000 )
Redeemed treasury shares	Common	1		8/2/2016	( 203,600 )
Redeemed treasury shares	Common	1		8/5/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/11/2016	( 200,000 )
Redeemed treasury shares	Common	1		8/12/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/18/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/19/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		8/23/2016	( 200,000 )
Redeemed treasury shares	Common	1		8/26/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/30/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		8/31/2016	( 287,300 )
Redeemed treasury shares	Common	1		9/1/2016	( 700,000 )
Redeemed treasury shares	Common	1		9/2/2016	( 760,000 )
Redeemed treasury shares	Common	1		9/6/2016	( 500,000 )
Redeemed treasury shares	Common	1		9/7/2016	( 200,000 )
Redeemed treasury shares	Common	1		9/8/2016	( 298,800 )
Redeemed treasury shares	Common	1		9/9/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		9/13/2016	( 500,000 )
Redeemed treasury shares	Common	1		9/19/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		9/20/2016	( 300,000 )
Redeemed treasury shares	Common	1		9/21/2016	( 600,000 )
Redeemed treasury shares	Common	1		9/23/2016	( 200,000 )
Redeemed treasury shares	Common	1		9/26/2016	( 100,000 )
Redeemed treasury shares	Common	1		9/27/2016	( 386,600 )
Redeemed treasury shares	Common	1		9/28/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		10/3/2016	( 1,029,000 )
Redeemed treasury shares	Common	1		10/4/2016	( 700,000 )
Redeemed treasury shares	Common	1		10/5/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		10/6/2016	( 600,000 )
Redeemed treasury shares	Common	1		10/7/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		10/10/2016	( 650,000 )
Redeemed treasury shares	Common	1		10/12/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/13/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		10/17/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/20/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/21/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/24/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/26/2016	( 850,000 )
Redeemed treasury shares	Common	1		10/27/2016	( 500,000 )
Redeemed treasury shares	Common	1		11/2/2016	( 500,000 )
Redeemed treasury shares	Common	1		11/7/2016	( 300,000 )
Redeemed treasury shares	Common	1		11/9/2016	( 300,000 )
Redeemed treasury shares	Common	1		11/10/2016	( 100,000 )
Redeemed treasury shares	Common	1		11/16/2016	( 100,000 )
Redeemed treasury shares	Common	1		11/17/2016	( 300,000 )
Redeemed treasury shares	Common	1		12/8/2016	( 198,700 )
Redeemed treasury shares	Common	1		12/9/2016	( 700,000 )
<i>Amounts carried forward)</i>		<u>2,550,000,000</u>			<u>P1,406,233,932</u>

Transaction	Type of Stock Common or Preferred	No. of Shares Registered	Issue/Offer Price and Par Value	Date of Approval	Issued and Outstanding
<i>(Amounts brought forward)</i>		<b><u>2,550,000,000</u></b>			<b><u>P1,406,233,932</u></b>
Redeemed treasury shares	Common	1		12/19/2016 (	500,000 )
Redeemed treasury shares	Common	1		12/20/2016 (	1,000,000 )
Redeemed treasury shares	Common	1		12/21/2016 (	1,000,000 )
Redeemed treasury shares	Common	1		12/22/2016 (	500,000 )
Redeemed treasury shares	Common	1		12/23/2016 (	3,000,000 )
Redeemed treasury shares	Common	1		12/27/2016 (	513,100 )
Redeemed treasury shares	Common	1		12/28/2016 (	336,900 )
Redeemed treasury shares	Common	1		1/4/2017 (	300,000 )
Redeemed treasury shares	Common	1		1/5/2017 (	18,800 )
Redeemed treasury shares	Common	1		1/5/2017 (	209,200 )
Redeemed treasury shares	Common	1		1/9/2017 (	111,800 )
Redeemed treasury shares	Common	1		1/9/2017 (	88,200 )
Redeemed treasury shares	Common	1		1/10/2017 (	200,000 )
Redeemed treasury shares	Common	1		1/10/2017 (	300,000 )
Redeemed treasury shares	Common	1		1/12/2017 (	500,000 )
Redeemed treasury shares	Common	1		1/6/2017 (	93,800 )
Redeemed treasury shares	Common	1		1/6/2017 (	206,200 )
Redeemed treasury shares	Common	1		1/12/2017 (	10,000 )
Redeemed treasury shares	Common	1		1/12/2017 (	125,500 )
Redeemed treasury shares	Common	1		1/12/2017 (	14,500 )
Redeemed treasury shares	Common	1		1/13/2017 (	200,000 )
Redeemed treasury shares	Common	1		1/11/2017 (	999,000 )
Redeemed treasury shares	Common	1		1/11/2017 (	107,000 )
Redeemed treasury shares	Common	1		1/11/2017 (	193,000 )
Redeemed treasury shares	Common	1		1/16/2017 (	286,000 )
Redeemed treasury shares	Common	1		1/17/2017 (	200,000 )
Redeemed treasury shares	Common	1		1/23/2017 (	300,000 )
Redeemed treasury shares	Common	1		1/24/2017 (	500,000 )
Redeemed treasury shares	Common	1		1/25/2017 (	500,000 )
Redeemed treasury shares	Common	1		1/27/2017 (	1,000,000 )
Redeemed treasury shares	Common	1		1/31/2017 (	300,000 )
Redeemed treasury shares	Common	1		2/2/2017 (	500,000 )
Redeemed treasury shares	Common	1		2/6/2017 (	500,000 )
Redeemed treasury shares	Common	1		2/16/2017 (	800,000 )
Redeemed treasury shares	Common	1		2/23/2017 (	750,000 )
Redeemed treasury shares	Common	1		2/24/2017 (	500,000 )
Redeemed treasury shares	Common	1		2/27/2017 (	300,000 )
Redeemed treasury shares	Common	1		3/21/2017 (	500,000 )
Redeemed treasury shares	Common	1		3/23/2017 (	187,100 )
Redeemed treasury shares	Common	1		3/27/2017 (	500,000 )
Redeemed treasury shares	Common	1		3/31/2017 (	1,000,000 )
Redeemed treasury shares	Common	1		3/31/2017 (	1,000,000 )
Redeemed treasury shares	Common	1		3/31/2017 (	500,000 )
Redeemed treasury shares	Common	1		4/12/2017 (	500,000 )
Redeemed treasury shares	Common	1		4/18/2017 (	500,000 )
Redeemed treasury shares	Common	1		5/3/2017 (	1,000,000 )
Issuance	Common	1		7/1/2017	2,160,000
Issuance	Common	1		7/1/2017	601,000
Sale of treasury shares	Common	1		11/6/2017	70,193,400
<i>Amounts carried forward)</i>		<b><u>2,550,000,000</u></b>			<b><u>P1,456,538,232</u></b>

Transaction	Type of Stock Common or Preferred	No. of Shares Registered	Issue/Offer Price and Par Value	Date of Approval	Issued and Outstanding
<i>(Amounts brought forward)</i>		<b><u>2,550,000,000</u></b>			<b><u>P1,456,538,232</u></b>
Issuance	Common		1	5/23/2018	73,000
Issuance	Common		1	6/30/2018	2,128,000
Redeemed treasury shares	Common		1	9/12/2018 (	25,000,000 )
Issuance	Common		1	9/30/2018	447,000
Redeemed treasury shares	Common		1	11/21/2018 (	3,500,000 )
Redeemed treasury shares	Common		1	11/21/2018 (	2,500,000 )
Issuance	Preferred		1	12/5/2018	2,000,000
			1,000	Par value	
				Issue price	
Issuance	Common		1	12/31/2018	118,000
Redeemed treasury shares	Treasury Shares		1	12/20/2018 (	5,000,000 )
<b>Total</b>		<b><u>2,550,000,000</u></b>			<b><u>P1,425,304,232</u></b>

#### 28.4 Additional Paid-in Capital

In 2018, the Parent Company issued 2.0 million of its preferred shares at P1,000.0 per share. Premiums received in excess of the par value amounting to P1,998.0 million were recorded as part of Additional Paid-in Capital account in the 2018 consolidated statement of financial position. In addition, the Parent Company also redeemed 5,000.0 million shares at P100.0 per share for a total consideration paid of P500.0 million. The payment in excess of the par value of the redeemed share was recorded as reduction under the Additional Paid-in Capital account amounting to P495.0 million.

In 2018 and 2017, the Parent Company issued 2.8 million of its common shares at exercise price of P5.68 per stock option resulting to an additional premium of P21.4 million and P12.9 million, respectively (see Notes 28.1 and 28.7). The fair value of stock options exercised in 2018 and 2017, which was previously recorded as part of Retained Earnings was reclassified to Additional Paid-in Capital account in the consolidated statements of financial position. The total amount reclassified from Retained Earnings amounted to P8.4 million, which is computed at P3.05 per stock option.

In 2017, the Parent Company redeemed 70.2 million of its treasury shares at a total cost of P807.2 million. Premiums received in excess of the cost of treasury shares amounting to P367.1 million were recorded under Additional Paid-in Capital account in the 2017 consolidated statement of financial position (see Note 28.1).

In 2015, the Parent Company issued 20.0 million of its preferred shares at P100.0 per share. Premiums received in excess of the par value during the public offering amounting to P1,952.9 million were recorded under Additional Paid-in Capital account in the 2015 consolidated statement of financial position.

In 2013, the Parent Company issued 130.0 million of its common shares at P9.40 per share and 63.0 million common shares at P5.10 per share. The excess of the par value for such subscriptions amounting to P1,350.3 million was recorded as part of Additional Paid-in Capital account in the 2013 consolidated statement of changes in equity. In addition, direct cost of the share issuances amounting to P34.1 million was deducted from the Additional Paid-in Capital account.

In 2012, the Parent Company issued 171.3 million shares in favor of UMRC in relation to the share-for-share swap acquisition of CSC. The business combination under common control was accounted for under pooling of interest-type method. The excess of par value of such issuance amounted to P1,248.9 million was recorded as part of the beginning balance of the Additional Paid-in Capital account.

In 2010, the Parent Company issued 5.0 million of its preferred shares at P100 per share. The excess of par value for such subscription amounting to P495.0 million was recorded as part of Additional Paid-in Capital account in the consolidated statements of financial position. In addition, the excess of the selling price over the acquisition cost of the treasury shares sold in 2010 also constitutes the Additional Paid-in Capital account. The preferred shares issued in 2010 were redeemed on December 20, 2013 and on the same date, the same share and value of preferred shares were issued, except for the reduced rate.

In 2009, the Social Security System has bought an initial 2.83% stake in the Parent Company representing 7.5 million subscribed common shares for P42.0 million or at P5.60 per share. The excess of par value for such subscription amounting to P34.5 million was recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

In 2007, the Parent Company listed its shares of stock with PSE. Premiums received in excess of the par value during the public offering amounting to P227.1 million were recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

## 28.5 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the consolidated statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	<b>Property, Plant and Equipment</b>	<b>Defined Benefit Obligation</b>	<b>Total</b>
Balance as of January 1, 2018	P -	(P 2,306,049)	(P 2,306,049)
Revaluation increment	1,219,846,043	-	1,219,846,043
Remeasurements of defined post-employment obligation	-	( 34,393,933)	( 34,393,933)
Tax income (expense)	( 365,953,813)	10,318,180	( 355,635,633)
Balance as of December 31, 2018	<b><u>P 853,892,230</u></b>	<b><u>(P 26,381,802)</u></b>	<b><u>(P 827,510,428)</u></b>
Balance as of January 1, 2017	P -	(P 12,148,102)	(P 12,148,102)
Remeasurements of defined post-employment obligation	-	14,060,076	14,060,076
Tax expense	-	( 4,218,023)	( 4,218,023)
Balance as of December 31, 2017	<b><u>P -</u></b>	<b><u>(P 2,306,049)</u></b>	<b><u>(P 2,306,049)</u></b>

## 28.6 Retained Earnings

On January 26, 2018, the Parent Company's BOD approved the declaration and payment of common share cash dividends of 15 centavos per share totalling to P214.7 million, record date of April 2, 2018. A total of P194.9 million cash dividends were also declared and distributed to 2<sup>nd</sup> and 3<sup>rd</sup> tranche preferred stockholders in 2018. No stock dividends were declared and distributed in 2018.

On January 25, 2017, the Parent Company's BOD approved the declaration and payment of common share cash dividends of 1 centavo per share totalling to P136.2 million, record date of March 30, 2017. A total of P194.9 million cash dividends were also declared and distributed to 2<sup>nd</sup> and 3<sup>rd</sup> tranche preferred stockholders in 2017. No stock dividends were declared and distributed in 2017.

On March 18, 2016, the Parent Company's BOD approved the declaration and payment of common share cash dividends of 8 centavos per share totalling to P114.3 million, record date of April 5, 2016. A total of P194.9 million cash dividends were also declared and distributed to 2<sup>nd</sup> and 3<sup>rd</sup> tranche preferred stockholders in 2016. No stock dividends were declared and distributed in 2016.

On March 4, 2015, the Parent Company's BOD approved the declaration and payment of common share cash dividends of 5 centavos per share totaling to P71.5 million, record date as of March 18, 2015. A total of P41.2 million cash dividends were also declared and distributed to 2<sup>nd</sup> tranche preferred stockholders in 2015. No stock dividends were declared and distributed in 2015.

On January 29, 2014, the BOD approved the declaration and payment of common share cash dividend of 10 centavos per share totaling to P142.9 million to stockholders of record as of March 17, 2014. In addition, total cash dividends declared and distributed to 2<sup>nd</sup> tranche preferred stockholders amounted to P41.2 million in 2014. No stock dividends were declared and distributed in 2014.

## 28.7 ESOP

On January 24, 2013, the Parent Company's BOD approved the ESOP for its eligible employees.

The initial offering date of the option was on July 1, 2016 and will vest five years from the date of grant. Pursuant to this ESOP, on July 1, 2016, the Parent Company granted share options to certain key executives to subscribe to 24.5 million common shares of the Parent Company equivalent to 2.2% of the total issued shares, at an exercise price of P5.68 per share.

Stock options will be granted in two tranches until July 1, 2021. The allocation for Tranche 1 every year is computed at 10.0% of the total available shares for exercise. Meanwhile, the allocation for Tranche 2 is based on the forecasted assessment of the executives' performance rating for five years.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Life of the option	5 years
Current share price at grant date	P 6.25
Exercise price at grant date	P 5.68
Standard deviation of the rate of return	0.4
Risk-free interest rate	3.80%

The underlying expected volatility was determined by reference to historical date of the Group's shares over a period of time consistent with the option life.

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time consistent with the option life.

A total of P7.2 million and P11.6 million share-based executive compensation is recognized in 2018 and 2017, respectively, and presented as part of Employee benefits under Selling and Administrative Expenses account in 2017 and 2016 consolidated statements of comprehensive income, respectively, with a corresponding credit to Retained Earnings account.

## 28.8 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and,
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	<b>2018</b>	2017 (As restated - see Note 2.1[b])
Total liabilities	<b>P 48,686,605,873</b>	P 32,849,056,409
Total equity	<b>15,973,672,857</b>	11,683,537,505
Debt-to-equity ratio	<b>3.0 : 1.0</b>	2.8 : 1.0



The increase of the total assets and liabilities in 2018 is 1) due to the business combinations, wherein the Group acquired the assets and assumed the liabilities of the new subsidiaries acquired, 2) increase in interest-bearing loans and borrowings utilized for the acquisition. The increase in equity is the net effect business combination, revaluation of land under Property, Plant and Equipment and appraisal of its investment properties and the net profit in 2018 less the cash dividend declared and paid during the period for common shares.

The Group's internal goal in capital management is to maintain a debt-to-equity structure ratio not in excess of 2.7 to 1. All externally imposed key ratios have been complied with in all the years presented, (see Note 17).

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

## 29. EARNINGS PER SHARE

EPS were computed as follows:

	<u>2018</u>	2017 [As Restated - see Note 2.1(b)]	<u>2016</u>
a) Net profit pertaining to common shares	<b>P 2,455,907,552</b>	P 1,521,422,847	P 902,592,062
b) Net profit attributable to common shares and potential common shares	<b>2,455,907,552</b>	1,521,422,847	902,592,062
c) Weighted average number of outstanding common shares	<b>1,424,576,265</b>	1,372,487,454	1,410,964,421
d) Weighted average number of outstanding common and potential common shares	<b>1,426,593,300</b>	1,377,270,489	1,414,736,438
Basic EPS (a/c)	<u><b>P 1.72</b></u>	<u>P 0.97</u>	<u>P 0.64</u>
Diluted EPS (b/d)	<u><b>P 1.72</b></u>	<u>P 0.96</u>	<u>P 0.64</u>

The potential dilutive common shares totalling 2,017,035, 4,783,035 and 3,772,017 shares in relation to the unexercised share warrants were considered in the computation of diluted EPS in 2018, 2017 and 2016.

## 30. SEGMENT REPORTING

### 30.1 Business Segments

In identifying its operating segments, management generally follows the Group's product and service lines, which represent the main products and services provided by the Group, namely fuels and lubricant sales (trading segment), depot and logistics services, shipping and cargo services and real estate sales. These are also the bases of the Group in reporting its primary segment information.

- (a) Trading segment is engaged in marketing, merchandising, purchasing, selling, dealing, acquiring, disposing and distribution of goods and wares such as but not limited to petroleum products (on wholesale basis), adhesives, glues, bonding agents, epoxy resins, lubricants and other products.
- (b) Depot and logistics services segment is engaged in operating of oil depots, storage facilities and provides logistics services to various entities.

- (c) Shipping and cargo services segment is engaged in hauling of petroleum products, operation of inter-island going vessels for domestic trade, chartering in and out any such vessels and providing complete marine services, either as principal or agent to ship owners, operators and managers.
- (d) Real estate segment is involved in real estate development, management and operations.

### **30.2 Segment Assets and Liabilities**

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, and other assets, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of trade and other payables, interest-bearing loans and borrowings, and other liabilities. Segment assets and liabilities do not include deferred tax assets or liabilities.

### **30.3 Intersegment Transactions**

Segment revenues, expenses and performance include sales and purchases between segments and between geographical segments. Such sales and purchases are eliminated upon combination.

The tables presented in the succeeding page present revenue and profit information regarding business segments of the Group for the years ended December 31, 2018 and 2017 and certain asset and liability information regarding industry segments as of December 31, 2018, 2017 and 2016 (in thousands).

	Sale of Goods Trading			Fuel Service and Other Revenues Depot and Logistics			Shipping and Cargo Services			Real Estate			Total		
	2017 [As Restated - see Note 2.1(b)]	2016 [As restated see Note 2']		2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017 [As Restated see Note 2.1(b)]	2016 [As Restated see Note 2 2.1(b)]
<b>TOTAL REVENUES</b>															
Sales to external customers	P 88,239,192	P 44,072,366	P 29,342,741	P 369,768	P 469,557	P 480,057	P -	P -	P 628,160	P 1,808	P 1,059	P -	P 88,610,768	P 44,542,982	P 30,450,958
Intersegment sales	<u>20,139,519</u>	<u>4,180,373</u>	<u>681,402</u>	<u>209,985</u>	<u>-</u>	<u>53,126</u>	<u>-</u>	<u>-</u>	<u>893,299</u>	<u>16,721</u>	<u>22,338</u>	<u>-</u>	<u>20,366,225</u>	<u>4,202,711</u>	<u>1,627,827</u>
Total revenues	<u>108,378,711</u>	<u>48,252,739</u>	<u>30,024,143</u>	<u>579,753</u>	<u>469,557</u>	<u>533,183</u>	<u>-</u>	<u>-</u>	<u>1,521,459</u>	<u>18,529</u>	<u>23,397</u>	<u>-</u>	<u>108,976,993</u>	<u>48,745,693</u>	<u>32,078,785</u>
<b>COSTS AND OTHER OPERATING EXPENSES</b>															
Cost of sales and services excluding depreciation and amortization	<u>102,895,593</u>	<u>45,419,830</u>	<u>26,843,970</u>	<u>958,174</u>	<u>437,631</u>	<u>403,563</u>	<u>-</u>	<u>-</u>	<u>1,829,221</u>	<u>36,424</u>	<u>46,302</u>	<u>-</u>	<u>103,890,191</u>	<u>45,903,763</u>	<u>29,076,754</u>
Depreciation and amortization	<u>1,047,964</u>	<u>841,340</u>	<u>576,126</u>	<u>8,130</u>	<u>9,040</u>	<u>45,912</u>	<u>-</u>	<u>-</u>	<u>380,050</u>	<u>700</u>	<u>700</u>	<u>-</u>	<u>1,056,749</u>	<u>851,080</u>	<u>1,002,088</u>
	<u>103,943,512</u>	<u>46,261,170</u>	<u>27,420,096</u>	<u>966,304</u>	<u>446,671</u>	<u>449,475</u>	<u>-</u>	<u>-</u>	<u>2,209,271</u>	<u>37,124</u>	<u>47,002</u>	<u>-</u>	<u>104,946,940</u>	<u>46,754,843</u>	<u>30,078,842</u>
<b>SEGMENT OPERATING PROFIT (LOSS)</b>	<u>P 4,435,199</u>	<u>P 1,991,569</u>	<u>P 2,604,047</u>	<u>(P 386,551)</u>	<u>P 22,886</u>	<u>P 83,708</u>	<u>P -</u>	<u>P -</u>	<u>(P 687,812)</u>	<u>(P 18,595)</u>	<u>(P 23,605)</u>	<u>P -</u>	<u>P 4,030,053</u>	<u>P 1,990,850</u>	<u>P 1,999,943</u>
<b>ASSETS AND LIABILITIES</b>															
Segment assets	P 70,099,484	P 47,427,360		P 564,287	P 493,812		P -	P -		P 415,081	P 411,922		P 71,078,852	P 48,333,094	
Segment liabilities	<u>51,410,451</u>	<u>33,468,783</u>		<u>421,481</u>	<u>363,152</u>		<u>-</u>	<u>-</u>		<u>318,206</u>	<u>324,150</u>		<u>52,150,138</u>	<u>34,156,085</u>	

### 30.4 Reconciliations

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statement (in thousands).

	<u>2018</u>	<u>2017</u> [As Restated - see Note 2.1(b)]	<u>2016</u> [As Restated - see Note 2.1(b)]
<b>Revenues</b>			
Total segment revenues	<b>P 108,976,993</b>	P 48,745,693	P 32,078,785
Elimination of intersegment revenues	<b>( 20,366,225)</b>	( 4,202,711)	( 1,627,827)
Revenues as reported in profit or loss	<b><u>P 88,610,768</u></b>	<u>P 44,542,982</u>	<u>P 30,450,958</u>
<b>Profit or loss</b>			
Segment operating profit	<b>P 4,030,053</b>	P 1,990,850	P 1,999,943
Fair value on investment property	<b>624,941</b>	-	-
Equity share in net income (loss) in joint venture	<b>7,342</b>	-	( 50,069)
Excess of fair value of net assets acquired over acquisition costs	<b>-</b>	650,182	-
Other unallocated income	<b><u>87,267</u></b>	<u>36,853</u>	<u>11,006</u>
Operating profit as reported in profit or loss	<b>4,749,603</b>	2,677,885	1,960,880
Finance costs	<b>( 1,449,248)</b>	( 804,708)	( 906,290)
Finance income	<b><u>73,375</u></b>	<u>56,313</u>	<u>207,688</u>
Profit before tax as reported in profit or loss	<b><u>P 3,373,730</u></b>	<u>P 1,929,490</u>	<u>P 1,262,278</u>
<b>Assets</b>			
Segment assets	<b>P 71,078,852</b>	P 48,333,094	
Deferred tax assets – net	<b>307,198</b>	242,490	
Elimination of intercompany accounts	<b>( 6,566,058)</b>	( 4,402,990)	
Total assets reported in the consolidated statements of financial position	<b><u>P 64,819,992</u></b>	<u>P 44,172,594</u>	
<b>Liabilities</b>			
Segment liabilities	<b>P 52,150,138</b>	P 34,156,085	
Deferred tax liabilities – net	<b>791,489</b>	231,521	
Elimination of intercompany accounts	<b>( 4,095,308)</b>	( 1,898,550)	
Total liabilities as reported in the consolidated statements of financial position	<b><u>P 48,846,319</u></b>	<u>P 32,489,056</u>	

## 31. COMMITMENTS AND CONTINGENCIES

### 31.1 Capital Commitments

As of December 31, 2018, the Group has commitments of more than P6,000.0 million for expansion on petroleum retail network, depot, terminalling and logistics facilities, information technology infrastructure and other major expansions related to its business development. The Group has a network of 600 operating retail service stations as of December 31, 2018. An additional of eight retail service stations are under various stages of completion as of December 31, 2018.

The Group plans to expand further its petroleum retail service stations and carry out its investments in its subsidiaries to put up depot and terminalling facilities in strategic locations and complete its chain of logistical support to strengthen its foothold in the industry.

In addition, in view of PLPI's development and innovation to provide legal, safer and cheaper alternative to the LPG refilled butane canisters, PLPI has entered in 2018 a purchase contract of around P100.0 million capital commitments to purchase Refillable Welded Stainless Steel (RWSS) LPG cylinders. Further, starting 2017, PLPI has about P1.0 billion commitments for purchase of LPG cylinders to augment its current operations and re-establish its market in the Luzon areas.

### 31.2 Unused LCs

As of December 31, 2018 and December 31, 2017, the Parent Company has unused LCs amounting to P17,111.3 million and P8,652.3 million, respectively.

### 31.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases. The leases have terms ranging from 5 to 15 years, with renewal options, and include annual escalation rates ranging from 3.00% to 10.00%. The future minimum rentals payable under these cancelable operating leases are presented as follows:

	<u>2018</u>	<u>2017</u>
Within one year	<b>P 502,525,573</b>	P 371,674,361
After one year but not more than five years	<b>1,714,046,926</b>	1,187,252,691
More than five years	<b><u>2,376,914,724</u></b>	<u>1,554,982,467</u>
	<b><u>P 4,593,487,223</u></b>	<u>P 3,113,909,519</u>

Total rent expense for the years 2018, 2017 and 2016 amounted to P865.9 million, P654.1 million, and P638.6 million, respectively (see Note 22).

### 31.4 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases with third parties. The leases have terms ranging from 1 to 5 years, with renewal options, and include annual escalation rates ranging from 5.00% to 10.00%. The future minimum rentals receivables under these cancelable operating leases are presented below.

	<u>2018</u>	<u>2017</u>
Within one year	<b>P 97,563,919</b>	P 87,237,539
After one year but not more than five years	<b>135,545,769</b>	138,482,193
More than five years	<b><u>3,545,631</u></b>	<u>23,917,284</u>
	<b><u>P 236,655,319</u></b>	<u>P 249,637,016</u>

Rent income in 2018, 2017 and 2016 amounting to P113.9 million, P91.6 million and P97.3 million, respectively, is presented as part of Rent Income in the consolidated statements of comprehensive income.

### **31.5 PFM's Franchise**

#### ***PFM as Franchisee***

PFM has area franchise agreement with FamilyMart Co. Ltd., whereby the latter will grant exclusive rights to the PFM for operating the FamilyMart stores in the Philippines as an Area Franchisor using the FamilyMart System for a period of ten years and six months, renewable at the option of the PFM. The agreement provides for an initial franchise fee of US\$1.0 million and royalty fees amounting to 1.00% of gross sales, exclusive of VAT, of all FamilyMart stores computed at the end of every month. On January 2, 2013, the PFM paid the initial franchise fee amounting to P41.1 million.

On December 11, 2017, as part of the acquisition of PFM by the Parent Company, the franchise agreement was renewed for ten years starting on the date of renewal at no additional cost to the PFM. As of December 31, 2018, the carrying value of the franchise fee amounted to P18.5 million and is presented as part of Intangible Assets in the 2018 consolidated statement of financial position (see Note 12).

Royalty expense recognized by the PFM in 2018 P12.79 million, and is presented under Selling and Administrative Expenses in the 2018 consolidated statement of comprehensive income (see Note 22). There are no outstanding payable in 2018 relating to the royalty.

#### ***PFM as Franchisor***

In December 2014, PFM started entering into franchise agreements whereby, as an Area Franchisor, the PFM grants exclusive rights to qualified persons and entities (Franchisees) to own and operate FamilyMart store/s at locations in the Philippines approved by it. The agreement is for a term of five years unless earlier terminated by either party and provides for a one-time franchise fee plus monthly royalties to the PFM equivalent to a percentage of gross profit. Cash receipts of the franchised stores from merchandise sales are initially deposited to the PFM. Deductions are made from this fund for the cost of merchandise sales, share of the PFM on the store's monthly gross profit and other costs. The remaining balance is subsequently remitted to the franchisees.

One-time franchise fees, which pertain to the initial investment of the franchisees are also presented as part of Non-trade Payables under Trade and Other Payables in the 2018 consolidated statement of financial position until the PFM has performed initial services as franchisor as agreed under the agreement. As of December 31, 2018, there are no outstanding liabilities. Revenues from franchise fees amounted to P56.0 million is presented as part of Fuel service and other revenues in the 2018 consolidated statement of comprehensive income with the corresponding outstanding receivable from the franchisees amounting to P14.7 million, presented as part of Non-trade Receivables under Trade and Other Receivables in the 2018 consolidated financial statements.

### **31.6 Lawsuits**

In the opinion of the Group's management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's consolidated financial position and results of operations.

- (a) In May 2011, the Bureau of Customs (BOC) filed before the Department of Justice (DOJ) a complaint against the Group's President and Chief Executive Officer and other respondents for alleged violation of Sections 3602, 2501(I)(1) & (5), 1801, 1802 and 3604 of the Tariff and Customs Code of the Philippines. In November 2012, the DOJ dismissed the case for lack of probable cause against all respondents. In April 2013, the DOJ, upon motion for reconsideration filed by the BOC, reversed its earlier resolution and recommended the filing of Criminal Information against the respondents. Criminal Information for alleged violations of Section 3602, in relation to Sections 3601, 2530 1 (I) & 5, 1801 and 3604 of the Tariff and Customs Code of the Philippines were filed before the Regional Trial Courts (RTC) of Batangas and Davao City in August 2013. Separately, in September and October 2013, RTC Batangas and Davao City, respectively, have dismissed all charges against the Parent Company's President and Chief Executive Officer.

- (b) On October 7, 2013, the DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge Ruben A. Galvez dated October 7, 2013 with RTC Batangas. On the other hand, on November 15, 2013, the DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge George A. Omelio dated November 15, 2013 with RTC Davao. On December 6, 2013, RTC Batangas issued an Order dated December 6, 2013 denying the DOJ's Motion for Reconsideration with Motion for Inhibition. On July 7, 2014, RTC Batangas issued a Certificate of Finality of even date stating that its Order dated December 6, 2013 affirming the Order dated September 17, 2013 is now final and executory since no appeal was filed.
- (c) On August 18, 2014, RTC Davao issued an order of even date denying the DOJ's Motion for Reconsideration. The Office of the Solicitor General, on behalf of the People of the Philippines, filed the Petition for Certiorari dated October 27, 2014 with the Court of Appeals seeking the reversal of the Orders dated October 4, 2013 and August 18, 2014 issued by public respondents Judges Omelio and Hon. Loida S. Posadas-Kahulugan. On October 24, 2016, the Group received the decision of the Court of Appeals denying the Petition for Certiorari dated October 27, 2014. On November 10, 2016, Mr. Uy received a copy of the Motion for Reconsideration filed with the CA.

A Motion for Reconsideration filed by the DOJ and the BOC, seeking the reversal of the decision dated 25 July 2014 of the Court of Appeals' Special Former Special Tenth (10th) Division in the Consolidated Petitions of Dennis Uy, docketed as CA-G.R. SP No. 131702, and Jorlan Cabanes, docketed as CA-G.R. SP No. 129740, with the Court of Appeals, which involve the same basic facts and issues as those raised in CA-G.R. SP No. 06500-MIN. On July 23, 2015, the Group received a resolution denying the said Motion for Reconsideration.

On October 8, 2015, the SOJ and the BOC filed a Petition for Review on Certiorari with the SC, seeking to set aside the Decision dated July 24, 2014 and Resolution dated July 2, 2015 issued by the CA. On October 12, 2016, the Court denied the Petition for Certiorari and further denied petitioner's Motion for Reconsideration on January 25, 2017.

On April 4, 2017, the Group received a copy of the Petition for Review on Certiorari dated March 27, 2017 filed by petitioner docketed as GR No. 229705 with the Supreme Court (SC), Manila, 3rd Division. As of December 31, 2017, the Group is awaiting for the SC's issuance on the resolution directing the Group to file Comment to the Petition for Review.

- (d) A qualified theft case was filed against former crew of M/T Chelsea Denise Rodrigo Yana, et al on June 29, 2015 with the RTC Branch 15 for taking and misappropriation of substantial portion of the Group's cargo consisting of 23,500.9 Liters of diesel worth P754,353 on June 26, 2015 at the Davao Terminal. On January 20, 2017, the Court grants (1) Prosecution's Motion for Reconsideration that the testimony of Joel Sularte shall remain as part of the records of the case; and (2) application of the accused to post bail amounting to P100,000. On February 8, 2017, a Motion for Partial Reconsideration of the Court's order was filed by the Group seeking the reversal of the approval of the application of the accused to post bail.
- (e) Several grave coercion complaints were filed against Norman Navarro, et al., along with the BOD of the Group (including Dennis Uy and Cherylyn Uy) for the closure of five Phoenix Fuel Stations namely, Phoenix Bankerohan, Cabaguio, Boulevard, Acacia and Ponciano Stations. On July 19 and 27, 2016, complaint was dismissed for Acacia, Ponciano and Bankerohan Stations as respondent's action could not be considered unlawful or illegal. On December 29, 2017, the Petition for Review was dismissed in a Joint Resolution issued by the Regional Director Janet Grace Fabrero.
- (f) Six separate cases of libel against the BOD of the Group and the Editors of newspapers as the alleged authors/originators for an alleged libelous Notice posted in the Mindanao Daily Mirror/ Sunstar Davao and other local newspapers. On July 19, 2017, all cases and Motion for Reconsideration were dismissed in a resolution dated June 19, 2017.
- (g) Several cases of Grave Coercion, Robbery and Libel were filed against the Sales Team of South Mindanao and other officers, including all the members of the BOD except for Domingo T. Uy, Paul G. Dominguez and Carolina Inez Angela S. Reyes, in relation to the Parent Company's closure and take-over of six Phoenix Fuel Stations in Davao City. To date, the cases have been dismissed by the City Prosecutor's office of Davao City.

- (h) The Parent Company's Independent Director, Monico V. Jacob, in his capacity as then Chairman of Petron Corporation, was impleaded in a case together with some government officials for Violation of Republic Act 3019 otherwise known as the Anti-Graft and Corrupt Practices Act involving tax credit payments. The case has been dismissed by the Sandiganbayan, Fourth Division, Quezon City in a Resolution dated March 2, 2017.

Other court cases typical and customary in the course of the business operations of the Group such as those, among others, involving collection, qualified theft and reckless imprudence have been filed by and against the Group by and against its employees and/or third parties.

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not given recognition in the consolidated financial statement. As of December 31, 2018 and 2017, the management believes that losses, if any, that may arise from these commitments and contingencies will not have material effects on the consolidated financial statements.

## **32. EVENT AFTER THE BALANCE SHEET DATE**

### ***Joint Venture of the Parent Company***

The Parent Company's BOD has approved on January 31, 2019 for the Group to enter into joint cooperation or venture with China National Offshore Oil Corporation (CNOOC) Gas and Power Group for the operation and establishment of various liquefied natural gas (LNG)-related trades and services under the LNG Integrated Hub Project in the Philippines. In addition, the BOD has approved to form and organize a new and wholly-owned subsidiary or company and to invest corporate funds with initial investment of P250.0 million for the LNG project, subject to the approval of the stockholders during the annual stockholders' meeting of the Parent Company.





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**Report of Independent  
Certified Public Accountants  
to Accompany Supplementary  
Information Required by the  
Securities and Exchange  
Commission Filed Separately  
from the Basic Consolidated  
Financial Statements**

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**The Board of Directors and Stockholders**  
**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
Stella Hizon Reyes Road  
Barrio Pampang, Davao City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries (the Group) for the year ended December 31, 2018, on which we have rendered our report dated February 22, 2019. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) are presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68 (as amended), and are not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information are the responsibility of the Group's management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

  
**By: Ramilito L. Nañola**  
Partner

CPA Reg. No. 0090741

TIN 109-228-427

PTR No. 7333698, January 3, 2019, Makati City

SEC Group A Accreditation

Partner - No. 0395-AR-3 (until May 19, 2019)

Firm - No. 0002-FR-5 (until Mar. 26, 2021)

BIR AN 08-002511-19-2018 (until Jan. 25, 2021)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 22, 2019

**Certified Public Accountants**

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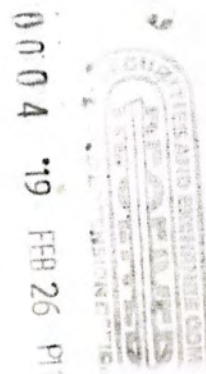
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**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Financial Soundness Indicators**  
**December 31, 2018**

		Amount		Ratio	
		2018	2017 (As Restated)	2018	2017 (As Restated)
<b>A) LIQUIDITY RATIOS</b>					
1	Current Ratio:				
	Current Assets	37,259,777,423	24,905,751,632	1.1	1.2
	Current Liabilities	33,843,707,218	20,385,169,145		
2	Quick Ratio:				
	Current Assets - Inventories	26,124,283,137	12,489,514,559	0.8	0.6
	Current Liabilities	33,843,707,218	20,385,169,145		
3	Cash Ratio:				
	Cash and Cash Equivalents	7,889,708,807	1,831,557,883	0.2	0.1
	Current Liabilities	33,843,707,218	20,385,169,145		
<b>B) SOLVENCY RATIOS</b>					
1	Solvency Ratio:				
	After Tax Net Profit + Depreciation	3,823,891,027	2,372,503,429	0.1	0.1
	Long term liabilities + Short term Liabilities	48,686,605,873	32,482,562,362		
2	Debt to Equity Ratio:				
	Total Liabilities	48,686,605,873	32,482,562,362	3.0	2.8
	Equity	15,973,672,857	11,683,537,505		
3	Debt Service Coverage Ratio				
	Net Operating Income	5,776,049,188	3,543,006,920	2.3	2.9
	Net Interest Expense + Long-term repayments	2,473,903,173	1,230,719,493		
<b>C) ASSET TO EQUITY RATIO</b>					
	Total Assets	64,660,278,730	44,166,099,867	4.0	3.8
	Equity	15,973,672,857	11,683,537,505		
<b>D) INTEREST RATE COVERAGE RATIO</b>					
	Earnings Before Interest and Taxes	4,719,299,870	2,691,926,338	3.4	3.4
	Interest Expense	1,376,994,786	780,917,196		
<b>E) PROFITABILITY RATIOS</b>					
1	Gross Profit Margin:				
	Sales - Cost of Goods Sold	8,833,757,843	5,803,847,723	0.1	0.1
	Sales	87,672,722,663	44,148,952,252		
2	Return on Assets:				
	Net Income	2,767,141,709	1,521,422,847	0.0	0.0
	Total Assets	64,660,278,730	44,166,099,867		
3	Return on Equity:				
	Net Income	2,767,141,709	1,521,422,847	0.2	0.1
	Equity	15,973,672,857	11,683,537,505		

**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**LIST OF SUPPLEMENTARY SCHEDULES**  
**December 31, 2018**

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B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	<u>2</u>
C	Amounts of Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	<u>3</u>
D	Intangible Assets - Other assets	<u>4</u>
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I	Reconciliation of Retained Earnings Available for Dividend Declaration	<u>7</u>
J	Mapping of the Organization Structure	<u>8</u>
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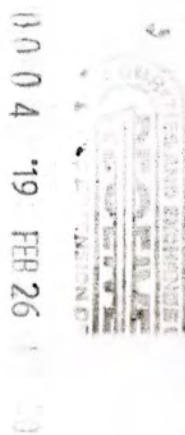


**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule A - Financial Assets**  
**December 31, 2018**

<i>Description</i>	<i>Carrying Value</i>	<i>Fair Value</i>
Loans and receivables:		
Cash and cash equivalents	P 7,889,708,807	P 7,889,708,807
Trade and other receivables - net	11,363,226,589	11,363,226,589
Due from related parties	937,904,172	937,904,172
Construction bond	5,504,822	5,504,822
Restricted deposits	52,719,265	52,719,265
Refundable rental deposits	289,572,937	289,572,937
	<b><u>P 20,538,636,592</u></b>	<b><u>P 20,538,636,592</u></b>

**Notes:**

- 1) Trade and other receivables excludes advances to suppliers and advances to subject to liquidation.
- 2) There are no other financial assets applicable to the group, except for loans and receivables.
- 3) Construction bond is included as part of Others under Prepayments and Other Current Assets.
- 4) Net of allowance for impairment losses of P634,396,128.



P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries  
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)  
December 31, 2018

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Reclassification	Ending Balance	
					Current	Non-current
Calaca Industrial Seaport Corporation	P 498,819,699	P 436,276,323	P -	P -	P 933,096,022	P -
P-H-O-E-N-I-X Philippines Foundation, Inc.	20,236,382	5,286,770	( 25,465,034 )	-	58,118	-
Chelsea Shipping Corporation	948,817	76,069,474	-	( 77,018,291 )	-	-
Phoenix Asphalt Philippines, Inc.	-	5,729,197	( 487,949 )	-	5,241,248	-
Galaxi Petroleum Fuels, Inc.	-	876,256	-	-	876,256	-
Udenna Corporation	-	540,810	-	-	540,810	-
	P 518,004,898	P 446,508,846	P 20,236,382	P -	P 944,277,362	P -
						P 939,812,454

Notes:

- 1) There are no amounts written-off. However, allowance for impairment of P1,908,282 was recognized. Balance at end of period net of allowance for impairment losses amounted to P937,904,172.
- 2) All are related parties under common ownership except for Udenna Corporation, which is the Ultimate Parent Company.

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**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule C - Amounts of Receivable from Related Parties**  
**which are Eliminated during Consolidation of Financial Statements**  
**December 31, 2018**

Creditor	Name and designation of debtor	Balance at beginning of period	Additions	Amounts Collected	Current	Non- Current	Balance at end of period
P-H-O-E-N-I-X Petroleum Philippines, Inc. Advances to subsidiaries/parent	P-H-O-E-N-I-X Global Mercantile, Inc.	P 1,277,008	P 69,254,863	P 41,685,008	P 28,846,863	P -	P 28,846,863
	PFL Petroleum Management, Inc.	53,186,464	385,121,212	2,605,991	435,701,685	-	435,701,685
	Subic Petroleum Trading and Transport Phils., Inc.	597,870,572	3,314,397,878	3,314,397,873	1,246,786,873	-	1,246,786,873
	PNX Petroleum Singapore, PTE Ltd.	47,996,717	22,252,243	45,806,062	24,442,898	-	24,442,898
	DUTA, Inc.	267,349,103	-	-	267,349,103	-	267,349,103
P-H-O-E-N-I-X Petroleum Philippines, Inc. Trade and Other Receivables	Phoenix LPG Philippines, Inc.	-	95,152,138	40,000,000	55,152,138	-	55,152,138
	Action-Able, Inc.	-	198,892,712	-	198,892,712	-	198,892,712
	Philippine Familymart CVS, Inc.	-	1,341,052,950	648,554,020	692,498,930	-	692,498,930
		P 967,679,864	P 6,075,040,296	P 4,093,048,958	P 2,949,671,202	P -	P 2,949,671,202
		P -	P -	P -	P -	P -	P -
Subic Petroleum Trading & Transport Phils., Inc. P-H-O-E-N-I-X Petroleum Philippines, Inc. (Trade Receivables)	P-H-O-E-N-I-X Global Mercantile, Inc.	P 7,543,030	P 9,259,603	P 10,766,707	P 6,015,926	P -	P 6,015,926
	PFL Petroleum Management, Inc.	51,018,391	37,037,855	73,754,598	14,299,648	-	14,299,648
	Phoenix LPG Philippines, Inc.	93,396,411	206,770,614	138,751,396	161,417,629	-	161,417,629
	PNX Petroleum Singapore, PTE Ltd.	-	97,261,125	-	97,261,125	-	97,261,125
	Philippine Familymart CVS, Inc.	-	58,122	-	58,122	-	58,122
Phoenix LPG Philippines, Inc. Advances in subsidiaries/parent		P 151,957,832	P 350,387,319	P 223,282,701	P 279,052,450	P -	P 279,052,450
		P -	P -	P -	P -	P -	P -
		P 119,024	P -	P 119,024	P -	P -	P -
		P 119,024	P -	P 119,024	P -	P -	P -
		P -	P -	P -	P -	P -	P -
Phoenix LPG Philippines, Inc. Trade and Other Receivables	P-H-O-E-N-I-X Petroleum Philippines, Inc.	P -	P 16,104,048	P -	P 16,104,048	P -	P 16,104,048
	DUTA, Inc.	36,753,805	8,129,826	-	44,883,631	-	44,883,631
	Kapangan, Inc.	13,945,435	-	13,945,435	-	-	-
		P 50,699,240	P 24,233,874	P 13,945,435	P 60,987,679	P -	P 60,987,679
		P -	P -	P -	P -	P -	P -
DUTA, Inc.	PNX Petroleum Singapore, PTE Ltd.	P -	P 677,320,305	P 538,472,811	P 138,847,494	P -	P 138,847,494
		P -	P 677,320,305	P 538,472,811	P 138,847,494	P -	P 138,847,494
		P -	P -	P -	P -	P -	P -
		P 12,677,635	P 16,481,251	P 15,455,543	P 13,703,343	P -	P 13,703,343
		P 12,677,635	P 16,481,251	P 15,455,543	P 13,703,343	P -	P 13,703,343
PFL Petroleum Management, Inc.	Phoenix LPG Philippines, Inc. (Lease Receivable)	P -	P 3,214,286	P -	P 3,214,286	P -	P 3,214,286
		P -	P 3,214,286	P -	P 3,214,286	P -	P 3,214,286
	P-H-O-E-N-I-X Petroleum Philippines, Inc. (Trade Receivables)	P -	P -	P 2,141,759	P 1,072,527	P -	P 1,072,527
		P -	P -	P 2,141,759	P 1,072,527	P -	P 1,072,527
		P -	P -	P -	P -	P -	P -
PNX Petroleum Singapore, PTE Ltd. Trade and Other Receivables		P -	P 19,536,187,648	P 17,689,121,299	P 1,847,066,349	P -	P 1,847,066,349
		P -	P 19,536,187,648	P 17,689,121,299	P 1,847,066,349	P -	P 1,847,066,349
		P -	P -	P -	P -	P -	P -
		P -	P -	P -	P -	P -	P -
		P -	P -	P -	P -	P -	P -

Terms and conditions:  
All receivables/payables are unsecured, non-interest bearing, collectible/payable on demand and generally settled in cash.

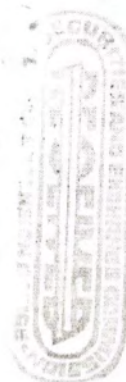
P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries  
Schedule D - Intangible Assets - Other Assets  
December 31, 2018

Description	Beginning balance	Additions at cost	Deductions			Ending balance
			Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	
Other Non-Current assets						
Goodwill	P 3,990,666,606	P 428,176,225	P -	P -	P -	P 4,418,842,831
Basketball franchise	176,861,660	-	-	-	-	176,861,660
Computer software licenses	94,287,230	26,563,038	( 48,494,288 )	-	21,673,225	94,029,205
Franchise	-	22,353,025	-	-	950,644	23,303,669
Software cost	2,520,167	30,477,133	( 6,539,393 )	7,052,809	73,939	33,584,655
Others	1,262,393	71,700	( 108,288 )	-	-	1,225,805
<b>TOTAL</b>	<b>P 4,265,598,056</b>	<b>P 507,641,121</b>	<b>( P 55,141,969 )</b>	<b>P -</b>	<b>P 22,697,808</b>	<b>P 4,747,847,825</b>

**Explanations:**

- 1 Addition to goodwill was due to the acquisitions of Philippine FamilyMart CVS, Inc. (PFM) and Action Able Inc. and Think Able Limited.
- 2 Due to the acquisition of PFM, the Group has additional intangible asset in the form of Franchise as a result of business combination.
- 3 Charged to cost and expenses under Computer Software Licenses was due to amortizations of Intangible Assets.

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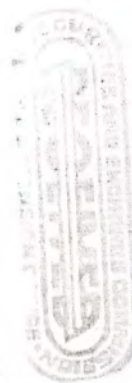




**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule E - Long-Term Debt**  
**December 31, 2018**

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet</i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet</i>	<i>Terms</i>
<b>Installment, notes and loans payable</b>				
<i>Peso-denominated</i>				
BDO Unibank, Inc.	6,000,000,000	660,000,000	4,482,186,832	Interest rate of 4.677%, seven-year term, maturing on August 7, 2024
BDO Unibank, Inc.	1,000,000,000	-	1,000,000,000	Interest rate of 7.5884%, five year term, maturing on, August 18, 2021
BDO Unibank, Inc.	1,000,000,000	-	1,000,000,000	Interest rate of 5.7185%, maturing on November 10, 2022
BDO Unibank, Inc.	1,000,000,000	-	1,000,000,000	Interest rate of 5.7185%, maturing on November 10, 2022
Land Bank of the Philippines	5,000,000,000	50,000,000	4,950,000,000	Interest rate of 4.85%, seven-year term, maturing on July 4, 2025
Land Bank of the Philippines	1,000,000,000	333,333,333	333,333,333	Interest rate of 7.00%, three-year term, maturing on November 3, 2020
Multinational Investment Bancorporation	2,385,732,922	200,000	-	Interest rates from 3.75%, maturing on April 30, 2019
Philippine National Bank	1,000,000,000	250,000,000	600,000,000	Interest rate of 5.30%, maturing on April 3, 2020
Philippine National Bank	500,000,000	100,000,000	125,000,000	Interest rate of 6.2105%, five-year term, maturing on January 2, 2021
Robinsons Bank Corporation	500,000,000	100,000,000	100,000,000	Interest rate of 5.50%, five-year term, maturing on October 9, 2020
<b>Total Installment, notes and loans payable</b>	<b>19,385,732,922</b>	<b>1,493,533,333</b>	<b>13,590,520,165</b>	
<b>TOTAL</b>	<b>P 19,385,732,922</b>	<b>P 1,493,533,333</b>	<b>P 13,590,520,165</b>	

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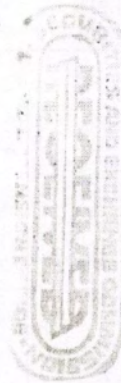




P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries  
Schedule H - Capital Stock  
December 31, 2018

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Preferred shares - P1 par value						
Non-voting, non-participating, non convertible into common shares						
Issued and outstanding - 20,000,000	50,000,000	22,000,000	-	-	-	22,000,000
Common shares - P1 par value						
Issued and outstanding	2,500,000,000	1,403,304,232	-	223,221,490	123,831,027	1,056,251,715

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P-H-O-E-N-I-X Petroleum Philippines, Inc.  
Stella Hizon Reyes Road, Barrio Pampanga, Davao City  
Reconciliation of Retained Earnings Available for Dividend Declaration  
December 31, 2018

**UNAPPROPRIATED RETAINED EARNINGS AS ADJUSTED TO  
AVAILABLE FOR DIVIDEND DISTRIBUTION, BEGINNING**

**P 3,093,771,222**

**Net Profit based on the audited Statement of Comprehensive Income**

**P 1,777,824,901**

**Less: Non-actual/unrealized income net of tax**

Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents	1,636,662
Other unrealized gains or adjustment to retained earnings as a result of day one gain on financial instrument	1,933,147

**Add: Non-actual losses**

Other unrealized loss or adjustment to retained earnings as a result of day one loss on financial instrument	2,223,674
Equity in net loss of joint venture net of tax	<u>314,860</u>

**Subtotal**

**( 1,031,274 )**

**Net income actually earned during the period**

**1,776,793,627**

**1,776,793,627**

**Add/Less:**

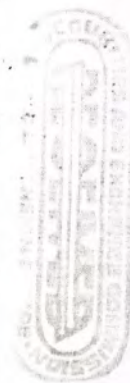
Dividend declarations during the period:

Common shares cash dividends	( 214,730,735 )	
Preferred shares cash dividends	( <u>194,910,000</u> )	( 409,640,735 )
Treasury shares		( <u>344,300,000</u> )

**UNAPPROPRIATED RETAINED EARNINGS,  
AS ADJUSTED, ENDING**

**P 4,116,624,114**

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## December 31, 2018





**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**

**Schedule of Philippine Financial Reporting Standards and Interpretations  
Adopted by the Securities and Exchange Commission and the  
Financial Reporting Standards Council as of December 31, 2018**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b>		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
<b>Practice Statement Management Commentary</b>			✓	
<b><i>Philippine Financial Reporting Standards (PFRS)</i></b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation* (effective January 1, 2019)	✓		
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4, <i>Insurance Contracts</i>			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments (2014)	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation* (effective January 1, 2019)			✓

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**

**Schedule of Philippine Financial Reporting Standards and Interpretations  
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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
<b>PFRS 11</b>	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation* (effective January 1, 2019)			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers	✓		
<b>PFRS 16</b>	Leases* (effective January 1, 2019)			✓
<b>PFRS 17</b>	Insurance Contracts* (effective January 1, 2021)			✓
<b>Philippine Accounting Standards (PAS)</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events After the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* (effective January 1, 2019)			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		



**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**

**Schedule of Philippine Financial Reporting Standards and Interpretations  
Adopted by the Securities and Exchange Commission and the  
Financial Reporting Standards Council as of December 31, 2018**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 17</b>	Leases	✓		
<b>PAS 19 (Revised)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
	Amendment to PAS 23: Eligibility for Capitalization	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Revised)</b>	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
<b>PAS 28 (Revised)</b>	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* ( <i>effective date deferred indefinitely</i> )			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture* ( <i>effective January 1, 2019</i> )			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings Per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 40</b>	Investment Property	✓		
	Amendment to PAS 40: Reclassification to and from Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**

**Schedule of Philippine Financial Reporting Standards and Interpretations  
Adopted by the Securities and Exchange Commission and the  
Financial Reporting Standards Council as of December 31, 2018**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<i>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</i>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
<b>IFRIC 6</b>	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 14</b>	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners**	✓		
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments	✓		
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine**	✓		
<b>IFRIC 21</b>	Levies	✓		
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration	✓		
<b>IFRIC 23</b>	Uncertainty Over Income Tax Treatments (effective January 1, 2019)			✓
<i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i>				
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services**	✓		
<b>SIC-32</b>	Intangible Assets - Web Site Costs**	✓		

\* These standards will be effective for periods subsequent to 2018 and are not early adopted by the Group.

\*\* These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.