

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

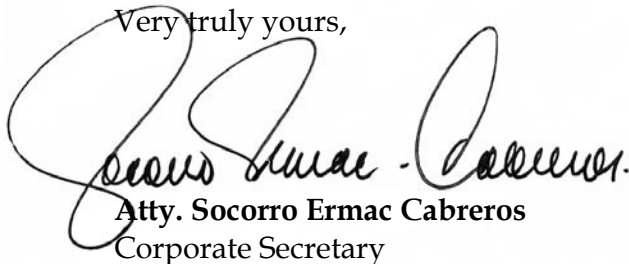
**Atty. Joseph B. Evangelista**  
Head - Issuer Compliance and Disclosure Department  
(ICDD)

**Ladies and Gentlemen:**

We 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.

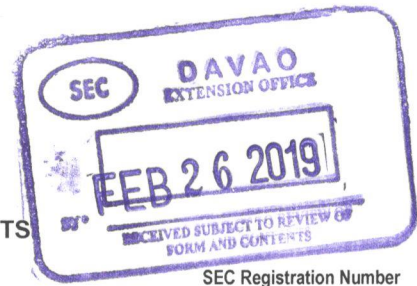
Very truly yours,



**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS



SEC Registration Number

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Company Name

P	-	H	-	O	-	E	-	N	-	I	-	X		P	E	T	R	O	L	E	U	M						
P	H	I	L	I	P	P	I	N	E	S	,		I	N	C	.		A	N	D								
S	U	B	S	I	D	I	A	R	I	E	S																	

Principal Office (No./Street/Barangay/City/Town/Province)

S	T	E	L	L	A		H	I	Z	O	N		R	E	Y	E	S		R	O	A	D	,					
B	O	.		P	A	M	P	A	N	G	A	,		D	A	V	A	O		C	I	T	Y					

Form Type

A	A	F	S
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Department requiring the report

S	E	C
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Secondary License Type, If Applicable

N	/	A
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## COMPANY INFORMATION

Company's Email Address

Company's Telephone Number/s

(082) 235-8888

Mobile Number

No. of Stockholders

66

Annual Meeting  
Month/Day

Any day in March

Fiscal Year  
Month/Day

12/31

## CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

MA. CONCEPCION F. DE CLARO

Email Address

concepcion.declaro  
@phoenixfuels.ph

Telephone Number/s

(082) 235-8888

Mobile Number

Contact Person's Address

Stella Hizon Reyes Road, Bo. Pampanga, Davao City

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

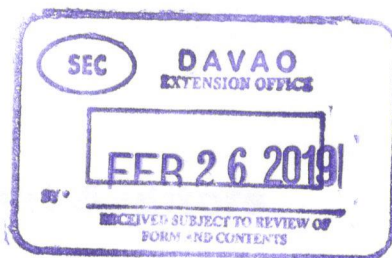
**2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for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



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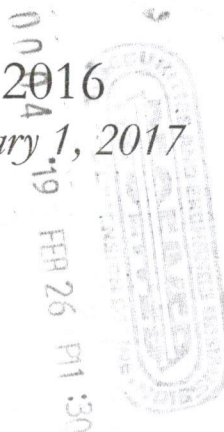
**FOR SEC FILING**



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**

20th Floor, Tower 1  
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.

**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

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## **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



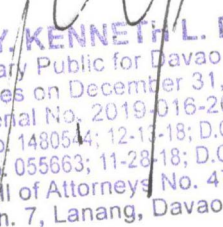
**SUBSCRIBED AND SWORN** to before me on this day of 22 February 2019 in Davao City. Affiants have confirmed their identities by presenting competent evidence of identity viz;

Name	Competent Evidence of Identity
Domingo T. Uy	
Dennis A. Uy	
Ma. Concepcion F. De Claro	

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><u>A S S E T S</u></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><u>LIABILITIES AND EQUITY</u></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		24,928,394	( 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	5,741,750,297	4,207,027,951	3,327,065,843
		<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	( 87,267,127 )	( 36,852,747 )	( 11,006,428 )
		<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	<b>606,588,321</b>	<b>408,067,238</b>	<b>169,802,891</b>
<b>NET PROFIT</b>		<b>P 2,767,141,709</b>	<b>P 1,521,422,847</b>	<b>P 1,092,474,897</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		( 9,113,843 )	-	-
		<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 28,719,880 )	( 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	( 355,635,633 )	( 4,218,023 )	( 4,608,240 )
		<u>829,816,477</u>	<u>9,842,053</u>	<u>10,752,560</u>
<b>Other Comprehensive Income - net of tax</b>		<b>801,096,597</b>	<b>6,050,567</b>	<b>10,752,560</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 3,568,238,306</b>	<b>P 1,527,473,414</b>	<b>P 1,103,227,457</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		( 9,113,843 )	-	-
		<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	<b>P 1.72</b>	<b>P 0.97</b>	<b>P 0.64</b>
<b>Diluted Earnings per share</b>		<b>P 1.72</b>	<b>P 0.96</b>	<b>P 0.64</b>

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				Total	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									
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	-	-	-	-	-	-	-	-	2,273,709	-	-	-	-
As restated	2	30,000,000	( 5,000,000)	1,431,538,232	-	1,456,538,232	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	-	4,766,000	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)	( 349,300,000)	( 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	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	-	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 :)
- 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	<u>P 108,509,042</u>	<u>( P 8,609,940)</u>	<u>(P 345,913,667)</u>	<u>P 54,988,887</u>

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>P 6,272,692,441</b>	<b>P11,302,340,399</b>	<b>P 4,925,525,000</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>P 5,258,513,079</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 )	-	
<b>Total</b>	<b>P 40,268,564,453</b>	<b>P -</b>	<b>P40,268,564,453 (P 52,719,265 )</b>	<b>(P 323,319,003 )</b>	<b>P 39,892,526,185</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 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 )	-	
<b>Total</b>	<b>P 28,450,414,541</b>	<b>P -</b>	<b>P 28,450,414,54 (P 51,281,559 )</b>	<b>(P 278,980,543 )</b>	<b>P 28,120,152,440</b>	

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	P 7,728,117,276	P 1,549,265,669
Cash on hand	4,082,617	412,846
Revolving fund	16,968,918	11,527,561
Short-term placements	140,539,996	270,351,807
	<b>P 7,889,708,807</b>	<b>P 1,831,557,883</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>



	<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>
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	<u>2018</u>	<u>2017</u>	<u>2016</u>
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	<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	<u>P 1,113,266,254</u>	<u>P 1,514,028</u>	<u>P 1,114,780,282</u>
net of accumulated depreciation and impairment loss			

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%	3,200,000,000	4,600,000,000
				<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%	3,670,000,000	2,150,000,000
				<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%	200,000,000	-
				<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		<u>89,974,459,106</u>	<u>50,761,341,602</u>	<u>26,913,158,970</u>
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		<u>45,956,893</u>
		<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	<b>-</b>	( 5,453,559)
Settlement loss	<b>-</b>	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>	<u>( 3,399,323)</u>
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	( 138,270,517 )	( 155,548,968 )	( 31,060,370 )
	<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	P 355,635,633	P 4,218,023	P 4,608,240

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)]		2016	
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>(</b>	<b>1,671,503)</b>	<b>(</b>	186,606,000)	<b>(</b>	982,323)
Tax effects of:						
Adjustment for income and expenses under ITH	<b>(</b>	<b>353,339,769)</b>	<b>(</b>	190,713,945)	<b>(</b>	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>(</b>	<b>16,415,482)</b>	<b>(</b>	-	<b>(</b>	69,375,158)
Non-taxable income	<b>(</b>	<b>7,656,113)</b>	<b>(</b>	2,732,284)	<b>(</b>	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>(</b>	<b>2,533,289)</b>	<b>(</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>	<b>(</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 Financial Position		Effects of Business Combination	Consolidated Statements of Comprehensive Income					
	2018	2017	2018	Profit or Loss			Other Comprehensive Income (Loss)		
	2018	2017	2018	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>-</u>	<u>2,266,676</u>	<u>2,266,676</u>	<u>2,266,676</u>	2019
	P	<u>-</u>	<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 PBComm, 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>		<b><u>2,550,000,000</u></b>			<b><u>P1,436,248,632</u></b>
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>		<b><u>2,550,000,000</u></b>			<b><u>P1,406,233,932</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>P1,406,233,932</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 Par value	12/5/2018	2,000,000
			1,000 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 data 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 data 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:

	<u>2018</u>	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><u>15,973,672,857</u></b>	<u>11,683,537,505</u>
Debt-to-equity ratio	<b><u>3.0 : 1.0</u></b>	<u>2.8 : 1.0</u>

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).

	<u>Sale of Goods</u>			<u>Fuel Service and Other Revenues</u>			<u>Shipping and Cargo Services</u>			<u>Real Estate</u>			<u>Total</u>		
	<u>Trading</u>			<u>Depot and Logistics</u>											
	2017	2016											2017	2016	
	[As Restated	[As restated											[As Restated	[As Restated	
	- see Note	see Note 2'											see Note	see Note 2	
	2.1(b)]	2.1(b)]											2.1(b)]	2.1(b)]	
	<u>2018</u>			<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>		
<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</b>															
<b>OPERATING EXPENSES</b>															
Cost of sales and services excluding depreciation and amortization	102,895,593	45,419,830	26,843,970	958,174	437,631	403,563	-	-	1,829,221	36,424	46,302	-	103,890,191	45,903,763	29,076,754
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>	2017 [As Restated - see Note 2.1(b)]	2016 [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(l)(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 (l) & 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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**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

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. Naniola**  
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**

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

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

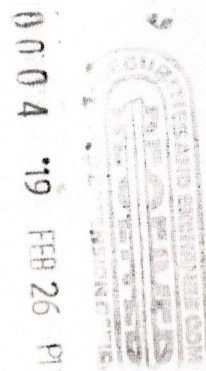


**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Financial Soundness Indicators**  
**December 31, 2018**

		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**

<u>Schedule</u>	<u>Description</u>	<u>Page</u>
A	Financial Assets	<u>1</u>
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>
E	Long-Term Debt	<u>5</u>
F	Indebtedness to Related Parties (Long-term loans from related Companies)	<u>N/A</u>
G	Guarantees of Securities of Other Issuers	<u>N/A</u>
H	Capital Stock	<u>6</u>
I	Reconciliation of Retained Earnings Available for Dividend Declaration	<u>7</u>
J	Mapping of the Organization Structure	<u>8</u>
K	Schedule of Philippine Financial Reporting Standards	<u>9 - 12</u>



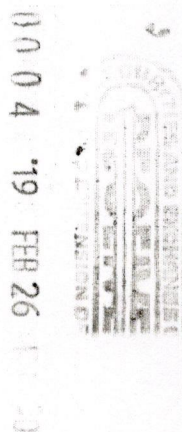


**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule A - Financial Assets**  
**December 31, 2018**

<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		Amounts collected		Reclassification		Ending Balance		Balance at end of period
							Current	Non-current	
Calaca Industrial Seaport Corporation	P	498,819,699	P	436,276,323	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	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	5,241,248
Galaxi Petroleum Fuels, Inc.	-	-	-	876,256	-	-		876,256	876,256
Udenma Corporation	-	-	-	540,810	-	-		540,810	540,810
	P	518,004,898	P	446,508,846	P	20,236,382	P	944,277,362	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 Udenma 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. <i>Advances to subsidiaries/parent</i>	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
P-H-O-E-N-I-X Petroleum Philippines, Inc. <i>Trade and Other Receivables</i>	DUTA, Inc.	267,349,103	-	-	267,349,103	-	267,349,103
	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
		<b>P 967,679,864</b>	<b>P 6,075,040,296</b>	<b>P 4,093,048,958</b>	<b>P 2,949,671,202</b>	<b>P -</b>	<b>P 2,949,671,202</b>
P-H-O-E-N-I-X Petroleum Philippines, Inc. <i>Trade and Other Receivables</i>	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
		<b>P 151,957,832</b>	<b>P 350,387,319</b>	<b>P 223,292,701</b>	<b>P 279,052,450</b>	<b>P -</b>	<b>P 279,052,450</b>
Subic Petroleum Trading & Transport Phils., Inc. P-H-O-E-N-I-X Petroleum Philippines, Inc. (Trade Receivables)							
		<b>P 119,024</b>	<b>P -</b>	<b>P 119,024</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
Phoenix LPG Philippines, Inc. <i>Advances to subsidiaries/parent</i>	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	-	-	-
		<b>P 50,699,240</b>	<b>P 24,233,874</b>	<b>P 13,945,435</b>	<b>P 60,987,679</b>	<b>P -</b>	<b>P 60,987,679</b>
Phoenix LPG Philippines, Inc. <i>Trade and Other Receivables</i>	PNX Petroleum Singapore, PTE Ltd.	P -	P 677,320,305	P 538,472,811	P 138,847,494	P -	P 138,847,494
		<b>P -</b>	<b>P 677,320,305</b>	<b>P 538,472,811</b>	<b>P 138,847,494</b>	<b>P -</b>	<b>P 138,847,494</b>
	Phoenix LPG Philippines, Inc. (Lease Receivable)	P 12,677,635	P 16,481,251	P 15,455,543	P 13,703,343	P -	P 13,703,343
		<b>P 12,677,635</b>	<b>P 16,481,251</b>	<b>P 15,455,543</b>	<b>P 13,703,343</b>	<b>P -</b>	<b>P 13,703,343</b>
PFL Petroleum Management, Inc.	P-H-O-E-N-I-X Petroleum Philippines, Inc. (Trade Receivables)	P -	P 3,214,286	P 2,141,759	P 1,072,527	P -	P 1,072,527
		<b>P -</b>	<b>P 3,214,286</b>	<b>P 2,141,759</b>	<b>P 1,072,527</b>	<b>P -</b>	<b>P 1,072,527</b>
	PNX Petroleum Singapore, PTE Ltd.	P -	P 19,536,187,648	P 17,689,121,299	P 1,847,066,349	P -	P 1,847,066,349
		<b>P -</b>	<b>P 19,536,187,648</b>	<b>P 17,689,121,299</b>	<b>P 1,847,066,349</b>	<b>P -</b>	<b>P 1,847,066,349</b>

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.

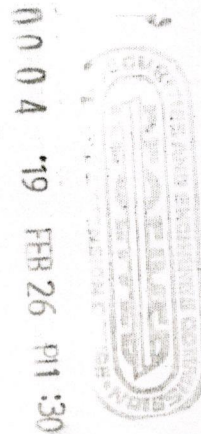
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**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule E - Long-Term Debt**  
**December 31, 2018**

<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><u>19,385,732,922</u></b>	<b><u>1,493,533,333</u></b>	<b><u>13,590,520,165</u></b>	
<b>TOTAL</b>	<b>P <u>19,385,732,922</u></b>	<b>P <u>1,493,533,333</u></b>	<b>P <u>13,590,520,165</u></b>	



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

314,860

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

( 194,910,000 )

( 409,640,735 )

Treasury shares

( 344,300,000 )

UNAPPROPRIATED RETAINED EARNINGS,  
 AS ADJUSTED, ENDING

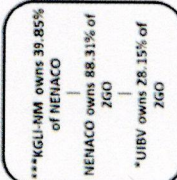
P 4,116,624,114

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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  
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>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* <i>(effective date deferred indefinitely)</i>			✓
	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* <i>(effective January 1, 2019)</i>			✓
<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* <i>(effective January 1, 2019)</i>			✓
<b>PFRS 17</b>	Insurance Contracts* <i>(effective January 1, 2021)</i>			✓
<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* <i>(effective January 1, 2019)</i>			✓
<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			✓



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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.