

04 March 2020

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

**Philippine Stock Exchange**  
Disclosure Department  
6/F PSE Tower, 28<sup>th</sup> Street Cor. 5<sup>th</sup> Avenue  
BGC, Taguig City, Metro Manila

**Philippine Dealing & Exchange Corporation**  
37<sup>th</sup> 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

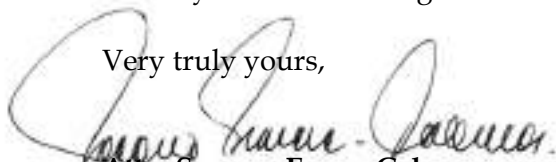
**Atty. Marie Rose M. Magallen-Lirio**  
Head - Issuer Compliance and Disclosure Department (ICDD)

*Gentlemen and Madam:*

We would like to submit our recently concluded Annual Audited Financial Statement (AAFS) for period ended 31 December 2019 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

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



### 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, for the years ended December 31, 2019 and 2018 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


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

  
Domingo T. Uy  
Chairman of the Board

  
Dennis A. Uy  
Chief Executive Officer

  
Ma. Concepcion De Claro  
Chief Financial Officer

Signed this 28<sup>th</sup> day of February 2020

**HEAD OFFICE:** Phoenix Bulk Depot, Linaoang, Davao City  
8000 Philippines  
Trunkline: +63 82 236 8000  
Fax: +63 82 233 0168

**MANILA OFFICE:** 15th-17th Floors, UDCNMA Tower, Rizal Drive cor. 4th Avenue,  
Boracay Grande City, Taguig 1634 Philippines  
Trunkline: +63 2 403 4013  
Fax: +63 2 403 4000

**CEBU OFFICE:** Phoenix Megakay Gasoline Station, M.C. Briones Street,  
National Highway, Megakay, Marikina City, Davao 8014 Philippines  
Telephone: +63 32 236 8100 / 236 8100

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

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

**SUBSCRIBED AND SWORN** to before me on **February 28, 2020** in Davao City, Philippines. Affiants have confirmed their identities by presenting competent evidence of identity, viz:

<b>Name</b>	<b>Competent Evidence of Identity</b>
Domingo T. Uy	TIN 140-162-193
Dennis A. Uy	TIN 172-020-135
Ma. Concepcion F. De Claro	TIN 120-135-353

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

Doc. No. 392 ;  
Page No. 60 ;  
Book No. 107 ;  
Series of 2020.



**ATTY. KENNETH L. DABI**  
Notary Public for Davao City  
Expires on December 31, 2020  
Serial No. 2019-010-2020  
PTR No. 354003 • 12-16-2019 • D.C.  
IBP No. 100366 • 01-10-2020 • D.C.  
Roll of Attorneys No. 47866  
Km. 7, Lanang, Davao City



# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS



SEC Registration Number

A 2 0 0 2 0 7 2 8 3

### 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

Department requiring the report

S E C

Secondary License Type, if Applicable

N / A

### COMPANY INFORMATION

Company's small Address

Company's Telephone Number

(082) 235-888

Mobile Number

No. of Stockholders

62

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.



**P&A**  
**Grant Thornton**

An instinct for growth™

**FOR SEC FILING**



Consolidated Financial Statements and  
Independent Auditors' Report

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

December 31, 2019, 2018 and 2017



**P&A**  
**Grant Thornton**

An instinct for growth™

**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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 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.





### ***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 sale of goods [fuels, liquefied petroleum gas (LPG), lubricants and other petroleum products], which is recognized as the goods are delivered. The Group's total revenue for the year ended December 31, 2019 amounted to P97,823.1 million, of which, P96,501.7 million or 98.6% pertains to sale of goods.

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 and high volume of revenue transactions. 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 Group's revenue recognition policy and disaggregation of revenues are disclosed in Notes 2 and 23, respectively, to the consolidated financial statements.

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

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

- Updating our understanding of the Group's revenue recognition policy and procedures;
- Assessing the design effectiveness and testing the operating effectiveness of internal controls related to revenue recognition process;
- 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;
- Confirming trade receivables, on a sample basis, as of the end of the reporting period.
- Performing detailed transaction testing by agreeing sample revenue items to supporting documents, including sales invoices, contracts and third party correspondence; and,
- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of revenues, verifying validity of the underlying data used in the analyses, and following up variances from our expectations.



**(b) Existence and Measurement of Inventories**

*Description of the Matter*

As of December 31, 2019, the Group held P11,679.6 million of inventories, which is 13.4% of the total assets of the Group. Given the size of the inventory balance relative to the total assets of the Group, and the estimates and judgments involved in this account, the measurement of inventory required our significant audit attention. As disclosed in Note 2, inventories are held at the lower of cost and net realizable value using the moving average method. As of year-end, the measurement 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, 2019 is disclosed in Note 8 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to existence and measurement of inventories included, among others, the following:

- Assessing the design effectiveness and testing the operating effectiveness of internal controls related to measurement of inventory;
- 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.

**(c) Business Combination**

*Description of the Matter*

As disclosed in Note 1 to the consolidated financial statements, in 2019, the Group completed the acquisition of Phoenix Gas Vietnam Limited Liability Company (PGV LLC), formerly known as Origin LPG (Vietnam) Limited Liability Company for a total consideration of P682.8 million. The Group has determined this business combination as acquisition of business for which the purchase price is to be allocated between the identifiable assets and liabilities at their respective fair values.

The management has determined Goodwill amounting to P213.6 million for the acquisition of PGV LLC. The accounting for this business acquisition is complex due to the significant judgments 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 to the consolidated financial statements.



*How the Matter was Addressed in the Audit*

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

- Reviewing the 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 judgments.

**(d) Impairment of Goodwill**

*Description of the Matter*

The Group has recognized goodwill amounting to P4,632.4 million as of December 31, 2019. Under Philippine Accounting Standard 36, *Impairment of Assets*, 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 15 and 2, 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 judgments.

**(a) Adoption of Philippine Financial Reporting Standard (PFRS) 16, Leases**

*Description of the Matter*

Effective January 1, 2019, the Group adopted PFRS 16, which replaced PAS 17, *Leases*, and its related interpretations. The adoption of this new standard, which primarily affected the Group's accounting for leases as a lessee by recognizing "right-of-use" assets and lease liabilities "on-balance sheet", is considered significant due to the complexities of the accounting requirements and the significant judgments required in determining assumptions to be used in applying the standard.

Further, the recognition of right-of-use assets and lease liabilities, which are particularly covered by the provisions of PFRS 16, amounted to P1,142.7 million and P1,250.2 million, respectively as at December 31, 2019 is considered significant in amount relative to the Group's total assets and total liabilities.

The impact of the adoption of PFRS 16, and the related changes in accounting policies and bases of judgments and estimates, are disclosed in Notes 2 and 3 to the consolidated financial statements, while the carrying amounts of right-of-use assets and lease liabilities as of December 31, 2019, including the new disclosure requirements of PFRS 16, are disclosed in Note 12 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the adoption of PFRS 16 included, among others, the following:

- Understanding the policies and procedures applied by the Group in identifying leases that qualify under PFRS 16, and leases that qualify under the recognition exemptions on short-term leases and low-value leases, as well as compliance therewith;
- Assessing the completeness of the lease contracts and verifying the accuracy of the lease information provided, considering the reconciliation of the Group's operating lease commitments;
- Evaluating the appropriateness of adjustments as a result of the adoption of PFRS 16 on the recognition and measurement of right-of-use assets and lease liabilities and determining the adequacy of related financial statement disclosures, including changes in accounting policies and bases of judgments and estimates; and,
- Evaluating the reasonableness of the inputs and assumptions used by the management in determining the lease term and incremental borrowing rate used, such as but not limited to, renewal and termination options, contractual terms of the lease, nature and quality of security, if any, and the economic environment in which the transaction occurs.





### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report, which are expected to be made available to us after the date of the auditors' report, for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon.

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. 8116551, January 2, 2020, Makati City

SEC Group A Accreditation

Partner - No. 0395-AR-4 (until Sept. 16, 2022)

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 28, 2020

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2019 AND 2018**  
**(Amounts in Philippine Pesos)**

	Notes	<u>2019</u>	2018 (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 9,810,770,115	P 7,889,708,807
Trade and other receivables - net	7	15,973,133,966	15,030,714,704
Inventories	8	11,679,616,905	11,135,494,286
Due from related parties - net	29	1,986,811	937,904,172
Restricted deposits	9	54,462,326	52,719,265
Input value-added tax - net		2,905,878,621	1,517,537,410
Prepayments and other current assets	10	<u>1,931,536,398</u>	<u>695,698,779</u>
Total Current Assets		<u>42,357,385,142</u>	<u>37,259,777,423</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment - net	11	27,378,864,900	18,715,994,505
Right-of-use assets - net	12	1,142,726,144	-
Investment properties	16	1,908,972,835	1,739,021,205
Intangible assets - net	13	310,277,916	328,054,350
Investments in joint ventures	14	1,432,709,636	455,436,370
Goodwill - net	15	4,632,397,418	4,418,842,831
Deferred tax assets - net	28	155,781,031	147,484,516
Other non-current assets	17	<u>7,638,262,244</u>	<u>1,595,667,530</u>
Total Non-current Assets		<u>44,599,992,124</u>	<u>27,400,501,307</u>
<b>TOTAL ASSETS</b>		<u>P 86,957,377,266</u>	<u>P 64,660,278,730</u>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	18	P 38,143,058,891	P 26,309,487,284
Trade and other payables	20	11,841,661,093	7,434,839,252
Derivative financial liabilities	21	311,019,650	-
Lease liabilities	12	153,360,799	-
Income tax payable		<u>49,872,393</u>	<u>99,380,682</u>
Total Current Liabilities		<u>50,498,972,826</u>	<u>33,843,707,218</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	18	11,753,129,172	13,590,520,166
Lease liabilities	12	1,096,852,276	-
Deferred tax liabilities - net	28	748,398,599	631,776,224
Other non-current liabilities	22	<u>937,269,144</u>	<u>620,602,265</u>
Total Non-current Liabilities		<u>14,535,649,191</u>	<u>14,842,898,655</u>
Total Liabilities		<u>65,034,622,017</u>	<u>48,686,605,873</u>
<b>EQUITY</b>			
Equity attributable to parent company	30		
Capital stock		1,119,904,232	1,112,004,232
Additional paid-in capital		12,042,788,045	7,233,692,486
Revaluation reserves		806,868,975	852,438,822
Retained earnings		<u>7,876,463,627</u>	<u>6,812,482,236</u>
		21,846,024,879	16,010,617,776
Non-controlling interests		<u>76,730,370</u>	( 36,944,919 )
Total Equity		<u>21,922,755,249</u>	<u>15,973,672,857</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>P 86,957,377,266</u>	<u>P 64,660,278,730</u>

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, 2019, 2018 AND 2017**  
(Amounts in Philippine Pesos)

	Notes	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>				
Sale of goods	23	P 96,501,653,189	P 87,672,722,663	P 44,148,952,252
Fuel service and other revenues	23, 33	1,205,744,987	824,182,312	301,402,792
Rent income	16, 33	115,711,069	113,863,129	92,626,832
		<u>97,823,109,245</u>	<u>88,610,768,104</u>	<u>44,542,981,876</u>
<b>COST AND EXPENSES</b>				
Cost of sales and services	23	86,811,287,081	78,838,964,820	38,345,104,529
Selling and administrative expenses	24	6,518,065,904	5,741,750,297	4,207,027,951
		<u>93,329,352,985</u>	<u>84,580,715,117</u>	<u>42,552,132,480</u>
<b>OTHER CHARGES (INCOME)</b>				
Finance costs	25	2,838,294,987	1,449,247,671	804,707,861
Finance income	25	( 86,595,790 )	( 73,374,342 )	( 56,313,476 )
Fair value gains on investment properties	16	( 71,569,675 )	( 624,941,000 )	-
Equity share in net income of joint ventures	14	( 16,510,018 )	( 7,342,245 )	-
Excess of fair value of net assets acquired over acquisition cost	1	-	-	( 650,182,327 )
Others - net	7	( 12,100,025 )	( 87,267,127 )	( 36,852,747 )
		<u>2,651,519,479</u>	<u>656,322,957</u>	<u>61,359,311</u>
<b>PROFIT BEFORE TAX</b>		<b>1,842,236,781</b>	<b>3,373,730,030</b>	<b>1,929,490,085</b>
<b>TAX EXPENSE</b>	28	<b>347,659,233</b>	<b>606,588,321</b>	<b>408,067,238</b>
<b>NET PROFIT</b>		<b>P 1,494,577,548</b>	<b>P 2,767,141,709</b>	<b>P 1,521,422,847</b>
<b>NET PROFIT ATTRIBUTABLE TO:</b>				
Parent company		P 1,537,339,096	P 2,776,255,552	P 1,521,422,847
Non-controlling interests		( 42,761,548 )	( 9,113,843 )	-
		<u>P 1,494,577,548</u>	<u>P 2,767,141,709</u>	<u>P 1,521,422,847</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 69,712,613 )	28,719,880	( P 3,791,486 )
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Gain on revaluation of land	11	145,379,972	1,219,846,043	-
Remeasurements of post-employment defined benefit obligation	26	( 39,889,840 )	( 34,393,933 )	14,060,076
Tax expense	28	( 31,647,040 )	( 355,635,633 )	( 4,218,023 )
		<u>73,843,092</u>	<u>829,816,477</u>	<u>9,842,053</u>
<b>Other Comprehensive Income - net of tax</b>		<b>4,130,479</b>	<b>858,536,357</b>	<b>6,050,567</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 1,498,708,027</b>	<b>P 3,625,678,066</b>	<b>P 1,527,473,414</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Parent company		P 1,541,454,672	P 3,634,791,909	P 1,527,473,414
Non-controlling interests		( 42,746,645 )	( 9,113,843 )	-
		<u>P 1,498,708,027</u>	<u>P 3,625,678,066</u>	<u>P 1,527,473,414</u>
<b>Basic Earnings per share</b>	31	<b>P 0.61</b>	<b>P 1.72</b>	<b>P 1.11</b>
<b>Diluted Earnings per share</b>	31	<b>P 0.61</b>	<b>P 1.72</b>	<b>P 1.10</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, 2019, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

Notes	Capital Stock					Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Accumulated Translation Adjustment	Retained Earnings	Total Equity Attributable to the Shareholders of Parent Company	Non-controlling Interests	Total Equity
	Preferred Stock	Preferred Treasury Stock - At Cost	Common Stock	Common Treasury Stock - At Cost	Total								
Balance at January 1, 2019	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
As previously reported	-	-	-	-	-	-	24,928,394	-	-	-	-	-	-
Restatements	2	-	-	-	-	-	-	(730,361,725)	(24,928,394)	(730,361,725)	-	-	-
As restated	-	(10,000,000)	1,434,304,232	(344,300,000)	1,112,004,232	7,233,692,486	852,438,822	-	-	6,812,482,236	16,010,617,776	(36,944,919)	15,973,672,857
Cash dividends	30	-	-	-	-	-	-	-	-	(523,046,503)	(523,046,503)	-	(523,046,503)
Issuance of shares during the year	30	7,000,000	-	2,900,000	-	6,807,095,559	-	-	-	(8,852,437)	6,808,143,122	-	6,808,143,122
Redemption of shares during the year	30	(2,000,000)	-	-	(2,000,000)	(1,998,000,000)	-	-	-	-	(2,000,000,000)	-	(2,000,000,000)
Share-based compensation	26	-	-	-	-	-	-	-	-	8,855,812	8,855,812	-	8,855,812
Business combination	1	-	-	-	-	-	-	-	-	-	-	156,421,934	156,421,934
Transfer to retained earnings	30	-	-	-	-	-	(49,685,423)	-	-	49,685,423	-	-	-
Total comprehensive income for the year		-	-	-	-	-	4,115,576	-	-	1,537,339,096	1,541,454,672	(42,746,645)	1,498,708,027
Balance at December 31, 2019	P 37,000,000	(P 10,000,000)	P 1,437,204,232	(P 344,300,000)	P 1,119,904,232	P 12,042,788,045	P 806,868,975	P -	P -	P 7,876,463,627	P 21,846,024,879	P 76,730,370	P 21,922,755,249
Balance at January 1, 2018	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 5,177,429,776	P 11,606,812,057	P -	P 11,606,812,057
As previously reported	-	-	-	-	-	-	-	-	-	-	-	-	-
Restatements	2	-	-	-	-	-	(3,791,486)	730,361,725	3,791,486	(730,361,725)	-	-	-
As restated	-	(5,000,000)	1,431,538,232	-	1,456,538,232	5,709,303,309	(6,097,535)	-	-	4,447,068,051	11,606,812,057	-	11,606,812,057
Cash dividends	30	-	-	-	-	-	-	-	-	(409,640,735)	(409,640,735)	-	(409,640,735)
Issuance of shares during the year	30	2,000,000	-	2,766,000	-	4,766,000	2,019,389,177	-	-	(8,444,298)	2,015,710,879	-	2,015,710,879
Acquisition of shares during the year	30	-	(5,000,000)	-	(344,300,000)	(349,300,000)	(495,000,000)	-	-	-	(844,300,000)	-	(844,300,000)
Share-based compensation	26	-	-	-	-	-	-	-	-	7,243,666	7,243,666	-	7,243,666
Business combination	1	-	-	-	-	-	-	-	-	-	-	(27,831,076)	(27,831,076)
Total comprehensive income for the year		-	-	-	-	-	858,536,357	-	-	2,776,255,552	3,634,791,909	(9,113,843)	3,625,678,066
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 852,438,822	P -	P -	P 6,812,482,236	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 3,983,964,480	P 9,685,368,284	P -	P 9,685,368,284
As previously reported	-	-	-	-	-	-	-	-	-	-	-	-	-
Restatements	2	-	-	-	-	-	-	730,361,725	-	(730,361,725)	-	-	-
As restated	-	(5,000,000)	1,428,777,232	(330,679,783)	1,123,097,449	5,320,816,182	(12,148,102)	-	-	3,253,602,755	9,685,368,284	-	9,685,368,284
Sale of treasury shares	30	-	-	440,087,488	440,087,488	367,136,612	-	-	-	807,224,100	807,224,100	-	807,224,100
Cash dividends	30	-	-	-	-	-	-	-	-	(331,118,383)	(331,118,383)	-	(331,118,383)
Acquisition of shares during the year	30	-	-	(109,407,705)	(109,407,705)	-	-	-	-	-	(109,407,705)	-	(109,407,705)
Issuance of shares during the year	30	-	-	2,761,000	2,761,000	21,350,515	-	-	-	(8,429,034)	15,682,481	-	15,682,481
Share-based compensation	26	-	-	-	-	-	-	-	-	11,589,866	11,589,866	-	11,589,866
Total comprehensive income for the year		-	-	-	-	-	6,050,567	-	-	1,521,422,847	1,527,473,414	-	1,527,473,414
Balance at December 31, 2017	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 6,097,535)	P -	P -	P 4,447,068,051	P 11,606,812,057	P -	P 11,606,812,057

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, 2019, 2018 AND 2017**  
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		P 1,842,236,781	P 3,373,730,030	P 1,929,490,085
Adjustments for:				
Interest expense on bank loans and other borrowings	25	2,582,918,502	1,376,994,786	780,917,196
Depreciation and amortization	24	1,436,858,783	1,056,749,318	851,080,582
Fair value loss on financial liabilities at fair value through profit or loss	21	464,161,271	-	-
Interest expense from lease liabilities	25	80,990,270	-	-
Fair value gains on investment properties	16	( 71,569,675 )	( 624,941,000 )	-
Translation adjustment	2	( 69,712,613 )	28,719,880	( 3,791,486 )
Interest income	25	( 35,417,469 )	( 34,370,501 )	( 18,480,943 )
Unrealized foreign exchange currency loss (gain) - net		( 32,188,301 )	( 30,577,666 )	3,893,468
Impairment losses on trade and other receivables	24	29,938,952	68,465,111	50,335,399
Share in net income of indirectly-owned joint ventures	14	( 16,510,018 )	( 7,342,245 )	-
Employee share options	26	8,855,812	7,243,666	11,589,866
Loss (gain) on disposal of property, plant and equipment		5,238,151	( 1,006,348 )	9,165,790
Recovery of accounts written off	7	3,762,459	( 2,768,583 )	-
Provision for loss on lost cylinders	11	-	24,290,486	-
Excess of fair value of net assets acquired over acquisition cost	1	-	-	( 650,182,327 )
Gain on reversal of impairment losses on investment properties	16	-	-	( 40,785,503 )
Impairment losses on non-financial assets		-	-	92,823
Operating profit before working capital changes		6,229,562,905	5,235,186,934	2,923,324,950
Decrease (increase) in trade and other receivables		( 5,160,600,319 )	( 7,415,944,495 )	1,784,568,722
Decrease in inventories		24,578,136,862	26,812,185,929	11,723,876,386
Increase in restricted deposits		-	1,437,706	( 356,155 )
Decrease (increase) in input value-added tax - net		( 1,388,341,211 )	363,028,626	( 1,027,547,440 )
Increase in prepayments and other current assets		( 1,522,485,193 )	( 549,914,871 )	( 235,826,739 )
Increase in trade and other payables		4,293,563,280	3,555,861,541	101,084,787
Increase in other non-current liabilities		175,194,648	607,880,833	63,749,068
Cash generated from operations		27,205,030,973	28,606,846,791	15,332,873,579
Cash paid for income taxes		( 99,380,682 )	( 29,603,287 )	( 7,345,345 )
Net Cash From Operating Activities		27,105,650,291	28,577,243,504	15,325,528,234
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property, plant and equipment	11	( 8,257,359,794 )	( 4,517,753,320 )	( 3,176,343,510 )
Investments in joint ventures	14	( 960,763,248 )	( 448,094,125 )	-
Acquisition of subsidiaries	1	( 628,933,314 )	( 397,455,037 )	( 6,705,620,931 )
Decrease (increase) in other non-current assets		( 614,008,547 )	( 1,698,692,056 )	27,350,919
Proceeds from disposal of property, plant and equipment		78,850,768	22,618,656	14,531,586
Acquisitions of intangible assets	13	( 43,332,685 )	( 58,062,513 )	( 50,548,722 )
Acquisitions of investment properties	16	( 14,025,825 )	-	-
Collections from related parties	29	6,716,432	25,952,983	1,158,519,706
Advances to related parties	29	( 2,073,627 )	( 524,778,830 )	( 669,526,678 )
Interest received		24,007,195	29,022,512	15,769,301
Net Cash Used in Investing Activities		( 10,410,922,646 )	( 7,567,241,730 )	( 9,385,868,329 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayments of interest-bearing loans and borrowings and lease liabilities	19	( 88,838,174,724 )	( 71,873,587,858 )	( 43,104,708,403 )
Proceeds from additional interest-bearing loans and borrowings	19	72,552,323,218	57,798,571,804	37,016,647,657
Proceeds from issuance of shares of stock	30	6,808,143,122	2,015,710,879	15,682,481
Interest paid		( 2,772,911,450 )	( 1,638,604,940 )	( 741,202,295 )
Redemption of shares of stock	30	( 2,000,000,000 )	-	-
Payments of cash dividends	30	( 523,046,503 )	( 409,640,735 )	( 331,118,383 )
Acquisition of treasury shares	30	-	( 844,300,000 )	( 109,407,705 )
Proceeds from sale of treasury shares	30	-	-	807,224,100
Net Cash Used in Financing Activities		( 14,773,666,337 )	( 14,951,850,850 )	( 6,446,882,548 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>1,921,061,308</b>	<b>6,058,150,924</b>	<b>( 507,222,643 )</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>7,889,708,807</b>	<b>1,831,557,883</b>	<b>2,338,780,526</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>P 9,810,770,115</b>	<b>P 7,889,708,807</b>	<b>P 1,831,557,883</b>

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

- In 2019, the Group recognized right-of-use assets and lease liabilities both amounting to P403.1 million (see Notes 12 and 19).
- Interest payments amounting to P695.7 million, P261.6 million and P19.7 million in 2019, 2018 and 2017, respectively, were capitalized as part of the cost of property, plant and equipment (see Notes 11.1)
- In 2018, the Parent Company acquired certain land from a related party amounting to P92.9 million, of which, P19.9 million remained unpaid as of December 31, 2018 (see Note 27).
- Certain software development cost acquired in 2019 amounting to P1.0 million was transferred from property, plant and equipment to intangible assets in the same year (see Note 13).
- 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 Notes to Consolidated Financial Statements.



**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
*(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 41.88% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines.

The Parent Company 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 655 operating retail service stations, and a total of 11 service stations under construction as of December 31, 2019.

## 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	
		2019	2018
<b>Direct interest:</b>			
<i>Subsidiaries</i>			
P-F-L Petroleum Management, Inc. (PPMI)	(a)	100%	100.00%
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	(b)	100%	100.00%
Subic Petroleum Trading and Transport Phils., Inc. (SPTT)	(c)	100%	100.00%
PNX Petroleum Singapore Pte. Ltd. (PNX SG)	(d)	100%	100.00%
Phoenix LPG Philippines, Inc. (PLPI)	(e)	100%	100.00%
Duta, Inc.(Duta) <sup>4</sup>	(f)	100%	100.00%
Philippine FamilyMart CVS, Inc. (PFM)	(g)	100%	100.00%
PNX Energy International Holdings, Pte. Ltd. (PNX Energy)	(h)	100%	100.00%
Phoenix Pilipinas Gas and Power, Inc. <sup>1</sup>	(i)	100%	-
Action.Able, Inc.(AAI)	(j)	74.90%	74.90%
Think.Able Limited (TAL)	(k)	74.90%	74.90%
<i>Joint venture</i>			
Phoenix Asphalt Philippines, Inc. (PAPI) <sup>3</sup>	(l)	40.00%	40.00%
<b>Indirect interest:</b>			
Kaparangan, Inc. (Kaparangan) <sup>2, 4</sup>	(m)	100.00%	100.00%
PNX (Vietnam) Pte. Ltd. (PNX Vietnam) <sup>5</sup>	(n)	100.00%	100.00%
PT Phoenix Petroleum Indonesia (PNX Indonesia) <sup>7</sup>	(o)	100.00%	100.00%
Phoenix Gas (Vietnam) Limited Liability Company (PGV LLC) <sup>6</sup>	(p)	75.00%	-
Galaxi Petroleum Fuel, Inc. (Galaxi) <sup>8</sup>	(q)	51.00%	51.00%
Phoenix Southern Petroleum Corp. (PSPC) <sup>8</sup>	(r)	49.00%	51.00%
Top Concord Quality Petroleum Corp. (TCQPC) <sup>8</sup>	(s)	49.00%	-
CJI Fuels Corp. (CJI) <sup>8</sup>	(t)	49.00%	-
Firebird Evzon Fuels Corp. (FEFC) <sup>8</sup>	(u)	49.00%	-
Eastan Prime Development Corporation (EPDC) <sup>8</sup>	(v)	49.00%	-
Zae Falco Energy Corp. (ZFEC) <sup>8</sup>	(w)	49.00%	-

Notes:

1 Newly incorporated subsidiary

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 PNX Vietnam

7 Subsidiary of PGMI

8 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, 2019.
- (i) Incorporated on March 14, 2019 to engage in, conduct and carry on the business of selling, trading, on wholesale basis, natural gas and liquefied natural gas (LNG).
- (j) 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.
- (k) Incorporated on May 5, 2014 and is a Hong Kong based company that handles the trademark of AAI.
- (l) 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.
- (m) Incorporated on January 21, 1994 to engage in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.
- (n) 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 as of December 31, 2019.
- (o) 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 as of December 31, 2019.



- (p) Formerly known as Origin LPG (Vietnam) Limited Liability Company, was incorporated and licensed to conduct business under the laws of Vietnam on August 6, 2008 to engage in wholesale of solid, liquid, gas fuels and other related products.
- (q) 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.
- (r) Incorporated on July 5, 2018 to operate petroleum service stations in areas within Southern Luzon under the Parent Company's name and brand.
- (s) Incorporated on July 15, 2019 to operate petroleum service stations in areas of Cotabato.
- (t) Incorporated on July 31, 2019 to operate petroleum service stations in areas of Iloilo.
- (u) Incorporated on August 28, 2019 to operate petroleum service stations in areas of South Luzon.
- (v) Incorporated on August 28, 2019 to operate petroleum service stations in areas of Metro Manila.
- (w) Incorporated on November 6, 2019 to operate petroleum service stations in Northern part and other areas of Luzon.

### **1.3 Other Corporate Information**

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

SPTT	–	Room 203 Greenwoods Park, Central Business District, Subic Bay Freeport Zone, Zambales
PNX SG, PNX Energy and 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
PGV LLC	–	No. 456 Phan Xich Long Street, Ward 2, Phu Nhuan District, Ho Chi Minh City, Vietnam

#### 1.4 Business Combinations

- a) On February 21, 2019, the Group, through PNX Vietnam, a subsidiary of PNX Energy, acquired 51.00% and 24.00% interest in PGV LLC from Origin Energy Holdings PTY LTD and Cong Ty TNHH Cong Nghiep, respectively. The acquisition resulted in 75.00% equity ownership interest of the Group over PGV LLC and recognition of goodwill amounting to P213.6 million (see Note 15) for a total consideration of P682.8 million. The acquisition is part of the growth and expansion footprint of the Group not only in the Philippines but also within the region. The Group expects the acquisition to result in synergies in terms of network related to solid, liquid, gas fuels and other related products.

Goodwill amounting to P213.6 million is primarily related to growth expectations, expected future profitability and business synergies. Goodwill has been allocated to the trading segment and is not expected to be deductible for tax purposes.

- b) On January 11, 2018, the Parent Company has signed a deed of absolute sale and concluded the acquisition of the 100.00% equity ownership interest in PFM from its previous shareholders, namely: SIAL CVS Retailers, Inc., FamilyMart Co. Ltd. and ITOCHU Corporation, for P352.1 million. The objective of the acquisition is to broaden Group's portfolio of retail offers.

The goodwill recognized related to the acquisition amounting to P273.1 million is related to growth expectations and expected future profitability. Goodwill has been allocated to the trading segment and is not expected to be deductible for tax purposes.

- c) 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"). The Parent Company acquired 74.90% equity ownership interest in AAI Group for total consideration of P72.0 million.

AAI and TAL are the owners 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.

The acquisition has resulted to recognition of goodwill amounting to P155.0 million and is related to growth expectations and expected future profitability. Goodwill has been allocated to the trading segment and is not expected to be deductible for tax purposes.

- d) 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% equity ownership interest in PLPI and Duta Group for P6,481.1 million and P394.2 million, respectively. The objective of the acquisition is to broaden Group's portfolio of retail offers and to expand the Group's business to include real estate.

The goodwill recognized related to the acquisition of PLPI amounting to P3,980.4 million is attributable to growth expectations, expected future profitability and business synergies. Goodwill has been allocated to the trading segment and is not expected to be deductible for tax purposes.

The excess of the fair value of the net assets of Duta Group over the acquisition cost amounting to P650.2 million is mainly attributable to the fair value gains on Investment property of Duta Group as of the date of acquisition, which is not taken into consideration upon negotiation of acquisition cost with PDB (Netherlands) B.V. This gain on bargain purchase of Duta Group arose as a result of PETRONAS Dagangan Berhad selling parts of its business as part of its restructuring and strategic plan based on its review of portfolio of businesses and geographies in which it operates.

- e) The Parent Company acquired 100.00% equity ownership interest in SPTT, PGMI and PPMI in 2011. These three business acquisitions prior to 2017 resulted in a total goodwill of P11.5 million as the total cash consideration paid amounting to P9.5 million exceeded the fair values of the acquired net identifiable assets. The acquisition supports business operations of the Parent Company which include synergies on its retail network development for various fuel products.

There were no contingent consideration arrangements for all of the above acquisitions. There were also no business combinations after December 31, 2019 but before the issuance of the consolidated financial statements.

Aggregate information of the entities acquired in 2019 and 2018 are as follows:

	Reference	Entities Acquired		
		2019	2018	
		PGV LLC 75.00%	PFM 100.00%	AAI Group 74.90%
Fair value of assets acquired and liabilities assumed				
Cash and cash equivalents	(i)	P 71,849,432	P 21,601,695	P 6,687,746
Trade and other receivables		102,525,465	22,534,222	1,482,807
Inventories		23,702,793	80,744,545	1,031,489
Prepayments and other current assets		20,507,347	158,786,825	4,518,678
Property, plant and equipment	(ii)	952,310,893	369,603,000	537,357
Intangible asset		-	21,476,320	-
Other non-current assets		169,579,990	46,832,213	640,304
<b>Total assets</b>		<b>1,340,475,920</b>	<b>721,578,820</b>	<b>14,898,381</b>
Trade and other payables		197,630,783	642,639,484	125,779,164
Short-term loans and borrowings		321,141,124	-	-
Deferred tax liabilities		110,446,823	-	-
Other non-current liabilities		85,569,455	-	-
<b>Total liabilities</b>		<b>714,788,185</b>	<b>642,639,484</b>	<b>125,779,164</b>
<b>Total identifiable net assets (liabilities)</b>		<b>625,687,735</b>	<b>78,939,336</b>	<b>( 110,880,783)</b>
Fair value of cash consideration transferred		682,820,388	352,070,202	71,995,652
Share of non-controlling interests		156,421,934	-	( 27,831,076)
		<b>839,242,322</b>	<b>352,070,202</b>	<b>44,164,576</b>
Goodwill		P 213,554,587	P 273,130,866	P 155,045,359
Excess of fair value of net assets acquired over cash consideration transferred		n/a	n/a	n/a
Cash consideration settled in cash		P 682,820,388	P 352,070,202	P 71,995,652
Cash and cash equivalents acquired		71,849,432	21,601,695	6,687,746
Less: Share of non-controlling interests		17,962,358	-	1,678,624
		<b>53,887,074</b>	<b>21,601,695</b>	<b>5,009,122</b>
<b>Net Cash Flow of Acquisition</b>		<b>P 628,933,314</b>	<b>P 330,468,507</b>	<b>P 66,986,530</b>
Acquisition costs charged to expenses		P 1,458,944	P 6,440,651	P 1,738,116
Pre-acquisition income	(iii)	( 7,821,881)	-	1,628,790
Revenue contribution		1,472,189,346	1,307,944,277	34,957,821
Net profit (loss) contribution		( 43,127,051)	( 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 property, plant and equipment of PGV LLC and PFM were appraised by an independent appraiser [see Note 3.2(i)]. 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 2019, 2018 and 2017 consolidated statements of comprehensive income are presented net of the pre-acquisition income of the entities acquired.

### 1.5 Subsidiary with Material Non-controlling Interest

The Group includes one subsidiary, PGV LLC with material non-controlling interest (NCI) with details shown below.

Proportion of Ownership Interest and Voting Rights held NCI	25.00%
Loss allocated to NCI	P 12,891,901
Other comprehensive income allocated to NCI	14,903
Accumulated NCI	143,544,935

No dividends were paid to the NCI in 2019.

The summarized financial information of PGV LLC in 2019, before intragroup eliminations, is shown below.

Non-current assets	P 1,013,835,665
Current assets	<u>280,452,076</u>
Total assets	<u>P 1,294,287,741</u>
Non-current liabilities	P 236,807,047
Current liabilities	<u>483,300,954</u>
Total liabilities	<u>P 720,108,001</u>
Equity attributable to owners of the parent	<u>P 574,179,740</u>
Non-controlling interest	<u>P 143,544,935</u>
Revenue	<u>P 1,962,919,129</u>
Profit for the year attributable to owners of the parent	P 38,675,706
Profit for the year attributable to NCI	<u>12,891,902</u>
Profit for the year	<u>51,567,608</u>
Other comprehensive income for the year (all attributable to owners of the parent)	<u>44,709</u>
Total comprehensive income for the year attributable to owners of the parent	38,720,415
Total comprehensive income for the year attributable to NCI	<u>12,906,805</u>
Total comprehensive income for the year	<u>P 51,627,220</u>
Net cash from operating activities	P 201,456,397
Net cash used in investing activities	-
Net cash used in financing activities	( <u>145,297,784</u> )
Net cash outflow	( <u>P 56,158,613</u> )

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

The consolidated financial statements of the Group as of and for the year ended December 31, 2019 (including the comparative consolidated financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 28, 2020.

## 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.

Certain items under Equity in the 2018 consolidated statement of financial position were restated to conform to the presentation in the 2019 consolidated statement of financial position. Other reserves amounting to P730.4 million as of December 31, 2018, which pertain to the difference between the Parent Company's consideration received and disposed net assets of former subsidiaries that were already deconsolidated in 2016, was closed to Retained earnings. In addition, Accumulated translation adjustment amounting to P24.9 million as of December 31, 2018, which was previously presented as a separate item under Equity, was reclassified to Revaluation reserves (see Note 30.5). No third consolidated statement of financial position as of January 1, 2018 is presented as the restatement did not affect the amount of total equity 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 2019 that are Relevant to the Group

The Group adopted for the first time the following PFRS, amendments, interpretations and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)	:	
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PFRS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 and 11 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation

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

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Group's consolidated financial statements.
- (ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. 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. The application of these amendments had no significant impact on the Group's consolidated financial statements.
- (iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets 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 fair value through other comprehensive income (FVOCI). The application of these amendments had no significant impact on the Group's consolidated financial statements.

- (iv) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Group has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard, where right-of-use asset is measured at an amount equal to the lease liability, adjusted by prepayments or accrued lease payments.

The new accounting policies of the Group as a lessee are disclosed in Note 2.14(a), while the accounting policies of the Group as a lessor, as described in Note 2.14(b), were not significantly affected.

Discussed below are the relevant information arising from the Group’s adoption of PFRS 16 and how the related accounts are measured and presented on the Group’s consolidated financial statements as at January 1, 2019.

- a. The Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of January 1, 2019. The Group’s weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7.48%.
- b. The Group has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Group also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid and accrued lease payments, and estimated cost to restore the leased asset that existed as at January 1, 2019.
- c. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months or has assessed by the management to discontinue in the succeeding year and for leases of low-value assets, the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.
- d. The Group has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:
  - i. application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
  - ii. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, the Group has no onerous contracts; and,
  - iii. use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the consolidated statement of financial position as at January 1, 2019.

	Note	Carrying Amount (PAS 17) December 31, 2018	Reclassification	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
<b>Assets:</b>					
Right-of-use assets – net	b	P -	(P 55,764,894)	P 973,167,940	P 917,403,046
<b>Liabilities:</b>					
Trade and other payables		7,434,839,252	( 55,764,894)	-	7,379,074,358
Lease liabilities	a	-	-	<u>973,167,940</u>	973,167,940
Impact on net assets			<u>P -</u>	<u>P -</u>	

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	Notes	
Operating lease commitments, December 31, 2018 (PAS 17)	33.3	P 4,593,487,223
Recognition exemptions :		
Leases of low value assets	(c)	( 419,339)
Leases with remaining term of less than 12 months	(c)	( 206,558,474)
Reasonably certain termination options	(d)	( <u>2,728,855,733</u> )
Operating lease liabilities before discounting		1,657,653,677
Discount using incremental borrowing rate	(a)	( <u>684,485,737</u> )
Lease liabilities, January 1, 2019 (PFRS 16)		<u>P 973,167,940</u>

- (v) IFRIC 23, *Uncertainty over Income Tax Treatments*. This 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. The application of this interpretation had no significant impact on the Group's consolidated financial statements.
- (vi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2019, are relevant to the Group but did not have material impact on the Group's consolidated financial statements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.
- PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

(b) *Effective Subsequent to 2019 but not Adopted Early*

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2019, 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 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.
- (ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include: (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

- (iii) 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.

### **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 (i) it has power over the investee; (ii) it is exposed, or has rights to, variable returns from its involvement with the entity; and, (iii) has the ability to affect those returns through its power over the entity (see Note 2.12). The acquisition method is applied to account for acquired subsidiaries.

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.

#### *(b) Investments in Joint Ventures*

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 2019 and 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 14, 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*

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 other 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 cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group'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 measured 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.

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 statement of comprehensive income as part of Other Charges (Income).

(b) *Impairment of Financial Assets*

At the end of the reporting period, the Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. 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.

For trade and other receivables, and due from related parties, the Group recognizes lifetime ECL when there has been a significant increase in credit risk on a financial asset since initial recognition. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial asset, irrespective of the timing of the default. However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures and provides for credit losses that are expected to result from default events that are possible within 12 months after the end of the reporting period.

The Group determines whether there has been a significant increase in credit risk for financial asset since initial recognition by comparing the risk of default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of default over a given time horizon.
- *Loss given default* – 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* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

The Group recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

(c) *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 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**

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.

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. Appraisal is made 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 is 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, software development costs, store franchise and basketball franchise, which are measured at cost less accumulated amortization and impairment in value, if any. 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.

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.

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.

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.

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 store franchise relates to asset acquired from business combination with PFM. Such is for taking in the name and management know-how of the FamilyMart mark. Amortization is computed on a straight-line method over its estimated useful life of 10.50 years (see Note 13).

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), derivative financial liabilities, lease liabilities, 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, except for 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) which are capitalized as part of the cost of such asset (see Note 2.18).

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.



Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivatives are recognised in profit or loss. Derivative financial assets are set off against derivative financial liabilities and the net financial instruments are presented as either Derivative Financial Assets or Derivative Financial Liabilities in the statement of financial position (see Note 5.6).

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 2.7). 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.

The acquisition method 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 interest issued by the Group, 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 expenses as incurred and subsequent changes 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 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 the acquiree's identifiable assets.

In cases wherein the accounting for the acquisition is not yet complete as of the end of the year, the fair value of the identifiable assets and liabilities are presented as provisional amounts and will be adjusted upon finalization of the valuation, which is expected to be completed within 12 months from the date of acquisition.

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 (see Note 30.4), 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.

### **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.

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

- (a) *Sale of goods* – Sale of goods include fuel and by-products (such as CME), lubricants, LPG, and merchandise inventories. Revenue is recognized when 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.
- (b) *Fuel service and other revenues* – Fuel service and other revenues mainly consist of hauling, into-plane services, management 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, *Revenue from Contracts with Customers*, 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, 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.

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*

#### *(i) Accounting for Leases in Accordance with PFRS 16 (2019)*

For any new contracts entered into on or after January 1, 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.16).



On the other hand, the Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from property, plant and equipment and other liabilities, respectively.

*(ii) Accounting for Leases in Accordance with PAS 17 (2018 and 2017)*

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, PNX Energy, PNX Vietnam, which use the United States (U.S.) Dollars, PTPPI, which uses Indonesian Rupiah, and PGV LLC, which uses Vietnamese Dong, as functional currencies, 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 that 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 Revaluation Reserves account.

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 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, Indonesian Rupiah and Vietnamese Dong 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) in 2019 and 2018, and PDEX PDST-R2 in 2017], 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, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or 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.

(f) *Share-based Payments*

The Parent Company grants share options to its qualified employees 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.

**2.18 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.



Transactions amounting to ten percent (10%) or more of the Group's total assets that were entered into with related parties, either individually or in aggregate over a twelve-month period, are considered material. All material related party transactions shall be approved by the majority of the BOD and shareholders. Attendance and votes of directors with personal interest in the transactions shall not be counted for the purposes of assessing the quorum and determining majority approval, respectively.

### **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 32, 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 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.

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 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 Lease Term of Contracts with Renewal and Termination Options (2019)*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

#### *(b) Determination of Timing of Satisfaction of Performance Obligations*

##### *(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.

#### *(c) Determination of ECL of Financial Assets at Amortized Cost*

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 (see Note 4.2).

The Group's internal credit rating for each customer is re-assessed when there are changes in credit limit and payment terms.

(d) *Evaluation of Business Model Applied in Managing Financial Instruments*

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.

(e) *Distinction between Operating and Finance Leases for Contracts where the Group is the Lessor*

The Group has entered into various lease agreements as lessor. 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.

(f) *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 34.

(g) *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 and development costs are qualifying assets as the management assesses that it takes substantial period of time for the completion of those assets.

(h) *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.

In 2019, the Group reclassified a certain property to investment property from property, plant and equipment. The said property was previously used for administrative purposes but is now currently held for capital appreciation (see Notes 11 and 16).

(i) *Joint Control of Entities in which the Group Holds More than 50%*

Management considers that the Group does not have control of Galaxi and PSPC even though the Group holds more than 50% each of the ordinary shares of these entities. In making judgment regarding its involvement in Galaxi and PSPC management considered the Group's voting rights, the relative size and dispersion of the voting rights held by other shareholders and the extent of recent participation by those shareholders in general meetings. Even though the Group has 51% shareholdings and appoints three out of five members of the directors for both entities, all decisions shall require affirmative votes of at least 75% of the directors and any variation in the business of Galaxi and PSPC shall require the mutual consent of the parties. Moreover, the JV partners of the Group are responsible in managing the day-to-day operations of the Galaxi and PSPC.

(j) *Impairment of Basketball Franchise*

The determination when the Group's basketball franchise is considered impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the continuity and going concern status of the Philippine Basketball Association, changes in viewership of basketball leagues and the period over which the Group expects to benefit from holding the franchise, which include but are not limited to marketing and publicity, brand awareness and media mileage. Based on the recent evaluation of information and circumstances affecting the Group's basketball franchise, management has assessed that the period over which the Group expects the basketball franchise to generate inflows for the Group is indefinite and has determined that no impairment loss is required to be recognized on the Group's basketball franchise in 2019, 2018 and 2017. Future changes in those information and circumstances might significantly affect the carrying amount of the basketball franchise disclosed in Note 13.

**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) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)*

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract, for new lease contracts. The lease payments were discounted using a reasonable rate deemed by management equal to the Group's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset, credit risk of the Group and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL*

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).

(c) *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.

(d) *Estimation of Useful Lives of Property, Plant and Equipment, Right-of-use Assets, Intangible Assets and Investment Properties*

The Group estimates the useful lives of property, plant and equipment, right-of-use assets, 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, right-of-use assets, intangible assets and investment properties 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, right-of-use assets, intangible assets and investment properties are analyzed in Notes 11, 12, 13 and 16, respectively. Based on management's assessment as of December 31, 2019 and 2018, 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.

(e) *Fair Value Measurement of Property, Plant and Equipment and Investment Properties*

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. 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 16, respectively.

(f) *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, 2019 and 2018 will be fully utilized in the coming years. The carrying value of deferred tax assets as of December 31, 2019 and 2018 is disclosed in Note 28.

(g) *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 25 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 26.3.

(h) *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 goodwill, investments in joint venture, property, plant and equipment, investment properties, and intangible assets in 2019, 2018 and 2017.

(i) *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 market-based evidence and obtains assistance from third party valuation specialists on the acquired property, plant and equipment (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.



(j) *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.

Management has recognized provision for losses on lost LPG cylinders amounting to P24.3 million in 2018 (see Note 11) while the gain on reversal of cylinder deposits amounted to P91.8 million in 2018 (see Notes 2.10 and 22). There were no similar transaction in 2019.

#### 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. 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. The Group also has trade receivables and payables primarily denominated in Vietnamese Dong, as a result of the Group's acquisition of PGV LLC which situated in Vietnam. 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:

	2019			2018	
	U.S. Dollar	Singapore Dollar	Vietnamese Dong	U.S. Dollar	Singapore Dollar
Financial assets	P 6,205,264,630	P 5,988,698	P 165,720,486	P 5,361,837,054	P 5,566,810
Financial liabilities	( 15,874,853,970)	-	( 470,584,602)	( 5,253,328,012)	( 14,176,750)
Net exposure	<u>(P 9,669,589,340)</u>	<u>P 5,988,698</u>	<u>(P 304,864,116)</u>	<u>P 108,509,042</u>	<u>(P 8,609,940)</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, and Vietnamese Dong 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.

	2019			2018	
	U.S. Dollar	Singapore Dollar	Vietnamese Dong	U.S. Dollar	Singapore Dollar
Reasonably possible change in rate	12.93%	21.49%	13.28%	11.14%	16.28%
Effect in profit before tax	(P 1,250,277,902)	P 1,286,971	(P 40,485,955)	P 12,087,907	(P 1,401,698)
Effect in equity after tax	( 875,194,531)	900,880	( 28,340,168)	8,461,535	( 981,189)

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, 2019 and 2018, 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 18). All other financial assets and financial liabilities have fixed rates.

Cash in banks are tested on a reasonably possible change of +/-1.40% and +/-1.93% in 2019 and 2018, respectively, for Philippine Peso. Short-term money placements and time deposits are tested on a reasonably possible change of +/-2.03% and +/-2.28% in 2019 and 2018, respectively. Banks loans subject to variable interest rates (or repricing) are tested on a reasonably possible change of +/-0.44% and +/-0.79% for Philippine peso in 2019 and 2018, respectively, and +/-0.66% and +/-0.96% in 2019 and 2018, respectively 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 +/-P363.9 million and +/- P470.5 million for the years ended December 31, 2019 and 2018, respectively, and equity after tax by +/-P254.7 million and +/-P329.3 million for the years ended December 31, 2019 and 2018, respectively.

*(c) Other Price Risks*

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.

The Group is also exposed to price risk arising from the current non-qualifying hedges – forward contracts entered into by PNX SG. Such instruments are used to mitigate the fluctuations of expected physical oil sales and purchases contracts. These instruments are fair valued by third-party brokers/banks using observable market data and other sources. In 2019, fair value of the open derivative positions recorded within the financial instruments amounted to P311.0 million (see Note 21). The impact of a ten percent (10%) increase in prices on profit or loss, net of Singapore statutory tax rate of 17% amounted to P25.8 million in 2019 (nil in 2018).

**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 cash bonds, standby letter of credits and real estate mortgage 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 (excluding due from related parties) as of December 31 follows:

	<u>2019</u>	<u>2018</u>
Standby letter of credits	<b>P 590,461,106</b>	P 940,522,926
Cash bond	<b>261,881,695</b>	318,976,639
Real estate mortgage	<b><u>74,192,730</u></b>	<u>68,138,850</u>
	<b><u>P 926,535,531</u></b>	<b><u>P 1,327,638,415</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>2019</u>	<u>2018</u>
Cash and cash equivalents	6	<b>P 9,810,770,115</b>	P 7,889,708,807
Trade and other receivables – net*	7	<b>15,617,098,103</b>	11,363,226,589
Due from related parties - net	29.4	<b>1,986,811</b>	937,904,172
Construction bond**		<b>6,727,753</b>	5,504,822
Restricted deposits	9	<b>54,462,326</b>	52,719,265
Refundable rental deposits	17	<b><u>323,634,283</u></b>	<u>289,572,937</u>
		<b><u>P25,814,679,391</u></b>	<b><u>P20,538,636,592</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 and Restricted Deposits*

The credit risk for cash and cash equivalents and restricted deposits are 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 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all Trade and Other Receivables and Due from Related Parties. The Group's trade and other receivables and due from related parties are assessed individually or on a per customer basis.

The Group computes expected losses 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 loss rate. 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 succeeding page.

Phoenix Risk Rating (PRR)	Description		Equivalent S&P Rating	S&P Loss Rate (%)	
	Financial and Business Profiles	Other Information		2019	2018
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	<b>0.13 – 0.56</b>	0.14 – 0.61
PRR 2A	Counterparties with strong financial profile and very strong business profile or vice versa.		BBB	<b>0.13 – 0.56</b>	0.14 – 0.61
PRR 1A	Counterparties with a strong to adequate financial profile and very strong to adequate business profile.		BBB	<b>0.13 – 0.56</b>	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	<b>0.57 – 1.73</b>	0.63 – 1.90
PRR 2B	Counterparties with an average financial profile and sustainable business profile.		BB	<b>0.57-1.73</b>	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	<b>3.04 – 6.36</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.	B CCC/C	<b>3.04 – 6.36</b>	17.97 – 22.33
PRR 2C	Counterparties with a weak financial profile and adequate business profile.		B CCC/C	<b>3.04 – 6.36</b>	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	<b>100</b>	100
PRR D	Counterparties with a weak financial profile and average business profile.		D	<b>100</b>	100
PRR F	Counterparties with both weak financial profile and business profiles.		D	<b>100</b>	100

The credit loss allowance provided as of December 31, 2019 and 2018 are as follows:

**December 31, 2019**

Trade and Other Receivables				
PRR	S&P Rating	Loss Rate Range	Estimated Gross Carrying Amount at Default	Credit Loss Allowance
PRR 3A	BBB	0.13 – 0.56	<b>P 5,927,361,924</b>	<b>P 11,701,424</b>
PRR 2A	BBB	0.13 – 0.56	<b>993,833,923</b>	<b>1,562,717</b>
PRR 1A	BBB	0.13 – 0.56	<b>2,934,649,883</b>	<b>8,014,488</b>
PRR 3B	BB	0.57 – 1.73	<b>2,504,670,300</b>	<b>13,179,051</b>
PRR 2B	BB	0.57 – 1.73	<b>769,745,228</b>	<b>3,916,005</b>
PRR 1B	B	3.04 – 6.36	<b>1,778,924,061</b>	<b>10,477,726</b>
PRR 3C	B	3.04 – 6.36	<b>574,105,409</b>	<b>22,086,150</b>
PRR 2C	B	3.04 – 6.36	<b>211,818,047</b>	<b>7,073,111</b>
PRR 1C/D/F	D	100	<b>577,628,510</b>	<b>577,628,510</b>
			<b><u>P 16,272,737,285</u></b>	<b><u>P 655,639,182</u></b>

Due From Related Parties				
PRR	S&P Rating	Loss Rate Range	Estimated Gross Carrying Amount at Default	Credit Loss Allowance
PRR 3B	BB	0.57 – 1.73	<b>P 2,073,627</b>	<b>P 86,816</b>

**December 31, 2018**

Trade and Other Receivables				
PRR	S&P Rating	Loss Rate Range	Estimated Gross Carrying Amount at Default	Credit Loss Allowance
PRR 3A	BBB	0.14 – 0.62	P 87,378,373	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><u>P 11,997,622,717</u></b>	<b><u>P 634,396,128</u></b>

Due From Related Parties				
PRR	S&P Rating	Loss 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><u>P 939,812,454</u></b>	<b><u>P 1,908,282</u></b>

(c) *Refundable Rental Deposits*

The credit risk for refundable rental deposits is considered negligible as the Group has ongoing lease agreements with the counterparties and the latter are considered to be with sound financial condition and sufficient liquidity.

### 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, 2019, the Group's financial liabilities (except lease liabilities – see Note 12.2) 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	P30,167,954,167	P9,330,631,443	P13,628,536,145	P -
Trade and other payables (excluding tax-related payables)	793,247,218	10,744,441,389	-	-
Derivative financial liabilities	311,019,650	-	-	-
Security deposits	-	-	100,979,556	-
Customers' cylinder deposits	-	-	-	440,803,046
Cash bond	-	-	247,905,839	58,405,556
	<b><u>P31,272,221,035</u></b>	<b><u>P20,075,072,832</u></b>	<b><u>P13,977,421,540</u></b>	<b><u>P 499,208,602</u></b>

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	P21,479,255,558	P6,272,692,441	P11,302,340,399	P4,925,525,000
Trade and other payables (excluding tax-related payables)	819,565,247	6,452,331,850	-	-
Security deposits	-	-	266,616,512	-
Customers' cylinder deposits	-	-	-	276,285,588
Cash bond	-	-	-	56,702,491
	<b><u>P22,298,820,805</u></b>	<b><u>P12,725,024,291</u></b>	<b><u>P11,568,956,911</u></b>	<b><u>P5,258,513,079</u></b>



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.

	Notes	2019		2018	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Assets</b>					
Loans and receivables:					
Cash and cash equivalents	6	P 9,810,770,115	P 9,810,770,115	P 7,889,708,807	P 7,889,708,807
Trade and other receivables-net*	7	15,617,098,103	15,617,098,103	11,363,226,589	11,363,226,589
Due from related parties	29.4	1,986,811	1,986,811	937,904,172	937,904,172
Construction bond**	10	6,727,753	6,727,753	5,504,822	5,504,822
Restricted deposits	9	54,462,326	54,462,326	52,719,265	52,719,265
Refundable deposits	17	323,634,283	323,634,283	289,572,937	289,572,937
		<b>P 25,814,679,391</b>	<b>P 25,814,679,391</b>	<b>P 20,538,636,592</b>	<b>P 20,538,636,592</b>
<b>Financial Liabilities</b>					
Financial liabilities at FVTPL –					
Derivative financial liabilities	21	P 311,019,650	P 311,019,650	P -	P -
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	18	49,896,188,062	48,324,629,062	39,900,007,450	36,188,613,995
Trade and other payables***	20	11,537,688,607	11,537,688,607	7,271,897,097	7,271,897,097
Lease liabilities	12	1,250,213,075	1,250,213,075	-	-
Customers' cylinder deposits	22	440,803,046	440,803,046	276,285,588	276,285,588
Security deposits	22	100,979,556	100,979,556	266,616,512	266,616,512
Cash bond deposits	22	306,311,395	306,311,395	56,702,491	56,702,491
		<b>P 63,843,203,391</b>	<b>P 62,271,644,391</b>	<b>P 47,771,509,138</b>	<b>P 44,060,115,683</b>

\* Excluding advances to suppliers and advances subject to liquidation

\*\* Included as part of Others under Prepayments and Other Current Assets

\*\*\* Excluding tax-related payables

See Notes 2.4 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 4.

## **5.2 Fair Value Hierarchy**

In accordance with PFRS 13, *Fair Value Measurements*, 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**

In 2019, PNX SG entered into forward contracts which are not traded in active markets. These contracts have been fair valued using observable forward commodity rates corresponding to the maturity of the contracts by third party broker or banks. The effects of non-observable inputs are not significant for forward contracts.

The fair value of derivative financial liabilities amounting to P311.0 million as of December 31, 2019 is included in Level 2.

**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.

		<b>2019</b>			
Notes	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	
<b>Financial Assets</b>					
<i>Loans and receivables:</i>					
Cash and cash equivalents	P 9,810,770,115	P -	P -	P 9,810,770,115	
Trade and other receivables	-	-	15,617,098,103	15,617,098,103	
Due from related parties	-	-	1,986,811	1,986,811	
Construction bond	-	-	6,727,753	6,727,753	
Restricted deposits	54,462,326	-	-	54,462,326	
Refundable deposits	-	-	323,634,283	323,634,283	
	<b><u>P 9,865,232,441</u></b>	<b><u>P -</u></b>	<b><u>P 15,949,446,950</u></b>	<b><u>P 25,814,679,391</u></b>	
<b>Financial Liabilities</b>					
<i>Financial liabilities at amortized cost:</i>					
Interest-bearing loans and other borrowings	P -	P -	P 48,324,629,062	P 48,324,629,062	
Trade and other payables	-	-	11,537,688,607	11,537,688,607	
Lease liabilities	-	-	1,250,213,075	1,250,213,075	
Customers' cylinder deposits	-	-	440,803,046	440,803,046	
Security deposits	-	-	100,979,556	100,979,556	
Cash bond deposits	-	-	306,311,395	306,311,395	
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 61,960,624,741</u></b>	<b><u>P 61,960,624,741</u></b>	
		<b>2018</b>			
Notes	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	
<b>Financial Assets</b>					
<i>Loans and receivables:</i>					
Cash and cash equivalents	P 7,889,708,807	P -	P -	P 7,889,708,807	
Trade and other receivables	-	-	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 deposits	-	-	289,572,937	289,572,937	
	<b><u>P 7,942,428,072</u></b>	<b><u>P -</u></b>	<b><u>P 12,596,208,520</u></b>	<b><u>P 20,538,636,592</u></b>	
<b>Financial Liabilities</b>					
<i>Financial liabilities at amortized cost:</i>					
Interest-bearing loans and other borrowings	P -	P -	P 36,188,613,995	P 36,188,613,995	
Trade and other payables	-	-	7,271,897,097	7,271,897,097	
Customers' cylinder deposits	-	-	276,285,588	276,285,588	
Security deposits	-	-	266,616,512	266,616,512	
Cash bond deposits	-	-	56,702,491	56,702,491	
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 44,060,115,683</u></b>	<b><u>P 44,060,115,683</u></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 properties. 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 3 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 adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value.

These properties were revalued in 2018 due to the change in the Group's accounting policy. The reconciliation of the carrying amount of investment properties is presented in Note 16.

### 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, 2019						
	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 15,617,098,103	P -	P 15,617,098,103	P -	(P 261,881,695)	P 15,355,216,408
Derivative financial asset	1,707,218	( 1,707,218)	-	-	-	-
Restricted deposits	54,462,326	-	54,462,326	( 54,462,326)	-	-
<b>Total</b>	<b><u>P 15,673,267,647</u></b>	<b><u>(P 1,707,218)</u></b>	<b><u>P 15,671,560,429</u></b>	<b><u>(P 54,462,326)</u></b>	<b><u>(P 261,881,695)</u></b>	<b><u>P 15,355,216,408</u></b>
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 318,976,639)	P 11,044,249,950
Restricted deposits	52,719,265	-	52,719,265	( 52,719,265)	-	-
<b>Total</b>	<b><u>P 11,551,102,864</u></b>	<b><u>(P 135,157,010)</u></b>	<b><u>P 11,415,945,854</u></b>	<b><u>(P 52,719,265)</u></b>	<b><u>(P 318,976,639)</u></b>	<b><u>P 11,044,249,950</u></b>

\* Excluding advances to suppliers and advances subject to liquidation

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, 2019						
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 49,896,188,062	P -	P 49,896,188,062	(P 54,462,326 )	P -	P 49,841,725,736
Derivative financial liabilities	312,726,868	( 1,707,218 )	311,019,650	( 311,019,650 )	-	-
Security deposits	100,979,556	-	100,979,556	-	( 100,979,556 )	-
Cash bond deposits	<u>306,311,395</u>	<u>-</u>	<u>306,311,395</u>	<u>-</u>	<u>( 306,311,395 )</u>	<u>-</u>
Total	<b><u>P 50,616,205,881</u></b>	<b><u>( P 1,707,218 )</u></b>	<b><u>P 50,614,498,663</u></b>	<b><u>( P 365,481,976 )</u></b>	<b><u>( P 407,290,951 )</u></b>	<b><u>P 49,841,725,736</u></b>

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 39,900,007,450	P -	P 39,900,007,450	(P 52,719,265 )	P -	P 39,847,288,185
Trade and other payables **	7,569,996,262	( 135,157,010)	7,434,839,252	-	-	7,434,839,252
Security deposits	266,616,512	-	266,616,512	-	( 266,616,512 )	-
Cash bond deposits	<u>56,702,491</u>	<u>-</u>	<u>56,702,491</u>	<u>-</u>	<u>( 56,702,491 )</u>	<u>-</u>
Total	<b><u>P 47,793,322,715</u></b>	<b><u>( P 135,157,010)</u></b>	<b><u>P 47,658,165,705</u></b>	<b><u>( P 52,719,265 )</u></b>	<b><u>( P 323,319,003 )</u></b>	<b><u>P 47,282,127,437</u></b>

\*\* Excluding tax-related payables

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:

	<u>2019</u>	<u>2018</u>
Cash in banks	<b>P 7,618,074,475</b>	P 7,728,117,276
Cash on hand	<b>4,299,652</b>	4,082,617
Revolving fund	<b>20,663,842</b>	16,968,918
Short-term placements	<b><u>2,167,732,146</u></b>	<u>140,539,996</u>
	<b><u>P 9,810,770,115</u></b>	<b><u>P 7,889,708,807</u></b>

Cash in banks generally earn interest based on daily bank deposit rates ranging from 0.10% to 2.50% per annum in all years presented. Short-term placements are made for varying periods ranging from 7 to 90 days and earn effective interest ranging from 0.25% to 1.00% per annum in all years presented. Interest income earned amounted to P30.0 million, P27.2 million and P15.7 million in 2019, 2018 and 2017, respectively, and is included as part of Finance income under Other Charges (Income) in the consolidated statements of comprehensive income (see Note 25.2).

The balances of cash in banks as of December 31, 2019 and 2018 exclude restricted time deposits totalling to P54.5 million and P52.7 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 trust receipt agreements (see Notes 9 and 18.1).

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Trade receivables:			
Third parties		<b>P 6,658,095,101</b>	P 8,367,158,668
Related parties	29.1	<u>4,207,636,773</u>	<u>1,851,415,359</u>
		<u><b>10,865,731,874</b></u>	<u>10,218,574,027</u>
Advances to suppliers:			
Third parties		<b>244,674,156</b>	925,791,098
Related parties	29.2, 29.3	<u>30,811,857</u>	<u>2,692,341,658</u>
		<u><b>275,486,013</b></u>	<u>3,618,132,756</u>
Non-trade receivables:			
Third parties		<b>2,588,845,585</b>	698,518,436
Related parties	29.6, 29.9, 29.10	<u>2,795,715,925</u>	<u>1,045,301,862</u>
		<u><b>5,384,561,510</b></u>	<u>1,743,820,298</u>
Advances subject to liquidation		<u><b>80,549,850</b></u>	<u>49,355,359</u>
Other receivables		<u><b>22,443,901</b></u>	<u>35,228,392</u>
		<b>16,628,773,148</b>	15,665,110,832
Allowance for impairment		<u>(<b>655,639,182</b>)</u>	<u>(634,396,128)</u>
		<u><b>P 15,973,133,966</b></u>	<u>P 15,030,714,704</u>

Trade and other receivables generally do not bear any interest. All receivables are subject to credit risk (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, 2019 and 2018, the balances of receivables under DPA amounted to P105.8 million and P47.5 million, respectively, and is presented as part of Trade Receivables – Third Parties in the Trade and Other Receivables account in the 2019 and 2018 consolidated statements of financial position. There are no non-current trade receivables as of those years.



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:

- 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.

Impairment losses amounting to P29.9 million, P68.5 million and P50.3 million in 2019, 2018 and 2017, respectively, are presented as part of Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 24). 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 2019 and 2018 is shown below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year, as previously reported		<b>P 634,396,128</b>	P 585,853,177
Business combination	1.4	<b>2,006,443</b>	-
Impairment loss for the year	24	<b>29,852,136</b>	68,465,111
Written-off during the year		<b>( 6,853,066)</b>	( 17,153,577)
Recovery of bad debts		<b>( 3,762,459)</b>	( 2,768,583)
Balance at end of year	4.2	<b><u>P 655,639,182</u></b>	<b><u>P 634,396,128</u></b>

The written-off accounts are not subject to any enforcement activity, nor the Group expects any collections from these accounts.

## 8. INVENTORIES

The breakdown of inventories are as follows:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
At cost:			
Fuels and by-products		<b>P 11,007,891,911</b>	P 10,303,317,190
Lubricants		<b>302,533,668</b>	427,496,011
Merchandise		<b>192,832,067</b>	185,837,405
LPG		<b>62,167,181</b>	157,495,582
Others		<b><u>114,192,078</u></b>	<u>61,348,098</u>
	23.2	<b><u>P 11,679,616,905</u></b>	<u>P 11,135,494,286</u>

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of P4,554.2 million and P3,045.6 million as of December 31, 2019 and 2018, 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 18.1).

There were no inventory write-down in 2019 and 2018.

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 23.2.

## 9. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various short-term credit facilities and trust receipts covered by hold-out agreements (see Notes 6 and 18.1) amounting to P54.4 million and P52.7 million as of December 31, 2019 and 2018, respectively. As such, these are restricted as to withdrawals. The proceeds from availment of the banking credit facilities and trust receipts 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 2019, 2018 and 2017. Interest income earned from restricted deposits amounted to P2.2 million, P1.4 million and P0.1 million in 2019, 2018 and 2017, respectively, and is included as part of Finance Income in the consolidated statements of comprehensive income (see Note 25.2).

## 10. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account as of December 31 is shown below.

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Prepayments	29.3	<b>P 1,284,786,937</b>	P 388,805,646
Creditable withholding tax		<b>327,562,434</b>	124,698,086
Supplies		<b>251,942,783</b>	165,373,021
Others		<b><u>67,244,244</u></b>	<u>16,822,026</u>
		<b><u>P 1,931,536,398</u></b>	<u>P 695,698,779</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 2019 and 2018 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>Vessel</u>	<u>Land</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2019											
Cost or revalued amount	P 12,181,134,379	P 496,662,161	P 5,457,947,630	P 2,667,783,519	P 612,216,937	P 745,062,041	P 109,570,369	P 640,281,212	P 4,175,292,743	P 8,145,925,569	P 35,231,876,560
Accumulated depreciation, amortization and impairment	( 3,390,613,448 )	( 299,091,098 )	( 2,219,054,981 )	( 946,000,750 )	( 315,980,888 )	( 553,117,590 )	( 84,496,535 )	( 44,656,370 )	-	-	( 7,853,011,660 )
Net carrying amount	<u>P 8,790,520,931</u>	<u>P 197,571,063</u>	<u>P 3,238,892,649</u>	<u>P 1,721,782,769</u>	<u>P 296,236,049</u>	<u>P 191,944,451</u>	<u>P 25,073,834</u>	<u>P 595,624,842</u>	<u>P 4,175,292,743</u>	<u>P 8,145,925,569</u>	<u>P 27,378,864,900</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 -	P 3,836,203,184	P 3,323,038,453	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>P 6,553,115,814</u>	<u>P 289,279,228</u>	<u>P 3,030,158,434</u>	<u>P 1,205,493,338</u>	<u>P 244,727,339</u>	<u>P 219,849,338</u>	<u>P 14,129,377</u>	<u>P -</u>	<u>P 3,836,203,184</u>	<u>P 3,323,038,453</u>	<u>P 18,715,994,505</u>
January 1, 2018											
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 -	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	<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 -</u>	<u>P 2,431,765,273</u>	<u>P 761,915,936</u>	<u>P 13,399,979,808</u>

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 of property, plant and equipment is shown below and in the succeeding page.

	<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>Vessel</u>	<u>Land</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2019 net of accumulated depreciation and amortization	P 6,553,115,814	P 289,279,228	P 3,030,158,434	P 1,205,493,338	P 244,727,339	P 219,849,338	P 14,129,377	P -	P 3,836,203,184	P 3,323,038,453	P18,715,994,505
Business combination - cost (see Note 1.4)	1,678,969,767	-	-	-	945,208	-	36,967,761	-	-	-	1,716,882,736
Business combination - accumulated depreciation (see Note 1.4)	( 741,705,185)	-	-	-	( 892,523)	-	( 21,974,135)	-	-	-	( 764,571,843)
Additions	285,906,315	12,809,729	121,868,306	602,174,880	118,626,421	121,536,635	658,969	659,106,000	278,714,587	6,751,688,501	8,953,090,343
Revaluation increments	-	-	-	-	-	-	-	-	145,379,972	-	145,379,972
Transfers (see Notes 13 and 16)	1,461,824,869	87,457	444,898,242	-	234,161	2,270,673	-	-	( 85,005,000)	( 1,910,278,156)	( 85,967,754)
Cost of asset disposed	( 3,617,682)	( 74,376,474)	( 21,719,057)	-	( 12,948,513)	( 136,126,180)	-	-	-	-	( 248,787,906)
Accumulated depreciation of asset disposed	3,591,822	22,788,852	38,381,073	-	10,706,062	89,231,178	-	-	-	-	164,698,987
Depreciation and amortization charges for the year	( 449,883,142)	( 52,095,576)	( 370,966,163)	( 85,885,449)	( 66,057,185)	( 122,655,422)	( 4,708,138)	( 44,656,370)	-	-	( 1,196,907,445)
Reclassification	4,028,186	-	( 3,728,186)	-	385,000	17,838,229	-	-	-	( 18,523,229)	-
Translation adjustment	( 1,709,833)	( 922,153)	-	-	510,079	-	-	( 18,824,788)	-	-	( 20,946,695)
Balance at December 31, 2019 net of accumulated depreciation and amortization	<u>P 8,790,520,931</u>	<u>P 197,571,063</u>	<u>P 3,238,892,649</u>	<u>P 1,721,782,769</u>	<u>P 296,236,049</u>	<u>P 191,944,451</u>	<u>P 25,073,834</u>	<u>P 595,624,842</u>	<u>P 4,175,292,743</u>	<u>P 8,145,925,569</u>	<u>P27,378,864,900</u>

	Buildings, Depot, Plant and Pier Facilities	Leasehold and Land Improvements	Gasoline and LPG Station Equipment	LPG Cylinders	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Land	Construction in Progress	Total
Balance at January 1, 2018 net of accumulated depreciation and amortization	P 6,084,620,423	P 105,971,646	P2,759,878,686	P 948,665,384	P 70,259,436	P 232,409,119	P 4,493,905	P 2,431,765,273	P 761,915,936	P 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 13)	( 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	<u>P 6,553,115,814</u>	<u>P 289,279,228</u>	<u>P 3,030,158,434</u>	<u>P 1,205,493,338</u>	<u>P 244,727,339</u>	<u>P 219,849,338</u>	<u>P 14,129,377</u>	<u>P 3,836,203,184</u>	<u>P 3,323,038,453</u>	<u>P 18,715,994,505</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 P695.7 million, P261.6 million and P19.7 million in 2019, 2018 and 2017, respectively (see Note 18.5), 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% in both 2019 and 2018.

### 11.2 Depreciation and Amortization

The Group retired in its books fully-depreciated transportation equipment with a total cost of P39.5 million and P21.6 million in 2019 and 2018, respectively. As of December 2019 and 2018, the cost of fully-depreciated assets that are still being used in the Group's operations amounted to P1,520.0 million and P987.4 million, respectively.

The amount of depreciation and amortization is allocated as follows:

	Notes	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cost of sales and services	23.2	P 65,183,757	P 63,306,743	P 23,964,493
Selling and administrative expenses		<u>1,131,723,688</u>	<u>937,600,529</u>	<u>796,288,042</u>
	24	<u>P 1,196,907,445</u>	<u>P 1,000,907,272</u>	<u>P 820,252,535</u>

### 11.3 Fair Value of Land

The Group's parcels of land are stated at their revalued amounts as of December 31, 2019 and 2018, being the fair value at December 31, 2019 and 2018, the date of appraisal reports, 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 2019 and 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, 2019 and 2018, the cost would be P2,891.0 million and P2,616.4 million, respectively.

## 12. LEASES

The Group has leases for land where stations are built, store premises, office and warehouse. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the consolidated statement of financial position as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying lease asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over store premises, warehouses and offices, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognized in the consolidated statement of financial position.

	<u>Land</u>	<u>Vessel</u>	<u>Office</u>	<u>Warehouse</u>	<u>Store Premises</u>
Number of right-of-use assets leased	60	1	1	1	34
Range of remaining term	5 to 20 years	1.4 years	4 years	12 years	1 to 14 years
Average remaining lease term	15 years	1.4 years	4 years	12 years	2.7 years
Number of leases					
with extension options	-	1	1	-	-
Number of leases					
with options to purchase	60	-	-	1	-
Number of leases					
with termination options	60	-	-	1	-

### 12.1 Right-of-use Assets

The carrying amounts of the Group's right-of-use assets as at December 31, 2019 and the movements during the period are shown below.

	<u>Note</u>	<u>Land</u>	<u>Vessel</u>	<u>Office</u>	<u>Warehouse</u>	<u>Store Premises</u>	<u>Total</u>
Balance at beginning of year		P 731,258,664	P -	P -	P 54,362,449	P 131,781,933	P 917,403,046
Additions		-	160,865,014	38,511,700	-	203,714,208	403,090,922
Depreciation and amortization	24	( 56,138,590)	( 58,445,602)	( 3,775,657)	( 4,530,204)	( 54,877,771)	( 177,767,824)
Balance at the end of year		<u>P 675,120,074</u>	<u>P 102,419,412</u>	<u>P 34,736,043</u>	<u>P 49,832,245</u>	<u>P 280,618,370</u>	<u>P 1,142,726,144</u>

### 12.2 Lease Liabilities

Lease liabilities are presented in the consolidated statement of financial position as at December 31, 2019 as follows:

Current	P 153,360,799
Non-current	<u>1,096,852,276</u>
	<b><u>P 1,250,213,075</u></b>

Additional information on the lease liabilities and amounts in respect of possible future lease extension options not recognized as a liability are as follows:

	<u>Land</u>	<u>Vessel</u>	<u>Office</u>	<u>Warehouse</u>	<u>Store Premises</u>	<u>Total</u>
Lease liabilities	P 763,540,488	P 104,324,743	P 35,321,355	P 51,533,976	P 295,492,513	P 1,250,213,075
Number of leases with an extension option that is not considered reasonably certain of exercise	-	-	1	-	-	
Additional lease liabilities that would be incurred were it to become reasonably certain that the extension option would be exercised	P -	P 130,456,106	P -	P -	P -	P 130,456,106

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.



The Group has pre-termination options on leases of land and warehouse. The termination is at the option of the Group without any need of judicial action. The Group is not subject to any penalties, should the Group exercise pre-termination of the lease.

As at December 31, 2019, the Group is not committed to leases which had not commenced.

The undiscounted maturity analysis of lease liabilities at December 31, 2019 is as follows :

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	10 to 20 years	Total
Lease payments	P 236,158,942	P 189,678,175	P 143,059,687	P 141,063,606	P 126,927,824	P 645,284,061	P 448,568,943	P 1,930,741,238
Finance charges	( 88,071,133)	( 81,207,710)	( 75,000,812)	( 69,903,931)	( 64,788,303)	( 238,731,166)	( 62,825,108)	( 680,528,163)
Net present values	<u>P 148,087,809</u>	<u>P 108,470,465</u>	<u>P 68,058,875</u>	<u>P 71,159,675</u>	<u>P 62,139,521</u>	<u>P 406,552,895</u>	<u>P 385,743,835</u>	<u>P 1,250,213,075</u>

### 12.3 Lease Payments Not Recognized as Liabilities

The Group has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expenses relating to short-term leases and low-value assets amounted to P639.7 million and P7.2 million, respectively, and are presented as part of Rent under Selling and administrative expenses in the 2019 consolidated statement of comprehensive income (see Note 24).

At December 31, 2019, the Group is committed to short-term leases, and the total commitment at that date is P367.1 million.

### 12.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P203.6 million in 2019. Interest expense in relation to lease liabilities amounted to P81.0 million and is presented as part of Finance costs under Other charges (income) in the 2019 consolidated statement of comprehensive income (see Note 25.1).

## 13. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of 2019 and 2018 are shown below.

	Basketball Franchise	Store Franchise	Computer Software Licenses	Software Development Cost	Others	Total
December 31, 2019						
Cost	P 176,861,660	P 42,028,644	P 261,155,875	P 73,180,177	P 1,585,143	P 554,811,499
Accumulated amortization	-	( 23,566,961)	( 193,260,263)	( 27,598,071)	( 108,288)	( 244,533,583)
Net carrying amount	<u>P 176,861,660</u>	<u>P 18,461,683</u>	<u>P 67,895,612</u>	<u>P 45,582,106</u>	<u>P 1,476,855</u>	<u>P 310,277,916</u>
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>
January 1, 2018						
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>

A reconciliation of the carrying amounts of intangible assets at the beginning and end of 2019 and 2018 are shown below.

	<u>Basketball Franchise</u>	<u>Store Franchise</u>	<u>Computer Software Licenses</u>	<u>Software Development Cost</u>	<u>Others</u>	<u>Total</u>
Balance at January 1, 2019, net of accumulated amortization	P 176,861,660	P 22,353,025	P 94,029,205	P 33,584,655	P 1,225,805	P 328,054,350
Additions	-	-	17,404,689	25,676,946	251,050	43,332,685
Transfers from property, plant, and equipment (see Note 11)	-	-	-	962,754	-	962,754
Amortization expense for the year	-	( 3,891,342)	( 43,001,052)	( 14,642,249)	-	( 61,534,643)
Reclassification/adjustment	-	-	( 537,230)	-	-	( 537,230)
Balance at December 31, 2019, Net of accumulated amortization	<u>P 176,861,660</u>	<u>P 18,461,683</u>	<u>P 67,895,612</u>	<u>P 45,582,106</u>	<u>P 1,476,855</u>	<u>P 310,277,916</u>
Balance at January 1, 2018, net of accumulated amortization	P 176,861,660	P -	P 114,814,022	P 2,520,167	P 1,262,393	P 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>

Store franchise was acquired as a result of business combination in 2018 [see Notes 1.4(b) and 33.5].

## 14. INVESTMENTS IN JOINT VENTURES

### 14.1 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. PAPI started commercial operations in 2019.

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.

## 14.2 JVs of PPMI

In 2019, PPMI entered into various JV agreements with certain individuals for the management and operation of companies which are primarily established to operate petroleum service stations in certain areas in the Philippines. PPMI does not have significant control of the entities and has no significant commitments relating to the companies.

Presented below are the companies, percentage of interest and amounts of additional investments of PPMI in 2019.

Companies	Percentage of interest	Amount of Investment
Top Concord Quality Petroleum Corp. (TCQPC)	49.00%	P 1,394,397
CJI Fuels Corp. (CJI)	49.00%	7,443,738
Firebird Evzon Fuels Corp. (FEFC)	49.00%	2,625,003
Zae Falco Energy Corp. (ZFEC)	49.00%	4,009,692
Eastan Prime Development Corporation (EPDC)	49.00%	18,500,000
Total amount of investment in joint venture		<b>P 33,972,830</b>

In 2019, PPMI infused additional investment of P926.8 million into PSPC to acquire a portion of the increase in capital stock of PSPC. The increase in capital stock of PSPC was approved by SEC on December 17, 2019.

PPMI owns 162.9 million shares or 49% of the outstanding capital stock in 2019, and 30.6 million shares or 51.00% of the outstanding capital stock in 2018, but does not have significant control on the entity in both years [see Note 3.1(i)]. PPMI has no significant commitments relating to PSPC.

In 2018, 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. 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 entered into a JV agreement in 2018 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 [see Note 3.1(i)]. PPMI has no significant commitments relating to Galaxi.

## 14.3 JVs Financial Information and Reconciliation to Carrying Amount of Investments

Presented below are the financial information of the Group's joint ventures and the reconciliation to the carrying amount of the investments in JV as of December 31, 2019:

Joint Ventures	Total current assets	Total non-current assets	Total current liabilities	Total non-current liabilities	Total revenues	Total other comprehensive income	Net income (loss)	Percentage of ownership	Equity Share in net income (loss) during the year
PAPI	P 101,965,227	P 23,370,986	P 34,055,096	P -	122,419,720	P -	P 1,079,738	40%	<b>P 431,895</b>
PSPC	557,830,828	1,236,350,601	690,277,622	-	1,617,647,406	-	( 25,831,003)	49%	<b>( 12,657,191)</b>
Galaxi	172,386,078	68,798,140	153,847,098	2,099,956	2,036,169,668	-	58,462,239	51%	<b>29,815,742</b>
CJI	35,384,570	54,084	1,151,738	-	1,353,406	-	( 126,669)	49%	<b>( 62,068)</b>
TCQPC	19,588,588	1,749,339	2,476,469	-	1,902,515	-	199,273	49%	<b>97,644</b>
ZFEC	29,775,193	6,466,009	13,708,946	10,000	21,762,842	-	( 2,157,838)	49%	<b>( 1,057,340)</b>
EPDC	7,937,663	17,681,512	2,826,392	-	3,076,461	-	( 119,723)	49%	<b>( 58,664)</b>
FEFC	15,000,003	-	-	-	-	-	-	49%	<b>-</b>
Total equity share in net income during the year									<b>16,510,018</b>
Carrying value as of January 1, 2019									<b>455,436,370</b>
Additional investment during the year									<b>960,763,248</b>
Carrying Value as of December 31, 2019									<b>P 1,432,709,636</b>

Presented below are the financial information of the Group's joint ventures and the reconciliation to the carrying amount of the investments in JV as of December 31, 2018:

Joint Ventures	Total current assets	Total non-current assets	Total current liabilities	Total non-current liabilities	Total revenues	Total other comprehensive income	Net income (loss)	Percentage of ownership	Equity Share in net income (loss) during the year
PAPI	P 275,278,082	P 8,786,996	P 10,613,773	P -	P 6,828,601	P -	(P 1,124,499)	40.00%	(P 449,800)
PSPC	67,459,164	-	7,988,212	-	-	-	( 529,048)	51.00%	( 269,814)
Galaxi	172,295,310	68,143,118	152,326,905	1,756,000	398,627,902	-	15,807,567	51.00%	<u>8,061,859</u>
Total equity share in net income during the year									7,342,245
Total acquisition costs									<u>448,094,125</u>
Carrying Value as of December 31, 2018									<u>P 455,436,370</u>

As of December 31, 2019 and 2018, no dividends were received from the joint ventures. In addition, there are no share of contingent liabilities for all of the JVs. As of December 31, 2019 and 2018, management believes that the investments in joint ventures are not impaired.

## 15. 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 are presented below.

	Note	2019	2018
Balance at beginning of year			
– net of allowance for impairment		<b>P 4,418,842,831</b>	P 3,990,666,606
Additions due to business combinations	1.4	<b><u>213,554,587</u></b>	<u>428,176,225</u>
Balance at end of year			
– net of allowance for impairment		<b><u>P 4,632,397,418</u></b>	<u>P 4,418,842,831</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, PGV LLC (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 terminal growth rate of 1.2% to 4.0% and is based on the discount rate of weighted average cost of capital of 12.0%. The growth rates reflect the long-term growth rates for the industries of the trading segment.

Goodwill recognized is allocated to the trading segment of the Group. Management's key assumptions in assessment of goodwill impairment include stable profit margins in the cash flow projections. Budgeted earnings before interest, taxes, depreciation and amortization (EBITDA) were based on expectations of future outcomes taking into account 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 presented below.

		<u>2019</u>	<u>2018</u>
PLPI		<b>P 3,980,444,757</b>	P 3,980,444,757
PFM	1.4	<b>273,130,868</b>	273,130,868
AAI Group	1.4	<b>155,045,359</b>	155,045,359
PGV LLC	1.4	<b>213,554,587</b>	-
Others		<b><u>10,221,847</u></b>	<u>10,221,847</u>
Total		<b><u>P 4,632,397,418</u></b>	<b><u>P 4,418,842,831</u></b>

Based on these analyses, management has assessed that no impairment of goodwill is required to be recognized in 2019 and 2018.

## 16. INVESTMENT PROPERTIES

The Group's investment properties consist of several parcels of land and lot improvements, which are held for investment purposes only. Rental income from investment property amounted to P20.2 million in 2019, P1.8 million in 2018 and P1.1 million in 2017 are presented as part of Rent Income in the consolidated statements of comprehensive income.

Related real property taxes amounted to P0.7 million, P0.7 million and P0.2 million was recognized as a related expense in 2019, 2018 and 2017, respectively, and are presented as part of Taxes and Licenses under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 24).

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2019 and 2018 are shown below.

	<u>Land</u>	<u>Lot Improvements</u>	<u>Total</u>
December 31, 2019			
Revalued amount / cost	P 1,908,807,754	P 3,500,390	P 1,912,308,144
Accumulated depreciation	<u>-</u>	<u>( 3,335,309 )</u>	<u>( 3,335,309 )</u>
Net carrying amount	<b><u>P 1,908,807,754</u></b>	<b><u>P 165,081</u></b>	<b><u>P 1,908,972,835</u></b>
December 31, 2018			
Revalued amount / cost	P 1,738,207,254	P 3,500,390	P 1,741,707,644
Accumulated depreciation	<u>-</u>	<u>( 2,686,439 )</u>	<u>( 2,686,439 )</u>
Net carrying amount	<b><u>P 1,738,207,254</u></b>	<b><u>P 813,951</u></b>	<b><u>P 1,739,021,205</u></b>
January 1, 2018			
Cost	P 1,113,266,254	P 3,500,390	P 1,116,766,644
Accumulated depreciation	<u>-</u>	<u>( 1,986,362 )</u>	<u>( 1,986,362 )</u>
Net carrying amount	<b><u>P 1,113,266,254</u></b>	<b><u>P 1,514,028</u></b>	<b><u>P 1,114,780,282</u></b>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2019 and 2018 is shown below.

	<u>Land</u>	<u>Lot Improvements</u>	<u>Total</u>
Balance at January 1, 2019			
net of accumulated depreciation and impairment loss	P 1,738,207,254	P 813,951	P 1,739,021,205
Transfer from property and equipment (see Note 11)	85,005,000	-	85,005,000
Fair value gains	71,569,675	-	71,569,675
Additions	14,025,825	-	14,025,825
Depreciation charges for the year	<u>-</u>	<u>( 648,870 )</u>	<u>( 648,870 )</u>
Balance at December 31, 2019	<b><u>P 1,908,807,754</u></b>	<b><u>P 165,081</u></b>	<b><u>P 1,908,972,835</u></b>
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	<u>-</u>	<u>( 700,077 )</u>	<u>( 700,077 )</u>
Balance at December 31, 2018	<b><u>P 1,738,207,254</u></b>	<b><u>P 813,951</u></b>	<b><u>P 1,739,021,205</u></b>

In 2019, land with carrying amount of P85.0 million, which was previously used for administrative purposes but is now held for capital appreciation, was transferred from Property, Plant and Equipment account to Investment Properties account (see Note 11).

Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 5.5.

## 17. OTHER NON-CURRENT ASSETS

The composition of this account as of December 31 are shown below.

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Advances to suppliers	29.2, 29.12	<b>P 7,056,126,489</b>	P 1,167,194,841
Refundable rental deposits	29.3	<b>323,634,283</b>	289,572,937
Deferred minimum lease payments		<b>44,709,366</b>	48,242,728
Other prepayments		<b>163,003,036</b>	83,386,615
Others		<b>50,789,070</b>	7,270,409
		<b><u>P 7,638,262,244</u></b>	<b><u>P 1,595,667,530</u></b>

Advances to suppliers pertain to advances made for future acquisitions of real estate properties. There are no capital commitments outstanding as of December 31, 2019 related to these acquisition.

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 P3.1 million in 2019, P2.8 million in 2018 and P2.7 million in 2017 and is presented as part of Finance Income in the consolidated statements of comprehensive income (see Note 25.2).

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 P3.5 million, P3.2 million and P2.7 million in 2019, 2018 and 2017, respectively, and is presented as part of Rent under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 24).

## 18. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings are broken down as follow:

	<u>2019</u>	<u>2018</u>
Current:		
Liabilities under LC and TR	<b>P 6,206,767,833</b>	P 3,045,567,756
Short-term loans	<b>23,901,759,985</b>	15,173,672,603
Current portion of long-term loans	<b>1,843,333,333</b>	1,493,333,334
Liabilities under short-term commercial papers	<b>6,191,197,740</b>	6,596,913,591
	<b>38,143,058,891</b>	26,309,487,284
Non-current term loans	<b>11,753,129,172</b>	13,590,520,166
	<b><u>P 49,896,188,063</u></b>	<b><u>P 39,900,007,450</u></b>

### 18.1 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 6.125% and 6.14% per annum in 2019 and 2018, 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 29.5).

### 18.2 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	
				2019	2018
BDO Unibank, Inc. (BDO)					
i. Term Loan Agreement	(a)	5 to 7 years	5.38% - 5.71%	P 7,488,129,172	P 8,142,186,833
ii. Notes Facility Agreements	(b)	1 to 3 months	5.50% - 6.00%	<u>2,000,000,000</u>	<u>200,000,000</u>
				<u>9,488,129,172</u>	<u>8,342,186,833</u>
Philippine National Bank (PNB)					
i. Short-Term Commercial Papers	(18.3)	6 to 12 months	7.10% - 7.50%		
			4.67% - 7.00%	<u>6,191,197,740</u>	<u>6,596,913,591</u>
ii. Notes Payable	(b)	2 months to 3 years	6.21%	<u>600,000,000</u>	<u>3,670,000,000</u>
ii. Term Loan Agreement	(c)	5 years	5.30% - 8.16%	<u>125,000,000</u>	<u>225,000,000</u>
				<u>6,916,197,740</u>	<u>10,491,913,591</u>
Land Bank of the Philippines (LBP)					
i. Term Loan Agreement	(e)	7 years	4.85%	<u>4,950,000,000</u>	<u>5,000,000,000</u>
	(e)	3 years	6.00%	<u>333,333,333</u>	<u>666,666,667</u>
ii. Notes Payable	(b)	2 to 3 months	5.00% - 6.50%	<u>2,000,000,000</u>	<u>1,100,000,000</u>
				<u>7,283,333,333</u>	<u>6,766,666,667</u>
Multinational Investment Bancorporation (MIB)					
i. Notes Payable	(b)	2 to 6 months	4.25% - 6.75%	<u>11,470,436,645</u>	<u>4,304,042,213</u>
ii. Medium-term loan	(d)	1 year and 6 months	3.75%	<u>-</u>	<u>200,000,000</u>
				<u>11,470,436,645</u>	<u>4,504,042,213</u>
Robinsons Bank Corporation (RBC)					
i. Notes Payable	(b)	2 to 6 months	5.25-6.25%	<u>900,000,000</u>	<u>375,000,000</u>
ii. Term Loan Agreement	(f)	5 years	5.50%	<u>100,000,000</u>	<u>200,000,000</u>
				<u>1,000,000,000</u>	<u>575,000,000</u>
Development Bank of the Philippines (DBP)	(b)	3 months	5.30%	<u>2,000,000,000</u>	<u>1,715,000,000</u>
Asia United Bank (AUB)	(b)	1 to 2 months	5.50%	<u>1,000,000,000</u>	<u>1,009,630,390</u>
China Banking Corporation	(b)	3 months to 18 months	4.63%	<u>-</u>	<u>1,005,000,000</u>
Rizal Commercial Banking Corporation	(b)	2 to 3 months	5.00%	<u>1,000,000,000</u>	<u>985,000,000</u>
Bank of Commerce	(b)	1 month	6.38%	<u>-</u>	<u>810,000,000</u>
United Coconut Planters Bank	(b)	3 to 6 months	5.00%	<u>712,480,000</u>	<u>450,000,000</u>
Maybank Philippines, Inc.	(b)	2 to 3 months	5.25%	<u>1,200,000,000</u>	<u>200,000,000</u>
CTBC Bank (Philippines)	(b)	1 month	5.25%	<u>443,000,000</u>	<u>-</u>
Union Bank of the Philippines (UBP)	(b)	3 months	5.50%	<u>1,000,000,000</u>	<u>-</u>
ANZ Bank Vietnam Limited	(b)	6 to 12 months	7.0%-8.0%	<u>175,843,340</u>	<u>-</u>
				<u>P 43,689,420,230</u>	<u>P 36,854,439,694</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 requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ratio of at least 1.1, borrower's ratio of not more than 6.0 and interest coverage ratio of at least 1.5. The TLA also requires the Parent Company to comply with affirmative and negative covenants relating to the exclusive use of the proceeds for the purpose indicated in the TLA, maintenance of adequate records and prohibition to make any material change in the present nature of business of the Parent Company, PLPI and Duta, among others.

The Parent Company has complied with the financial, affirmative and negative covenants for the past years except that, in 2019, it had lower than the indicated current ratio. Prior to December 31, 2019, the Parent Company requested for the waiver of this financial covenant and management is confident that such will be approved based on preliminary discussion with BDO. The Parent Company has received approval on the waiver of breach in the current ratio requirement, subject to the condition that such breach is remedied by June 30, 2020 to be tested on or before August 31, 2020 using the Group's consolidated unaudited interim financial statements as of June 30, 2020.

**(b) Notes Payable**

The promissory notes represented the borrowings from local banks or investment houses with interest rates ranging from 4.25% to 8.00% 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 29.5). The notes payable does not include financial, affirmative and negative covenants.

**(c) 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.

This loan does not include financial, affirmative and negative covenants.

**(d) 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 has matured on April 30, 2019. This loan does not include financial, affirmative and negative covenants.

**(e) 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, 2019 and 2018, the outstanding principal balance amounted to P333.3 million and P666.7 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 requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1. The TLA also requires the Parent Company to comply with affirmative and negative covenants relating to maintenance of adequate records, prohibition to engage in any business other than its registered activities and avoidance to enter into an agreement as guarantor of the loan of another company, business or person, among others. The Parent Company has complied with all the financial, affirmative and negative covenants.

**(f) 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. This loan does not include financial, affirmative and negative covenants.

**18.3 Liabilities under Short-term Commercial Papers (STCPs)**

In 2019, the Parent Company issued its second and third series of short-term commercial papers (STCP), with PNB Capital and Investment Corporation being the Sole Issue Manager and the Lead Underwriter, amounting to P3,500.0 million and P3,000.0 million, respectively. Each paper has a term of 360 days and carries a discount rate of 7.00% for the second series and 4.67% for the third series. The Parent Company used the proceeds to refinance its existing short-term loans, which are used to finance the working capital requirements of the Parent Company.

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 first series of STCP has been settled by the Parent Company in 2019.

The underwriting agreement requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1. The underwriting agreement also requires the Parent Company to comply with affirmative and negative covenants relating to maintenance of adequate records, prohibition to engage in any business other than its registered activities and avoidance to enter into merger or consolidation, unless the Parent Company is the surviving entity, among others. The Parent Company has complied with all the financial, affirmative and negative covenants.

The outstanding liabilities under STCP as of December 31, 2019 and 2018 amounted to P6,191.2 million and P6,596.9 million, respectively. The outstanding balances as of December 31, 2019 and 2018 are net of the capitalized and unamortized debt issuance cost of P48.75 million and P45.2 million, respectively.

#### 18.4 Credit Line

The Parent Company has an available credit line under LC/TR of P12,620.2 million and P17,111.3 million as of December 31, 2019 and 2018, 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.

#### 18.5 Interest Expense

Interest expense for 2019, 2018 and 2017 are presented as part of Finance Costs in the consolidated statements of comprehensive income amounted to P2,582.9 million, P1,377.0 million and P780.9 million (see Note 25.1), respectively, which is already exclusive of the capitalized borrowing cost of P695.7 million, P261.6 million and P19.7 million for 2019, 2018 and 2017, respectively (see Note 11.1).

### 19. 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 18)	Term Loans (see Note 18)	Liabilities under STCP (see Note 18)	Lease Liabilities (see Note 12)	Total
Balance as of January 1, 2019	P 3,045,567,756	P 30,257,526,103	P 6,596,913,591	P -	P 39,900,007,450
Effect of adoption of PFRS16	-	-	-	973,167,940	973,167,940
Cash flows from financing activities					
Additional borrowings	-	66,463,776,671	6,088,546,547	-	72,552,323,218
Repayment of borrowings, TR, and lease liabilities	( 22,090,498,231 )	( 59,544,221,408 )	( 7,000,000,000 )	( 203,455,083 )	( 88,838,174,722 )
Non-cash financing activities					
Availment of LC and TR	25,251,698,308	-	-	-	25,251,698,308
Additions to lease liability	-	-	-	403,090,922	403,090,922
Business combination	-	321,141,124	-	-	321,141,124
Amortization of discount and bond issue cost	-	-	505,737,602	80,990,270	586,727,872
Accrued interest	-	-	-	( 3,580,974 )	( 3,580,974 )
Balance as of December 31, 2019	<u>P 6,206,767,833</u>	<u>P 37,498,222,490</u>	<u>P 6,191,197,740</u>	<u>P 1,250,213,075</u>	<u>P 51,146,401,138</u>
Balance as of January 1, 2018	P 5,139,141,223	P 23,032,292,775	P -	P -	P 28,171,433,998
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 )
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	-	-	-	426,000,000
Unamortized discount	-	-	( 357,848,409 )	-	( 357,848,409 )
Balance as of December 31, 2018	<u>P 3,045,567,756</u>	<u>P 30,257,526,103</u>	<u>P 6,596,913,591</u>	<u>P -</u>	<u>P 39,900,007,450</u>

## 20. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Trade payables:			
Third parties		<b>P 10,244,468,510</b>	P 6,142,277,375
Related parties	29.2, 29.3, 29.11	<b>34,074,046</b>	<u>84,630,306</u>
		<b>10,278,542,556</b>	6,226,907,681
Accrued expenses		<b>910,580,684</b>	895,209,882
Non-trade payables		<b>233,126,209</b>	112,877,855
Retention payable		<b>138,869,144</b>	137,666,139
Advances from customers		<b>117,930,781</b>	7,208,523
Contract liability	23.1	<b>16,102,117</b>	-
Others		<b>146,509,602</b>	<u>54,969,172</u>
		<b><u>P 11,841,661,093</u></b>	<b><u>P 7,434,839,252</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 that are not related to primary business activities of the Group, such as, utility bills, travel expenses and purchase of office supplies, among others.

## 21. DERIVATIVE FINANCIAL LIABILITIES

In 2019, PNX SG entered into forward contracts with notional amount of P7,922.6 million, maturing in 2020. For purposes of estimating the fair value of the derivative contract, whenever possible, the Group utilizes quoted market price and, if not available, estimates from third-party brokers or banks. These brokers' or banks' estimates are corroborated with multiple sources and/or other observable market data utilizing assumptions about risk and market liquidity.

The purpose of these contracts is to mitigate the fluctuations of expected physical oil sales and purchase contracts.

As of December 31, 2019, derivative financial instruments with negative fair value related to forward contracts amounted to P311.0 million and is presented as Derivative Financial Liabilities in the 2019 consolidated statement of financial position.

In 2019, the Group recognized fair value loss on derivative contracts amounting to P464.2 million, presented as part of Net purchases under Cost of sales in the 2019 statement of profit or loss (see Note 23.2).

## 22. OTHER NON-CURRENT LIABILITIES

This account consists of:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Customers' cylinder deposits		<b>P 440,803,046</b>	P 276,285,558
Cash bond		<b>306,311,395</b>	56,702,491
Security deposits		<b>100,979,556</b>	266,616,512
Post-employment defined benefit obligation	26.3	<b>58,747,779</b>	771,210
Unearned rent		<b><u>30,427,368</u></b>	<u>20,226,494</u>
		<b><u>P 937,269,144</u></b>	<u>P 620,602,265</u>

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 P15.4 million, P3.6 million and P6.3 million in 2019, 2018 and 2017, respectively, and is presented as part of Finance Costs in the consolidated statements of comprehensive income (see Note 25.1).

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 P4.2 million, P5.6 million and P6.4 million as of December 31, 2019, 2018 and 2017, 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. In 2019 and 2018, there were no refunds made to the dealers. The composition of this account as of December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Deposits for cylinders	<b>P 520,730,811</b>	P 431,736,323
Less:		
Amortization of cylinder deposits	<b>( 79,927,765)</b>	( 63,609,144)
Gain on reversal of cylinder deposits	<b><u>-</u></b>	<u>( 91,841,621)</u>
	<b><u>P 440,803,046</u></b>	<u>P 276,285,558</u>

The Group recognized gain on reversal of cylinder deposits amounting to nil, P91.8 million and nil in 2019, 2018 and 2017, respectively, and is presented as part of Fuel Service and Other Income in the consolidated statements of comprehensive income.

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.

## 23. REVENUES AND COST OF SALES AND SERVICES

### 23.1 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
<b>December 31, 2019</b>			
Primary geographical markets			
Philippines	P 70,608,485,903	P 1,076,337,219	P 71,684,823,122
Singapore	23,930,537,249	129,118,676	24,059,655,925
Vietnam	<u>1,962,630,037</u>	<u>289,092</u>	<u>1,962,919,129</u>
	<b><u>P 96,501,653,189</u></b>	<b><u>P 1,205,744,987</u></b>	<b><u>P 97,707,398,176</u></b>
Major goods/service lines			
Fuel and by-products	P 88,384,504,235	P -	P 88,384,504,235
LPG	6,658,249,908	-	6,658,249,908
Merchandise	1,261,783,677	-	1,261,783,677
Lubricants	197,115,369	-	197,115,369
Management service	-	686,538,216	686,538,216
Hauling and into-plane	-	299,614,442	299,614,442
Others	<u>-</u>	<u>219,592,329</u>	<u>219,592,329</u>
	<b><u>P 96,501,653,189</u></b>	<b><u>P 1,205,744,987</u></b>	<b><u>P 97,707,398,176</u></b>
<b>December 31, 2018</b>			
Primary geographical markets			
Philippines	P 66,671,555,943	P 824,182,312	P 67,495,738,255
Singapore	<u>21,001,166,720</u>	<u>-</u>	<u>21,001,166,720</u>
	<b><u>P 87,672,722,663</u></b>	<b><u>P 824,182,312</u></b>	<b><u>P 88,496,904,975</u></b>
Major goods/service lines			
Fuel and by-products	P 81,233,780,249	P 3,214,286	P 81,236,994,535
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 87,672,722,663</u></b>	<b><u>P 824,182,312</u></b>	<b><u>P 88,496,904,975</u></b>

All of the Group's revenues except revenues from management service, hauling and into-plane services and franchise fees (insignificant in amount), which are presented as part of Fuel Services and Other Revenues are recognized 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 when the right to receive payment is already established and upon performance of unsatisfied performance obligation, respectively. Contract liabilities amounted to P16.1 million and nil as of December 31, 2019 and 2018, respectively (see Note 20).

**23.2 Cost of Sales and Services**

**(a) Costs of Sales and Services**

This account is composed of the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cost of fuels and lubricants		<b>P 81,968,236,723</b>	P 74,428,515,179	P 37,251,184,765
Cost of LPG		<b>3,884,245,585</b>	3,439,226,822	1,093,919,764
Cost of merchandise		<b>958,804,773</b>	971,222,819	-
	24	<b><u>P 86,811,287,081</u></b>	<u>P 78,838,964,820</u>	<u>P 38,345,104,529</u>

**(b) Cost of Fuels, Lubricants, LPG and Merchandise Sold**

The cost of inventories sold are broken down as follows:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Inventories at beginning of year		<b>P 11,135,494,286</b>	P 12,416,237,073	P 2,998,780,146
Net purchases during the year	21	<b>87,272,448,848</b>	77,381,553,342	47,660,988,176
Overhead costs	11.2	<b>65,183,757</b>	95,924,146	38,427,130
Business combination	1.4	<b>17,777,095</b>	80,744,545	63,146,150
Goods available for sale		<b>98,490,903,986</b>	89,974,459,106	50,761,341,602
Inventories at end of year	8	<b>( 11,679,616,905)</b>	( 11,135,494,286)	( 12,416,237,073)
		<b><u>P 86,811,287,081</u></b>	<u>P 78,838,964,820</u>	<u>P 38,345,104,529</u>

## 24. COSTS AND EXPENSES BY NATURE

The details of the Group's costs and expenses by nature are shown below.

	Notes	2019	2018	2017
Cost of inventories sold		<b>P 86,746,103,324</b>	P 78,743,040,674	P 38,306,677,397
Depreciation and amortization	11.2,12.1,16	<b>1,436,858,782</b>	1,056,749,318	851,080,582
Salaries and employee benefits	26.1	<b>1,105,276,877</b>	868,282,821	438,875,069
Freight and trucking charges		<b>903,075,451</b>	859,631,739	667,780,304
Rent	12.3,17,29.3,33.3	<b>650,422,093</b>	865,873,379	654,110,277
Taxes and licenses	16	<b>533,449,335</b>	531,258,432	581,832,247
Advertising and promotions		<b>506,812,297</b>	373,530,774	267,197,963
Service fees		<b>242,782,883</b>	123,721,448	134,022,166
Utilities		<b>173,645,341</b>	154,238,778	73,874,917
Professional fees		<b>152,814,551</b>	78,808,924	53,176,668
Security fees		<b>119,510,213</b>	114,708,711	82,623,951
Repairs and maintenance		<b>108,313,018</b>	167,873,962	90,491,317
Fuel, oil and lubricants		<b>94,388,831</b>	69,321,906	50,194,019
Travel and transportation		<b>92,173,989</b>	82,991,673	58,361,503
Outside services		<b>90,809,455</b>	14,924,503	2,881,506
Insurance		<b>72,622,096</b>	71,827,325	40,957,246
Dues and subscriptions		<b>58,014,578</b>	37,887,492	-
Management fee		<b>40,916,557</b>	-	-
Office supplies		<b>40,475,106</b>	42,948,909	16,634,489
Impairment losses on trade and other receivables	7, 29.4	<b>29,938,952</b>	68,465,111	50,335,399
Representation		<b>27,338,499</b>	27,946,580	9,814,799
Donations and contributions	29.13	<b>22,720,000</b>	91,762,500	-
Royalties	33.5	<b>13,203,844</b>	12,790,403	-
Sales incentives		<b>4,330,921</b>	20,965,232	13,481,660
Provision for loss on lost cylinders	11	-	24,290,486	-
Deficiency taxes		-	45,858	5,295,972
Miscellaneous		<b>63,355,992</b>	76,828,179	102,433,029
		<b><u>P 93,329,352,985</u></b>	<b><u>P 84,580,715,117</u></b>	<b><u>P 42,552,132,480</u></b>

The expenses are classified in the consolidated statements of comprehensive income as follows:

	Note	2019	2018	2017
Cost of sales and services	23.2	<b>P 86,811,287,081</b>	P 78,838,964,820	P 38,345,104,529
Selling and administrative expenses		<b>6,518,065,904</b>	5,741,750,297	4,207,027,951
		<b><u>P 93,329,352,985</u></b>	<b><u>P 84,580,715,117</u></b>	<b><u>P 42,552,132,480</u></b>



## 25. FINANCE COSTS AND FINANCE INCOME

The breakdown of these accounts follows:

### 25.1 Finance Costs

	Notes	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest expense on bank loans and other borrowings	18.5	P 2,582,918,502	P 1,376,994,786	P 780,917,196
Bank charges		140,127,818	54,113,374	16,779,298
Interest expense from lease liabilities	12.4	80,990,270	-	-
Foreign currency exchange losses – net		18,882,435	14,575,031	92,823
Interest expense from security deposits	22	15,375,962	3,564,480	6,341,824
Interest expense from post-employment defined benefit obligation – net	26.3	-	-	576,720
		<u>P 2,838,294,987</u>	<u>P 1,449,247,671</u>	<u>P 804,707,861</u>

### 25.2 Finance Income

	Notes	<u>2019</u>	<u>2018</u>	<u>2017</u>
Foreign currency exchange gains – net		P 51,070,736	P 37,007,589	P 37,832,533
Interest income from cash in banks	6	30,008,994	27,225,602	15,662,627
Interest income on amortization of rental deposits	17	3,109,626	2,761,638	2,711,436
Interest income from restricted deposits	9	2,178,826	1,437,706	106,880
Interest income on retirement benefits	26.3	120,023	1,148,645	-
Interest income from overdue trade receivables		-	1,796,910	-
Others		107,585	1,996,252	-
		<u>P 86,595,790</u>	<u>P 73,374,342</u>	<u>P 56,313,476</u>

## 26. EMPLOYEE BENEFITS

### 26.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below.

	Notes	<u>2019</u>	<u>2018</u>	<u>2017</u>
Short-term benefits:				
Salaries and wages		P 827,449,755	P 673,553,312	P 323,104,897
Employee welfare and other benefits		189,633,713	103,315,524	63,959,232
13 <sup>th</sup> month pay and bonuses		57,299,929	67,321,587	30,893,578
Post-employment defined benefit	26.3	22,037,668	16,848,732	9,327,496
Employee share options	26.2	<u>8,855,812</u>	<u>7,243,666</u>	<u>11,589,866</u>
	24	<u>P 1,105,276,877</u>	<u>P 868,282,821</u>	<u>P 438,875,069</u>

### 26.2 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 P8.9 million, P7.2 million, P11.6 million and P5.8 million in 2019, 2018 and 2017, 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. Other information related to the ESOP are presented in Note 30.7.

### 26.3 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 2019 and 2018.

The amounts of post-employment defined benefit obligation, which is presented as part of Other Non-current Liabilities account (see Note 22) in the consolidated statements of financial position, are determined as follow:

	<u>2019</u>	<u>2018</u>
Present value of obligation	<b>P 243,226,068</b>	P 169,428,265
Fair value of plan assets	<b>( 184,478,289)</b>	( 170,568,742)
Funded status	<b>58,747,779</b>	( 1,140,477)
Effect of asset ceiling	<u>-</u>	<u>1,911,687</u>
	<b><u>P 58,747,779</u></b>	<b><u>P 771,210</u></b>

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	<b>P 169,428,265</b>	P 123,569,725
Current service cost	<b>22,037,668</b>	16,848,732
Effect of business combination	-	3,664,685
Remeasurements:		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	<b>41,582,356</b>	( 32,969,509)
Changes in demographic assumptions	<b>834,124</b>	3,091,223
Experience adjustments	<b>33,621</b>	51,934,933
Benefits paid from plan assets	<b>( 3,400,197)</b>	( 4,036,824)
Interest expense	<b><u>12,710,231</u></b>	<u>7,325,300</u>
Balance at end of year	<b><u>P 243,226,068</u></b>	<b><u>P 169,428,265</u></b>

The movements in the fair value of plan assets are presented below.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	<b>P 170,568,742</b>	P 122,023,565
Contributions to the plan	-	54,718,273
Benefits paid from plan assets	<b>( 3,400,197)</b>	( 4,036,824)
Interest income	<b>12,982,615</b>	8,473,945
Gain (loss) on plan assets (excluding amounts included in net interest)	<b><u>4,327,129</u></b>	<u>( 10,610,217)</u>
Balance at end of year	<b><u>P 184,478,289</u></b>	<b><u>P 170,568,742</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 in the succeeding page.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	<b><u>P 16,782,873</u></b>	<u>P 14,929,101</u>
Quoted equity securities:		
Holding	<b>4,900,000</b>	1,036,800
Property	<b>4,091,760</b>	7,374,000
Construction	<b>2,721,139</b>	2,658,740
Telecommunications	<b>2,130,000</b>	2,044,800
Manufacturing (Preferred)	<b><u>7,017,260</u></b>	<u>1,799,780</u>
	<b><u>20,860,159</u></b>	<u>14,914,120</u>
Government bonds	<b><u>58,784,525</u></b>	<u>55,700,985</u>
Unit investment trust funds (UITF)	<b><u>37,957,399</u></b>	<u>68,001,187</u>
Corporate Bonds	<b><u>49,171,013</u></b>	<u>17,023,349</u>
Others	<b><u>922,320</u></b>	<u>-</u>
	<b><u>P 184,478,289</u></b>	<u>P 170,568,742</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), excluding UITF and certain Corporate bond amounting to P6.4 million and nil in 2019 and 2018, respectively (classified as Level 2 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>2019</u>	<u>2018</u>	<u>2017</u>
<i>Reported in profit or loss:</i>				
Current service cost	26.1	<b>P 22,037,668</b>	P 16,848,732	P 9,327,496
Net interest expense (income)	25.1, 25.2	<b>( 120,023 )</b>	( 1,148,645 )	576,720
Settlement loss		<u>-</u>	<u>-</u>	<u>3,582,092</u>
		<b><u>P 21,917,645</u></b>	<b><u>P 15,700,087</u></b>	<b><u>P 13,486,308</u></b>
<i>Reported in other comprehensive income:</i>				
Actuarial gains or losses arising from changes in:				
Financial assumptions		<b>P 41,582,356</b>	( P 32,969,509 )	( P 5,478,352 )
Demographic assumptions		<b>834,124</b>	3,091,223	( 355,175 )
Experience adjustments		<b>33,621</b>	51,934,933	( 5,001,689 )
Return (loss) on plan assets (excluding amounts included in net interest expense)		<b>( 2,560,261 )</b>	10,610,217	( 3,399,323 )
Effect of asset ceiling		<u>-</u>	<u>1,727,069</u>	<u>174,463</u>
		<b><u>P 39,889,840</u></b>	<b><u>P 34,393,933</u></b>	<b><u>( P 14,060,076 )</u></b>

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 23).

The net interest expense is included as part of Finance Costs under the Other Charges (Income) (see Note 25.1).

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rates	<b>5.06% to 5.22%</b>	7.53% to 7.97%	5.70% to 5.82%
Expected rate of salary increases	<b>5.00%</b>	2.00% to 6.00%	5.00% to 6.00%

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 25.1 and 20.0 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.

(e) *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>2019</b>		
		<b>Impact on Post-employment Benefit Obligation</b>		
	<b>Change in Assumption</b>		<b>Increase in Assumption</b>	<b>Decrease in Assumption</b>
<b>Discount rate</b>	<b>+/- 1.00%</b>	<b>P</b>	<b>24,298,496</b>	<b>( P 20,982,932 )</b>
<b>Salary increase rate</b>	<b>+/- 1.00%</b>		<b>24,089,410</b>	<b>( 21,199,591 )</b>

		<b>2018</b>		
		<b>Impact on Post-employment Benefit Obligation</b>		
	<b>Change in Assumption</b>		<b>Increase in Assumption</b>	<b>Decrease in Assumption</b>
<b>Discount rate</b>	<b>+/- 1.00%</b>	<b>(P</b>	<b>13,482,291 )</b>	<b>P 15,252,253</b>
<b>Salary increase rate</b>	<b>+/- 1.00%</b>		<b>15,529,199</b>	<b>( 13,461,468 )</b>

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.

(i) *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, 2019 and 2018 is allocated to market gains and losses and accrued receivables.

(ii) *Funding Arrangements and Expected Contributions*

As of December 31, 2019, the plan is underfunded by P58.7 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 P13.3 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:

	<u><b>2019</b></u>	<u><b>2018</b></u>
Within one year	<b>P 21,109,357</b>	<b>P 23,403,502</b>
More than one year to five years	<b>86,856,520</b>	<b>71,661,736</b>
More than five years to ten years	<b><u>190,971,465</u></b>	<b><u>149,066,180</u></b>
	<b><u>P 298,937,342</u></b>	<b><u>P 244,131,418</u></b>

The weighted average duration of the defined benefit obligation at the end of the reporting period is ten years.

## 27. 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	Income Tax Holiday (ITH) Expiry
27.1	Bacolod City	PPPI	May 10, 2012	5 Years	May 9, 2017
27.2	Cagayan De Oro City	PPPI	May 10, 2012	5 Years	May 9, 2017
27.3	Naga City, Cebu	PLPI	March 7, 2013	5 Years	March 6, 2018
27.4	Tayud, Consolacion	PPPI	Nov 24, 2017	5 Years	Nov 24, 2022
27.5	Calapan, Oriental Mindoro	PPPI	Sep 9, 2017	5 Years	Sep 9, 2022
27.6	Villanueva, Misamis Oriental	PPPI	Oct 12, 2017	5 Years	Oct 12, 2022
27.7	Calaca, Batangas Expansion	PPPI	Dec 22, 2017	5 Years	Dec 22, 2022
27.7	Calaca, Batangas Expansion 2	PPPI	April 3, 2019	5 Years	April 3, 2024
27.8	General Santos City	PPPI	March 14, 2019	5 Years	March 14, 2024

### 27.1 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.

### 27.2 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.

### 27.3 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.

### 27.4 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.

**27.5 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.

**27.6 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.

**27.7 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 Calaca, Batangas Oil Terminal 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.

On April 3, 2019, the Parent Company has registered with BOI under Registration No. 2019-068 its expansion for the Bulk Marketing of Petroleum Products in Calaca, Batangas Terminal, which pertains to the additional one storage tank with capacity of 16.1 million liters. 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 the additional one storage tank are entitled to avail the incentives which include, among others, ITH for a period of five years without extension from April 2019 or date of registration whichever is earlier but in no case earlier than the date of registration.

**27.8 BOI Registration for New Investment in General Santos City Oil Depot**

On March 14, 2019, the Parent Company has registered with BOI under Registration No. 2019-051 its new project for the Bulk Marketing of Petroleum Products in General Santos City Oil Depot. 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 General Santos City Oil Depot are entitled to avail the incentives which include, among others, ITH for a period of five years without extension from March 2019 or date of registration whichever is earlier but in no case earlier than the date of registration.

As of December 31, 2019 and 2018, the Parent Company and PLPI have complied with the terms and conditions under their ITH registrations.



## 28. TAXES

The components of tax expenses reported in the consolidated profit or loss and in the consolidated other comprehensive income is presented below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30.00% and 17.00%	P 306,486,865	P 723,376,187	P 558,801,190
Concessionary tax at 10.00%	3,480,410	-	-
Final tax at 20.00% and 7.50%	2,495,031	9,174,318	3,157,079
Minimum corporate income tax (MCIT) at 2.00%	<u>1,428,924</u>	<u>12,308,333</u>	<u>1,657,937</u>
	<u>313,891,230</u>	<u>744,858,838</u>	<u>563,616,206</u>
Deferred tax expense (income) relating to origination and reversal of temporary differences	<u>33,768,003</u>	<u>(138,270,517)</u>	<u>(155,548,968)</u>
	<u>P 347,659,233</u>	<u>P 606,588,321</u>	<u>P 408,067,238</u>
<i>Reported in other comprehensive income:</i>			
Deferred tax expense relating to origination and reversal of temporary differences	<u>(P 31,647,040)</u>	<u>P 355,635,633</u>	<u>P 4,218,023</u>

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Tax on pretax profit at 30.00% and 17.00%	P 599,910,093	P 893,992,261	P 804,031,571
Adjustment for income subjected to lower income tax rates	5,128,568	(1,671,503)	(186,606,000)
Tax effects of:			
Adjustment for income and expenses under ITH	(319,235,104)	(353,339,769)	(190,713,945)
Non-deductible expenses	98,250,449	17,551,587	62,995,167
Non-taxable income	(36,005,434)	(7,656,113)	(2,732,284)
Share benefit expense on exercised stock options	(2,656,016)	(2,533,289)	(2,528,710)
Reversal of MCIT	2,266,677	2,696,116	3,157,282
Unrecognized deferred tax asset	-	72,038,868	-
Recognition of previously unrecognized deferred tax asset on impairment losses	-	(16,415,482)	-
Reversal of net operating loss carry over (NOLCO)	-	1,881,501	2,761,014
Reversal of deferred tax liability on 2017 unrealized forex gain, realized in 2018	-	44,144	(83,181,314)
Derecognition of previously recognized deferred tax assets	-	-	884,457
	<u>-</u>	<u>-</u>	<u>884,457</u>
Tax expense reported in consolidated statements of comprehensive income	<u>P 347,659,233</u>	<u>P 606,588,321</u>	<u>P 408,067,238</u>

The net deferred tax assets and liabilities as of December 31, 2019 and 2018 pertain to the following:

	Consolidated Statements of Financial Position		Effects of Business Combination	Consolidated Statements of Comprehensive Income						
	2019	2018		Profit or Loss			Other Comprehensive Income (Loss)			
				2019	2018	2017	2019	2018	2017	
Deferred tax assets:										
Provision for losses on lost cylinders	P 78,914,501	P 78,914,501	P -	P -	P 7,287,145	P -	P -	P -	P -	P -
Unamortized past service cost	22,583,297	33,066,105	-	( 10,482,808)	25,335,330	1,600,550	-	-	-	-
Post-employment benefit obligation	19,129,322	587,075	-	6,575,296	( 11,624,391)	( 6,006,157)	11,966,951	10,318,180	( 4,218,023)	-
NOLCO	18,460,448	1,570,632	-	11,492,684	( 13,720,738)	4,116,765	-	-	-	-
Unrealized foreign currency loss – net	10,484,099	12,912,783	-	( 2,428,684)	11,063,337	1,110,382	-	-	-	-
MCIT	6,209,364	6,967,764	-	4,638,732	347,035	( 1,037,884)	-	-	-	-
Accrued rent expense	-	13,465,656	-	( 13,465,656)	13,465,656	( 2,593,275)	-	-	-	-
Others	-	-	-	-	( 761,428)	( 1,041,871)	-	-	-	-
	<u>155,781,031</u>	<u>147,484,516</u>	<u>-</u>	<u>( 3,670,436)</u>	<u>31,391,946</u>	<u>( 3,851,490)</u>	<u>11,966,951</u>	<u>10,318,180</u>	<u>( 4,218,023)</u>	<u>-</u>
Deferred tax liabilities:										
Lease liability	P 224,575,042	P -	P -	P 224,575,042	P -	P -	P -	P -	P -	P -
Fair value gains on investment property	( 472,357,724)	( 408,299,316)	-	( 42,764,656)	( 187,482,300)	( 220,817,016)	( 21,293,752)	-	-	-
Gain on revaluation of land	( 463,161,826)	( 365,953,813)	( 110,446,823)	35,559,049	-	-	( 22,320,239)	( 365,953,813)	-	-
Right-of-use assets	( 202,536,021)	-	-	( 202,536,021)	-	-	-	-	-	-
Impairment losses on trade and other receivables	198,825,527	172,626,073	-	26,199,454	37,127,041	( 3,955,666)	-	-	-	-
Accrued rent income	( 24,578,726)	( 13,987,805)	-	( 10,590,921)	( 3,145,841)	( 10,106,110)	-	-	-	-
Unrealized foreign currency gains – net	( 9,164,871)	( 16,161,363)	-	6,996,492	( 16,161,363)	83,181,314	-	-	-	-
	<u>( 748,398,599)</u>	<u>( 631,776,224)</u>	<u>( 110,446,823)</u>	<u>37,438,439</u>	<u>( 169,662,463)</u>	<u>( 151,697,478)</u>	<u>( 43,613,991)</u>	<u>( 365,953,813)</u>	<u>-</u>	<u>-</u>
Net deferred tax asset (liability)	<u>(P 592,617,568)</u>	<u>(P 484,291,708)</u>	<u>(P 110,446,823)</u>							
Net deferred tax income (expense)				<u>P 33,768,003</u>	<u>(P 138,270,517)</u>	<u>(P 155,548,968)</u>	<u>(P 31,647,040)</u>	<u>(P 355,635,633)</u>	<u>(P 4,218,023)</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>
2019	P	58,778,118	P	17,633,435	2022
2017		<u>2,756,710</u>		<u>827,013</u>	2020
	P	<u>61,534,828</u>	P	<u>18,460,448</u>	

Except for foreign subsidiaries, which are governed by taxes as prescribed by tax authorities of the countries they are domiciled, the Group is subject to 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. MCIT was higher than RCIT for all the years presented for PGMI, 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>
2019	P	-	P 1,428,924	P 1,428,924	P 1,428,924	2022
2018		-	3,113,011	3,113,011	3,113,011	2021
2017		-	<u>1,667,430</u>	<u>1,667,430</u>	<u>1,667,430</u>	2020
	P	-	<u>P 6,209,365</u>	<u>P 6,209,365</u>	<u>P 6,209,365</u>	

In 2019, 2018 and 2017, the Group claimed itemized deductions in computing for its income tax due.

## 29. 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, 2019, 2018, and 2017 is presented in the next page.

Category	Related Party Notes	Amount of Transactions			Outstanding Balance	
		2019	2018	2017	2019	2018
<b>Other related parties under common ownership</b>						
Sale of subsidiaries	7,29.9	P -	P -	P -	P 500,000,000	500,000,000
Sale of goods	7,29.1	7,480,791,892	4,732,957,659	2,038,584,803	4,207,636,773	1,851,288,462
Sale of services	7,29.10	686,538,216	322,703,055	-	714,935,482	346,703,054
Purchase of goods	22,29.2	3,438,172,675	1,035,334,676	-	34,074,046	56,511,741
Purchase of services	20,29.2	-	352,010,893	115,202,871	-	2,467,366
Purchase of land	20,29.11	-	92,880,000	-	-	19,876,320
Advances to suppliers	7,29.2	1,154,125,041	115,305,467	-	30,811,857	115,305,467
Management fees	7,29.6	281,173	-	( 2,139,028 )	86,614,907	86,598,808
Rentals	20,29.3	101,414,780	104,531,407	41,194,056	-	5,774,879
Prepaid Rent		9,362,671	-	-	-	9,362,671
Advances for option to purchase properties	7,17,29.12	( 77,036,191 )	2,577,036,191	-	2,500,000,000	2,577,036,191
Due from related parties	29.4	2,073,628	421,266,746	( 988,966,628 )	1,986,811	939,271,644
Donations	24,29.13	8,825,000	30,610,000	-	-	-
<b>Ultimate parent</b>						
Advances to suppliers	17,29.2	950,752,328	742,356,217	13,456,176	1,651,621,799	1,167,194,841
Lease liability	12,24,25.1,29.3	167,656,447	-	-	167,656,447	-
Rentals	20,29.3	-	7,106,449	1,101,775	-	-
Sale of services	7,29.10	443,569,686	100,000,000	-	497,082,768	112,000,000
Sale of goods	7,29.1	795,636	392,022	-	-	126,897
<b>Key management personnel</b>						
Salaries and Employee benefits	24,29.7	264,741,615	258,103,179	80,182,994	-	-

### 29.1 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. In 2018, 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 2019 based on management's assessment.

### 29.2 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 20). 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 to the Group's ultimate parent were also made for the purchase of properties and is presented as Advances to Supplier under other non-current assets in the consolidated statements of financial position (see Note 17). The outstanding balances are unsecured, non-interest bearing, payable on demand and normally settled in cash.

### 29.3 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 2019, 2018 and 2017 amounted to nil, P7.1 million and P1.1 million, respectively. Refundable rental deposits amounted to P0.77 million and nil as of December 31, 2019 and 2018, respectively, and is presented as part of refundable rental deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 17).
- (b) Udenna Land, Inc. (ULI) – of which total rent expense in the years 2019, 2018 and 2017 amounted to nil, P7.2 million and P6.3 million, respectively. Prepaid rent amounted to nil and P1.3 million in 2019 and 2018, respectively (see Note 10). Rental deposit for the lease amounted to P6.7 million and P6.5 million as of December 31, 2019 and 2018, respectively, is presented as part of refundable rental deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 17).
- (c) Valueleases, Inc. (VLI) – of which total rent expense on short-term leases in the years 2019, 2018 and 2017 amounted to P78.4 million, P72.4 million and P34.9 million, respectively. Prepaid rent amounted to P9.3 million and P17.8 million in 2019 and 2018, respectively (see Note 10). Refundable rental deposits amounted to P21.1 million and P19.0 million as of December 31, 2019 and 2018, respectively, and is presented as part of refundable rental deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 17).

The rent expenses aforementioned are presented as part of Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 24) and the related outstanding rent payables for ULI 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 20).

In 2019, PFM entered into lease agreement with Udenna Corporation for 15 years. PFM recognized lease liability of P164.5 million at initial recognition. PFM also recognized depreciation expense and interest expense amounting to P4.6 million and P4.5 million, respectively (see Notes 12, 24 and 25.1).

### 29.4 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, 2019 and 2018, 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.

The breakdown of the Due from Related Parties as of December 31 is as follows:

	Note	<u>2019</u>	<u>2018</u>
PAPI		<b>P 1,979,538</b>	P 5,241,248
P-H-O-E-N-I-X Philippines Foundation, Inc. (PPFI)		<b>94,089</b>	58,118
Calaca Industrial Seaport Corp. (CISC)		-	933,096,022
Galaxi Petroleum Fuels, Inc.		-	876,256
Udenna Corporation		-	540,810
		<u><b>2,073,627</b></u>	<u>939,812,454</u>
Allowance for impairment	4.2(b)	<u><b>( 86,816)</b></u>	<u>( 1,908,282)</u>
		<u><b>P 1,986,811</b></u>	<u>P 937,904,172</u>

The movement of Due from Related Parties as of December 31 is as follows:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year		<b>P 937,904,172</b>	P 516,096,616
Reclassification	7	<b>( 933,096,022)</b>	( 77,018,291)
Collections		<b>( 6,716,432)</b>	( 25,952,983)
Additions		<b>2,073,627</b>	524,778,830
Recovery of bad debts		<b>1,908,282</b>	-
Impairment loss for the year	24	<b>( 86,816)</b>	-
Balance at end of year		<b><u>P 1,986,811</u></b>	<b><u>P 937,904,172</u></b>

### 29.5 Loan Collaterals

The TLA with DBP, OLSA with BDO and PBCComm, loan agreement with HSBC and CBC and certain banks loans of the Parent Company were guaranteed by certain stockholders through a surety agreement with the respective banks (see Note 9).

### 29.6 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.

### 29.7 Key Management Compensations

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Salaries and wages	<b>P 209,333,343</b>	P 215,217,266	P 59,621,546
13 <sup>th</sup> month pay and bonuses	<b>21,772,957</b>	17,622,482	5,488,660
Honoraria and allowances	<b>13,110,558</b>	13,192,196	6,242,372
Post-employment benefits	<b>16,794,233</b>	8,494,913	3,623,132
Share-based payment	<b><u>3,730,524</u></b>	<u>3,576,322</u>	<u>5,207,284</u>
	<b><u>P 264,741,615</u></b>	<b><u>P 258,103,179</u></b>	<b><u>P 80,182,994</u></b>

### 29.8 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, 2019 and 2018 is shown in Note 26.3. As of December 31, 2019 and 2018, 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 26.3.

### **29.9 Sale of Subsidiaries**

In 2016, the Parent Company disposed its equity share in CSC to Chelsea Logistics and Infrastructure Holdings Corp. (CLIHC), and in CISC to Udenna Land, Inc. (ULI). Total consideration of the sale of subsidiaries amounted to P3,000.0 million, in which a total of P500.0 million is still receivable as of both December 31, 2019 and 2018. The outstanding receivables arising from the sale of subsidiaries is presented as part of Non-trade receivables under Trade and Other Receivables in the 2019 and 2018 consolidated statement of financial position (see Note 7).

### **29.10 Sale of Service**

In 2019 and 2018, the Group entered into a service agreement with certain related parties to temporarily operate and manage the related parties' operations. Total service income recognized in 2019 and 2018 amounted to P686.5 million and P337.5 million, respectively. The outstanding balance from services rendered to related parties amounted to P1.3 billion and P458.7 million in 2019 and 2018, respectively.

The service income is 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.

### **29.11 Purchase of Land**

In 2018, 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 20). The outstanding balances are unsecured, non-interest bearing, payable on demand and normally settled in cash. The amount was settled in 2019.

### **29.12 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 (see Note 7).

In 2019, the option to purchase properties remained unexercised. Accordingly, this was reclassified to Other Non-current Assets in the 2019 consolidated statement of financial position (see Note 17).

### **29.13 Others**

The Group granted P8.8 million and P30.6 million donations to Udenna Foundation, Inc. in 2019 and 2018, 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 24).

### 30. EQUITY

#### 30.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2019	2018	2017	2019	2018	2017
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>
Issued:						
Balance at beginning of year	32,000,000	30,000,000	30,000,000	32,000,000	P 30,000,000	P 30,000,000
Issuance during the year	7,000,000	2,000,000	-	7,000,000	2,000,000	-
Redemption	(2,000,000)	-	-	(2,000,000)	-	-
Balance at end of year	<u>37,000,000</u>	<u>32,000,000</u>	<u>30,000,000</u>	<u>37,000,000</u>	<u>32,000,000</u>	<u>30,000,000</u>
Treasury shares						
Balance at beginning of year	(10,000,000)	(5,000,000)	(5,000,000)	(10,000,000)	(5,000,000)	(5,000,000)
Redemption	-	(5,000,000)	-	-	(5,000,000)	-
Balance at end of year	<u>(10,000,000)</u>	<u>(10,000,000)</u>	<u>(5,000,000)</u>	<u>(10,000,000)</u>	<u>(10,000,000)</u>	<u>(5,000,000)</u>
Issued and outstanding	<u>27,000,000</u>	<u>22,000,000</u>	<u>25,000,000</u>	<u>P 27,000,000</u>	<u>P 22,000,000</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	1,434,304,232	1,431,538,232	1,428,777,232	P1,434,304,232	P1,431,538,232	P1,428,777,232
Issuance during the year	2,900,000	2,766,000	2,761,000	2,900,000	2,766,000	2,761,000
Balance at end of year	1,437,204,232	1,434,304,232	1,431,538,232	1,437,204,232	1,434,304,232	1,431,538,232
Treasury shares	(31,000,000)	(31,000,000)	-	(344,300,000)	(344,300,000)	-
Issued and outstanding	<u>1,406,204,232</u>	<u>1,403,304,232</u>	<u>1,431,538,232</u>	<u>P1,092,904,232</u>	<u>P1,090,004,232</u>	<u>P1,431,538,232</u>
				<u>P1,119,904,232</u>	<u>P1,112,004,232</u>	<u>P1,456,538,232</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 30.4).
- (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) On December 20, 2013, the Parent Company redeemed the preferred shares issued in 2010 (1<sup>st</sup> and 2<sup>nd</sup> tranche) and re-issued the same amount of P5.0 million (5.0 million shares at P1 par value).

The preferred shares shall have the following features as provided in the subscription agreement:

- 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.
- Dividends on the preferred shares shall have a fixed rate of 8.25% 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 debt to equity ratio of 3:1 throughout the life of the preferred shares. The Parent Company complied with this requirement in all applicable years presented.

- (f) 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 3<sup>rd</sup> tranche). The preferred shares' offer price is P100 per share and issued to various subscribers in two subseries – PNX3A and PNX3B (see Note 30.2).

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.

The subscription agreement does not include financial, affirmative and negative covenants.

- (g) 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. The subscription agreement does not include financial, affirmative and negative covenants.
- (h) On November 7, 2019, the Parent Company issued and listed its 7.0 million perpetual preferred shares (P1.0 par value) Series 4 with the PSE. The preferred shares' offer price is P1,000.00 per share and issued to various subscribers (see Note 30.2).

The Series 4 of preferred shares have the same features with the 3 tranches of preferred shares except for the following:

Dividend rates:	PNX4	7.5673% per annum (Initial dividend rate)
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Unless the preferred shares are redeemed by the Parent Company on the 3<sup>rd</sup> anniversary of the issue date, the applicable dividend rate shall be adjusted to the higher of the initial dividend rate and the simple average of the yield designated as "Final BVAL YTM" for the 7-year Republic of the Philippines peso-denominated domestic government bonds, for three (3) business days immediately preceding (and including) the 3<sup>rd</sup> anniversary of the issue date plus 850 basis points.

Dividend payment dates: Dividends shall be payable on February 7, May 7, August 7 and November 7 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.

The subscription agreement does not include financial, affirmative and negative covenants.

### 30.2 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 30.1).

On November 7, 2019, the Parent Company has listed its Series 4 preferred shares with the PSE (see Note 30.1).

The market prices of the shares as of December 31 are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
PNX (Common)	<b>P 11.94</b>	P 10.74	P 12.88
PNX 3A (Preferred)	<b>100.60</b>	100.00	103.70
PNX 3B (Preferred)	<b>106.70</b>	102.00	108.80
PNX 4 (Preferred)	<b>1,022.00</b>	-	-

### 30.3 Track Registration of Shares

The number of shareholders as of December 31 are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Common	<b>62</b>	66	60
Preferred			
a) First tranche	-	-	-
b) Second tranche	<b>1</b>	1	1
c) PNX 3A	<b>5</b>	5	5
d) PNX 3B	<b>4</b>	4	4
e) PNX 4	<b>3</b>	-	-



<u>Transaction</u>	<u>Type of Stock Common or Preferred</u>	<u>No. of Shares Registered</u>	<u>Issue/Offer Price and Par Value</u>	<u>Date of Approval</u>	<u>Issued and Outstanding</u>
<i>(Amounts brought forward)</i>		<u>2,550,000,000</u>			<u>P1,436,248,632</u>
Redeemed treasury shares	Common	1		7/15/2016	( 3,600,700 )
Redeemed treasury shares	Common	1		7/19/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		7/22/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/1/2016	( 150,000 )
Redeemed treasury shares	Common	1		8/2/2016	( 203,600 )
Redeemed treasury shares	Common	1		8/5/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/11/2016	( 200,000 )
Redeemed treasury shares	Common	1		8/12/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/18/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/19/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		8/23/2016	( 200,000 )
Redeemed treasury shares	Common	1		8/26/2016	( 500,000 )
Redeemed treasury shares	Common	1		8/30/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		8/31/2016	( 287,300 )
Redeemed treasury shares	Common	1		9/1/2016	( 700,000 )
Redeemed treasury shares	Common	1		9/2/2016	( 760,000 )
Redeemed treasury shares	Common	1		9/6/2016	( 500,000 )
Redeemed treasury shares	Common	1		9/7/2016	( 200,000 )
Redeemed treasury shares	Common	1		9/8/2016	( 298,800 )
Redeemed treasury shares	Common	1		9/9/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		9/13/2016	( 500,000 )
Redeemed treasury shares	Common	1		9/19/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		9/20/2016	( 300,000 )
Redeemed treasury shares	Common	1		9/21/2016	( 600,000 )
Redeemed treasury shares	Common	1		9/23/2016	( 200,000 )
Redeemed treasury shares	Common	1		9/26/2016	( 100,000 )
Redeemed treasury shares	Common	1		9/27/2016	( 386,600 )
Redeemed treasury shares	Common	1		9/28/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		10/3/2016	( 1,029,000 )
Redeemed treasury shares	Common	1		10/4/2016	( 700,000 )
Redeemed treasury shares	Common	1		10/5/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		10/6/2016	( 600,000 )
Redeemed treasury shares	Common	1		10/7/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		10/10/2016	( 650,000 )
Redeemed treasury shares	Common	1		10/12/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/13/2016	( 1,000,000 )
Redeemed treasury shares	Common	1		10/17/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/20/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/21/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/24/2016	( 500,000 )
Redeemed treasury shares	Common	1		10/26/2016	( 850,000 )
Redeemed treasury shares	Common	1		10/27/2016	( 500,000 )
Redeemed treasury shares	Common	1		11/2/2016	( 500,000 )
Redeemed treasury shares	Common	1		11/7/2016	( 300,000 )
Redeemed treasury shares	Common	1		11/9/2016	( 300,000 )
Redeemed treasury shares	Common	1		11/10/2016	( 100,000 )
Redeemed treasury shares	Common	1		11/16/2016	( 100,000 )
Redeemed treasury shares	Common	1		11/17/2016	( 300,000 )
Redeemed treasury shares	Common	1		12/8/2016	( 198,700 )
Redeemed treasury shares	Common	1		12/9/2016	( 700,000 )
<i>Amounts carried forward)</i>		<u>2,550,000,000</u>			<u>P1,406,233,932</u>

<u>Transaction</u>	<u>Type of Stock Common or Preferred</u>	<u>No. of Shares Registered</u>	<u>Issue/Offer Price and Par Value</u>	<u>Date of Approval</u>	<u>Issued and Outstanding</u>
<i>(Amounts brought forward)</i>		<u>2,550,000,000</u>			<u>P1,406,233,932</u>
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>		<u>2,550,000,000</u>			<u>P1,456,538,232</u>

Transaction	Type of Stock Common or Preferred	No. of Shares Registered	Issue/Offer Price and Par Value	Date of Approval	Issued and Outstanding
<i>(Amounts brought forward)</i>		<b><u>2,550,000,000</u></b>			<b><u>P1,456,538,232</u></b>
Issuance	Common		1	5/23/2018	73,000
Issuance	Common		1	6/30/2018	2,128,000
Redeemed treasury shares	Common		1	9/12/2018	( 25,000,000 )
Issuance	Common		1	9/30/2018	447,000
Redeemed treasury shares	Common		1	11/21/2018	( 3,500,000 )
Redeemed treasury shares	Common		1	11/21/2018	( 2,500,000 )
Issuance	Preferred		1	12/5/2018	2,000,000
			1,000	Issue price	
Issuance	Common		1	12/31/2018	118,000
Redeemed treasury shares	Treasury Shares		1	12/20/2018	( 5,000,000 )
Issuance	Common		1	7/1/2019	2,572,000
Redeemed treasury shares	Preferred		1	8/15/2019	( 500,000 )
			1,000	Issue price	
Issuance	Common		1	11/4/2019	328,000
Redeemed treasury shares	Preferred		1	11/6/2019	( 1,500,000 )
			1,000	Issue price	
Issuance	Preferred		1	11/8/2019	7,000,000
			1,000	Issue price	
<b>Total</b>		<b><u>2,550,000,000</u></b>			<b><u>P1,433,204,232</u></b>

### 30.4 Additional Paid-in Capital

In 2019, the Parent Company issued 7.0 million of its preferred shares at P1,000.00 per share. Premiums received in excess of the par value amounting to P6,784.7 million, net of stock issue cost of P208.3 million, were recorded as part of Additional Paid-in Capital account in the 2019 consolidated statement of financial position. In addition, the Parent Company also redeemed 2.0 million shares at P1,000.0 per share for a total consideration paid of P2,000.0 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 P1,998.0 million.

In 2019, the Parent Company issued 2.9 million of its common shares at exercise price of P5.68 per stock option resulting to an additional premium of P22.4 million (Notes 30.1 and 30.7). The fair value of stock options exercised in 2019, 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 P8.9 million, which is computed at P3.05 per stock option.

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 30.1 and 30.7). 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 30.1).

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 Udenna Management and Resources Corporation (UMRC) in relation to the share-for-share swap acquisition of Chelsea Shipping Corporation (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.

### 30.5 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 and in the succeeding page.

	Revaluation of Land	Actuarial Gain or Loss on Defined Benefit Obligation	Accumulated Translation Adjustment	Total
Balance as of January 1, 2019				
As previously reported	P 853,892,230	(P 26,381,802)	P -	P 827,510,428
Prior period adjustment [see Note 2.1(b)]	-	-	24,928,394	24,928,394
As restated	<u>853,892,230</u>	<u>(26,381,802)</u>	<u>24,928,394</u>	<u>852,438,822</u>
Revaluation increment	145,379,972	-	-	145,379,972
Remeasurements of post-employment defined benefit obligation	-	( 39,889,840)	-	( 39,889,840)
Translation adjustment	-	-	( 69,712,613)	( 69,712,613)
Tax income (expense)	( 43,613,991)	11,966,951	-	( 31,647,040)
Other comprehensive income (loss) after tax	<u>101,765,981</u>	<u>(27,922,889)</u>	<u>(69,712,613)</u>	<u>4,130,479</u>
Transfer to retained earnings due to change in the use of land (see Notes 11 and 16)	( 49,685,423)	-	-	( 49,685,423)
Translation adjustment attributable to non-controlling interests	-	-	( 14,903)	( 14,903)
	<u>(49,685,423)</u>	<u>-</u>	<u>(14,903)</u>	<u>(49,700,326)</u>
Balance as of December 31, 2019	<b><u>P 905,972,788</u></b>	<b><u>(P 54,304,691)</u></b>	<b><u>(P 44,799,122)</u></b>	<b><u>P 806,868,975</u></b>



	<u>Revaluation of Land</u>	<u>Actuarial Gain or Loss on Defined Benefit Obligation</u>	<u>Accumulated Translation Adjustment</u>	<u>Total</u>
Balance as of January 1, 2018				
As previously reported	P -	( P 2,306,049 )	P -	( P 2,306,049 )
Prior period adjustment [see Note 2.1(b)]	-	-	( 3,791,486 )	( 3,791,486 )
As restated	<u>-</u>	<u>( 2,306,049 )</u>	<u>( 3,791,486 )</u>	<u>( 6,097,535 )</u>
Revaluation increment	1,219,846,043	-	-	1,219,846,043
Remeasurements of post-employment defined benefit obligation	-	( 34,393,933 )	-	( 34,393,933 )
Translation adjustment	-	-	28,719,880	28,719,880
Tax income (expense)	( 365,953,813 )	<u>10,318,180</u>	-	( 355,635,633 )
Other comprehensive income (loss) after tax	<u>853,892,230</u>	<u>( 24,075,753 )</u>	<u>28,719,880</u>	<u>858,536,357</u>
Balance as of December 31, 2018	<u>P 853,892,230</u>	<u>( P 26,381,802 )</u>	<u>P 24,928,394</u>	<u>P 852,438,822</u>
Balance as of January 1, 2017	<u>P -</u>	<u>( P 12,148,102 )</u>	<u>P -</u>	<u>( P 12,148,102 )</u>
Remeasurements of post-employment defined benefit obligation	-	14,060,076	-	14,060,076
Translation adjustment	-	-	( 3,791,486 )	( 3,791,486 )
Tax expense	-	( 4,218,023 )	-	( 4,218,023 )
Other comprehensive income (loss) after tax	<u>-</u>	<u>9,842,053</u>	<u>( 3,791,486 )</u>	<u>6,050,567</u>
Balance as of December 31, 2017	<u>P -</u>	<u>( P 2,306,049 )</u>	<u>( P 3,791,486 )</u>	<u>( P 6,097,535 )</u>

### 30.6 Retained Earnings

On March 14, 2019, the Parent Company's BOD approved the declaration and payment of common share cash dividends of 15 centavos per share totalling to P210.5 million, record date of April 8, 2019. A total of P312.5 million cash dividends were also declared and distributed to 2<sup>nd</sup> and 3<sup>rd</sup> tranche, and private placement preferred stockholders in 2019. No stock dividends were declared and distributed in 2019.

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.

### 30.7 ESOP

On January 24, 2013, the Parent Company's BOD approved the ESOP for its eligible employees.

The initial offering date of the option was on July 1, 2016 and will vest five years from the date of grant. Pursuant to this ESOP, on July 1, 2016, the Parent Company granted share options to certain key executives to subscribe to 24.5 million common shares of the Parent Company equivalent to 2.2% of the total issued shares, at an exercise price of P5.68 per share.

Stock options will be granted in two tranches until July 1, 2021. The allocation for Tranche 1 every year is computed at 10.0% of the total available shares for exercise. Meanwhile, the allocation for Tranche 2 is based on the forecasted assessment of the executives' performance rating for five years.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Life of the option	5 years
Current share price at grant date	P 6.25
Exercise price at grant date	P 5.68
Standard deviation of the rate of return	0.4
Risk-free interest rate	3.80%

The underlying expected volatility was determined by reference to historical date of the Group's shares over a period of time consistent with the option life.

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time consistent with the option life.

A total of P8.9 million, P7.2 million and P11.6 million share-based executive compensation is recognized in 2019, 2018 and 2017, respectively, and presented as part of Employee benefits under Selling and Administrative Expenses account in 2019, 2018 and 2017 consolidated statements of comprehensive income, respectively, with a corresponding credit to Retained Earnings account.

### **30.8 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>2019</u>	<u>2018</u>
Total liabilities	<b>P 65,034,622,017</b>	P 48,846,319,163
Total equity	<b><u>21,922,755,249</u></b>	<u>15,973,672,857</u>
Debt-to-equity ratio	<b><u>3.0 : 1.0</u></b>	<u>3.0 : 1.0</u>

The increase of the total assets and liabilities in 2019 is due to: 1) the business combination, 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; and, 3) impact on adoption of PFRS 16, leases, where the Group recognized right-of-use assets and the related lease liabilities. The increase in equity is due to the issuance of the Parent Company's fourth series of (PNX 4) preference shares, 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 goal in capital management is to maintain a debt-to-equity structure ratio that is in line with the Group's covenants related to its bank borrowings.

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.

### 31. EARNINGS PER SHARE

EPS were computed as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
a) Net profit pertaining to common shares	<b>P 853,982,096</b>	P 2,455,907,552	P 1,521,422,847
b) Net profit attributable to common shares and potential common shares	<b>853,982,096</b>	2,455,907,552	1,521,422,847
c) Weighted average number of outstanding common shares	<b>1,404,437,174</b>	1,424,576,265	1,372,487,454
d) Weighted average number of outstanding common and potential common shares	<b>1,405,612,929</b>	1,426,593,300	1,377,270,489
Basic EPS (a/c)	<b><u>P 0.61</u></b>	<u>P 1.72</u>	<u>P 1.11</u>
Diluted EPS (b/d)	<b><u>P 0.61</u></b>	<u>P 1.72</u>	<u>P 1.10</u>

The potential dilutive common shares totalling 1,175,755, 2,017,035 and 4,783,035 shares in relation to the unexercised share warrants were considered in the computation of diluted EPS in 2019, 2018 and 2017.

### 32. SEGMENT REPORTING

#### 32.1 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) Real estate segment is involved in real estate development, management and operations.

#### 32.2 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.

#### 32.3 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, 2019 and 2018 and certain asset and liability information regarding industry segments as of December 31, 2019 and 2018 (in thousands).

	Sale of Goods			Fuel Service and Other Revenue			Real Estate			Total		
	Trading			Depot and Logistics								
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
<b>TOTAL REVENUES</b>												
Sales to external customers	P 96,501,653	P 87,672,723	P 44,148,952	P 1,205,745	P 824,182	P 301,403	P 115,711	P 113,863	P 92,627	P 97,823,109	P 88,610,768	P 44,542,982
Intersegment sales	42,720,298	20,139,519	4,180,373	333,355	209,985	-	18,519	16,721	22,338	43,072,172	20,366,225	4,202,711
Total revenues	<b>139,221,951</b>	<b>107,812,242</b>	<b>48,329,325</b>	<b>1,539,100</b>	<b>1,034,167</b>	<b>301,403</b>	<b>134,230</b>	<b>130,584</b>	<b>114,965</b>	<b>140,895,281</b>	<b>108,976,993</b>	<b>48,745,693</b>
<b>COSTS AND OTHER OPERATING EXPENSES</b>												
Cost of sales and services excluding depreciation and amortization	134,268,949	102,895,593	45,419,830	674,835	958,174	437,631	20,882	36,424	46,303	134,964,666	103,890,191	45,903,764
Depreciation and amortization	1,429,361	1,047,919	841,340	6,849	8,130	9,040	649	700	700	1,436,859	1,056,749	851,080
	<b>135,698,310</b>	<b>103,943,557</b>	<b>46,261,170</b>	<b>681,684</b>	<b>966,304</b>	<b>446,671</b>	<b>21,531</b>	<b>37,124</b>	<b>47,003</b>	<b>136,401,525</b>	<b>104,946,940</b>	<b>46,754,844</b>
<b>SEGMENT OPERATING PROFIT (LOSS)</b>	<b>P 3,523,641</b>	<b>P 3,868,685</b>	<b>P 2,068,155</b>	<b>P 857,416</b>	<b>P 67,863</b>	<b>(P 145,268)</b>	<b>P 112,699</b>	<b>P 93,460</b>	<b>P 67,962</b>	<b>P 4,493,756</b>	<b>P 4,030,053</b>	<b>P 1,990,849</b>
<b>ASSETS AND LIABILITIES</b>												
Segment assets	P 99,840,747	P 70,099,484		P 567,205	P 564,287		P 1,421,142	P 415,081		P 101,829,094	P 71,078,852	
Segment liabilities	73,370,565	51,410,451		416,632	421,481		1,312,806	318,206		75,100,003	52,150,138	
<b>OTHER SEGMENT INFORMATION</b>												
Interest expense	P 2,582,919	P 1,376,995	P 780,917	P -	P -	P -	P 80,990	P -	P -	P 2,663,909	P 1,376,995	P 780,917
Interest income	32,307	28,663	15,770	-	-	-	3,110	2,762	2,711	35,417	31,425	18,481
Income tax expense	338,042	600,167	404,457	4,310	5,642	2,761	5,307	779	849	347,659	606,588	408,067
Equity share in net income of joint venture	16,510	7,342	-	-	-	-	-	-	-	16,510	7,342	-
Fair value loss on financial liabilities at FVTPL	464,161	-	-	-	-	-	-	-	-	464,161	-	-

### 32.1 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>2019</u>	<u>2018</u>	<u>2017</u>
<b>Revenues</b>			
Total segment revenues	P 140,895,281	P 108,976,993	P 48,745,693
Elimination of intersegment revenues	( 43,072,172)	( 20,366,225)	( 4,202,711)
Revenues as reported in profit or loss	<u>P 97,823,109</u>	<u>P 88,610,768</u>	<u>P 44,542,982</u>
<b>Profit or loss</b>			
Segment operating profit	P 4,493,756	P 4,030,053	P 1,990,849
Fair value on investment property	71,570	624,941	-
Equity share in net income of joint venture	16,510	7,342	-
Excess of fair value of net assets acquired over acquisition costs	-	-	650,182
Other unallocated income	<u>12,100</u>	<u>87,267</u>	<u>36,853</u>
Operating profit as reported in profit or loss	4,593,936	4,749,603	2,677,884
Finance costs	( 2,838,295)	( 1,449,248)	( 804,708)
Finance income	<u>86,596</u>	<u>73,375</u>	<u>56,313</u>
Profit before tax as reported in profit or loss	<u>P 1,842,237</u>	<u>P 3,373,730</u>	<u>P 1,929,490</u>
<b>Assets</b>			
Segment assets	P 101,829,094	P 71,078,852	
Right-of-use assets – net	1,142,726	-	
Deferred tax assets – net	155,781	147,485	
Elimination of intercompany accounts	( 16,170,224)	( 6,566,058)	
Total assets reported in the consolidated statements of financial position	<u>P 86,957,377</u>	<u>P 64,660,279</u>	
<b>Liabilities</b>			
Segment liabilities	P 75,100,003	P 52,150,138	
Lease liabilities	1,096,852	-	
Deferred tax liabilities – net	748,399	631,776	
Elimination of intercompany accounts	( 11,910,632)	( 4,095,308)	
Total liabilities as reported in the consolidated statements of financial position	<u>P 65,034,622</u>	<u>P 48,686,606</u>	

### 32.2 Geographical Segments

The Group has identified three geographical areas as operating segments, which represent the location of the Group's operations in 2019. The Group is operating in the Philippines, Singapore and Vietnam. In 2018 and 2017, the Group assessed that geographical segments other than the Philippines are not significant and relevant to present separately.

Presented below are the reportable geographical segments of the Group (in thousands) in 2019.

	<u>Philippines</u>	<u>Singapore</u>	<u>Vietnam</u>	<u>Total</u>
<b>TOTAL REVENUES</b>				
Sales to external customers	P 71,800,534	P 24,059,656	P 1,962,919	P 97,823,109
Intersegment sales	<u>496,997</u>	<u>42,575,175</u>	<u>-</u>	<u>43,072,172</u>
Total revenues	<u>72,297,531</u>	<u>66,634,831</u>	<u>1,962,919</u>	<u>140,895,281</u>
<b>COSTS AND OTHER OPERATING EXPENSES</b>				
Cost of sales and services excluding depreciation and amortization	24,234,193	109,153,582	1,576,891	134,964,666
Depreciation and amortization	<u>1,265,861</u>	<u>106,909</u>	<u>64,089</u>	<u>1,436,859</u>
	<u>25,500,054</u>	<u>109,260,491</u>	<u>1,640,980</u>	<u>136,401,525</u>
<b>SEGMENT OPERATING PROFIT (LOSS)</b>	<b><u>P 46,797,477</u></b>	<b><u>(P 42,625,660)</u></b>	<b><u>P 321,939</u></b>	<b><u>P 4,493,756</u></b>
<b>ASSETS AND LIABILITIES</b>				
Segment assets	P 87,300,573	P 13,026,609	P 1,501,912	P 101,829,094
Segment liabilities	62,476,882	11,283,239	1,339,882	75,100,003

### 33. COMMITMENTS AND CONTINGENCIES

#### 33.1 Capital Commitments

As of December 31, 2019, 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 655 operating retail service stations as of December 31, 2019. An additional of 55 retail service stations are under various stages of completion as of December 31, 2019.

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.

#### 33.2 Unused LCs

As of December 31, 2019 and December 31, 2018, the Parent Company has unused LCs amounting to P12,620.2 million and P17,111.3 million, respectively (see Note 18.4).

### 33.3 Operating Lease Commitments – Group as Lessee (2018)

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 as of December 31, 2018 are presented as follows:

Within one year	P 502,525,573
After one year but not more than five years	1,714,046,926
More than five years	<u>2,376,914,724</u>
	<u>P 4,593,487,223</u>

Total rent expense for the years 2018 and 2017 amounted to P865.9 million and P654.1 million, respectively (see Note 24).

### 33.4 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>2019</u>	<u>2018</u>
Within one year	P 121,127,284	P 97,563,919
After one year but not more than five years	255,243,357	135,545,769
More than five years	<u>70,121,251</u>	<u>3,545,631</u>
	<u>P 446,491,892</u>	<u>P 236,655,319</u>

Rent income in 2019, 2018 and 2017 amounting to P115.7 million, P113.9 million and P92.6 million, respectively, is presented as Rent Income in the consolidated statements of comprehensive income.

Rent income recognized in 2019 on lease of investment properties and sublease of right-of-use assets amounted to P20.2 million and P95.5 million, respectively. No impairment on right-of-use assets related to subleased properties were recognized in 2019.

### 33.5 PFM's Franchise

#### (a) 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 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 13).

Royalty expense recognized by PFM in 2019 and 2018, amounted to P13.21 million P12.79 million, and is presented under Selling and Administrative Expenses in the 2019 and 2018 consolidated statements of comprehensive income (see Note 24). As of December 31, 2019, PFM recognized royalty payable amounting to P1.1 million as part of Others under Trade and Other Payables in the 2019 consolidated statement of comprehensive income (see Note 20). There are no outstanding payable in 2018 relating to the royalty.

**(b) PFM as Franchisor**

In December 2014, PFM started entering into franchise agreements whereby, as an Area Franchisor, PFM grants exclusive rights to qualified persons and entities (Franchisees) to own and operate FamilyMart stores 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 PFM equivalent to a percentage of gross profit. Cash receipts of the franchised stores from merchandise sales are initially deposited to PFM. Deductions are made from this fund for the cost of merchandise sales, share of 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 PFM has performed initial services as franchisor as agreed under the agreement. As of December 31, 2019, there are no outstanding liabilities. Revenues from franchise fees in 2019 and 2018 amounted to P64.6 million and P56.0 million, respectively, and is presented as part of Fuel service and other revenues in the consolidated statements 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 2019 consolidated financial statements.

**33.6 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 its results of operations.

- (a) In May 2011, the Bureau of Customs (BOC) filed before the Department of Justice (DOJ) a complaint against the Group's President and Chief Executive Officer and other respondents for alleged violation of Sections 3602, 2501(I)(1) & (5), 1801, 1802 and 3604 of the Tariff and Customs Code of the Philippines. In November 2012, the DOJ dismissed the case for lack of probable cause against all respondents. In April 2013, the DOJ, upon motion for reconsideration filed by the BOC, reversed its earlier resolution and recommended the filing of Criminal Information against the respondents. Criminal Information for alleged violations of Section 3602, in relation to Sections 3601, 2530 1 (I) & 5, 1801 and 3604 of the Tariff and Customs Code of the Philippines were filed before the Regional Trial Courts (RTC) of Batangas and Davao City in August 2013. Separately, in September and October 2013, RTC Batangas and Davao City, respectively, have dismissed all charges against the Parent Company's President and Chief Executive Officer.
- (b) On October 7, 2013, the DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge Ruben A. Galvez dated October 7, 2013 with RTC Batangas. On the other hand, on November 15, 2013, the DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge George A. Omelio dated November 15, 2013 with RTC Davao. On December 6, 2013, RTC Batangas issued an Order dated December 6, 2013 denying the DOJ's Motion for Reconsideration with Motion for Inhibition. On July 7, 2014, RTC Batangas issued a Certificate of Finality of even date stating that its Order dated December 6, 2013 affirming the Order dated September 17, 2013 is now final and executory since no appeal was filed.



- (c) On August 18, 2014, RTC Davao issued an order of even date denying the DOJ's Motion for Reconsideration. The Office of the Solicitor General, on behalf of the People of the Philippines, filed the Petition for Certiorari dated October 27, 2014 with the Court of Appeals seeking the reversal of the Orders dated October 4, 2013 and August 18, 2014 issued by public respondents Judges Omelio and Hon. Loida S. Posadas-Kahulugan. On October 24, 2016, the Group received the decision of the Court of Appeals denying the Petition for Certiorari dated October 27, 2014. On November 10, 2016, Mr. Uy received a copy of the Motion for Reconsideration filed with the CA.

A Motion for Reconsideration filed by the DOJ and the BOC, seeking the reversal of the decision dated July 25, 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 Supreme Court (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 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, 2019 and 2018, 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.

#### **34. EVENTS AFTER THE END OF THE REPORTING PERIOD**

##### ***34.1 Assignment and Transfer of Retail Stations to PPMI***

On January 27, 2020, the BOD of the Parent Company authorized the management to assign and transfer 72 Company-Owned Dealer-Operated (CODO) retail stations worth P700.0 million from the Parent Company to PPMI as part of additional investment in PPMI.

##### ***34.2 Subsequent Recognition of Settlement Gains on Purchases subject to Hedge Instruments***

In January 2020, PNX SG recognized P166.6 million forward contract settlement gains in relation to the fair value loss on derivative financial instrument recognized by PNX SG for the month of December 2019 amounting to P88.0 million. This pertains to purchases and sale transactions of PNX SG of 20,149 metric tons of LPG to third parties.



## **Report of Independent Auditors on Components of Financial Soundness Indicators**


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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries (the Group) for the year ended December 31, 2019 and 2018, on which we have rendered our report dated February 28, 2019. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the two years in the period ended December 31, 2019 and no material exceptions were noted.

### **PUNONGBAYAN & ARAULLO**

By:   
**Ramiro L. Nañola**  
Partner

CPA Reg. No. 0090741  
TIN 109-228-427  
PTR No. 8116551, January 2, 2020, Makati City  
SEC Group A Accreditation  
Partner - No. 0395-AR-4 (until Sept. 16, 2022)  
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 28, 2020

**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Financial Soundness Indicators**  
**December 31, 2019**

Ratio	Formula	Ratio	
		2019	2018
<b>Current Ratio</b>	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>0.84</b>	<b>1.10</b>
<b>Acid test ratio</b>	$\frac{\text{Cash and cash equivalents} + \text{Trade and other receivables} - \text{net} + \text{Due from related parties}}{\text{Current Liabilities}}$	<b>0.51</b>	<b>0.70</b>
<b>Cash Ratio</b>	$\frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$	<b>0.19</b>	<b>0.23</b>
<b>Solvency Ratio</b>	$\frac{\text{After Tax Net Profit} + \text{Depreciation}}{\text{Long term liabilities} + \text{Short term Liabilities}}$	<b>0.05</b>	<b>0.08</b>
<b>Debt to Equity Ratio</b>	$\frac{\text{Total Liabilities}}{\text{Equity}}$	<b>2.97</b>	<b>3.05</b>
<b>Debt Service Coverage Ratio</b>	$\frac{\text{Net Operating Income}}{\text{Net Interest Expense} + \text{Long-term repayments}}$	<b>1.16</b>	<b>1.63</b>
<b>Asset to Equity Ratio</b>	$\frac{\text{Total Assets}}{\text{Equity}}$	<b>3.99</b>	<b>4.06</b>
<b>Interest Rate Coverage Ratio</b>	$\frac{\text{Earnings Before Interest and Taxes}}{\text{Interest Expense}}$	<b>1.71</b>	<b>3.45</b>
<b>Gross Profit Margin</b>	$\frac{\text{Sales} - \text{Cost of Goods Sold}}{\text{Sales}}$	<b>0.11</b>	<b>0.11</b>
<b>Return on Assets</b>	$\frac{\text{Net Income}}{\text{Total Assets}}$	<b>0.02</b>	<b>0.04</b>
<b>Return on Equity</b>	$\frac{\text{Net Income}}{\text{Equity}}$	<b>0.07</b>	<b>0.17</b>



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## **Report of Independent Certified Public Accountants to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Consolidated Financial Statements**

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**The Board of Directors and Stockholders**  
**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
Stella Hizon Reyes Road  
Barrio 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, 2019, on which we have rendered our report dated February 28, 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) is presented for purposes of additional analysis in compliance with the requirements of Revised Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

### **PUNONGBAYAN & ARAULLO**

By: **Ramilito L. Nañola**  
Partner

CPA Reg. No. 0090741

TIN 109-228-427

PTR No. 8116551, January 2, 2020, Makati City

SEC Group A Accreditation

Partner - No. 0395-AR-4 (until Sept. 16, 2022)

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

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

February 28, 2020

**Certified Public Accountants**

Punongbayan & Araullo [P&A] is the Philippine member firm of Grant Thornton International Ltd

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

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**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**List of Supplementary Information**  
**December 31, 2019**

<b>Schedule</b>	<b>Content</b>	<b>Page No.</b>
<b>Schedules Required under Annex 68-J of the Revised Securities Regulation Code Rule 6f</b>		
A	Financial Assets	1
B	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	2
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	3
D	Long-term Debt	4
E	Indebtedness to Related Parties (Long-term Loans from Related Companies)	N/A
F	Guarantees of Securities of Other Issuers	N/A
G	Capital Stock	5
<b>Other Required Information</b>		
	Reconciliation of Retained Earnings Available for Dividend Declaration	6
	Map Showing the Relationship Between the Company and its Related Entities	7

**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule A - Financial Assets**  
**December 31, 2019**

<i>Description</i>			<i>Carrying Value</i>			<i>Fair Value</i>
Loans and receivables:						
Cash and cash equivalents	P		9,810,770,115	P		9,810,770,115
Trade and other receivables - net			15,617,098,103			15,617,098,103
Due from related parties			1,986,811			1,986,811
Construction bond			6,727,753			6,727,753
Restricted deposits			54,462,326			54,462,326
Refundable rental deposits			<u>323,634,283</u>			<u>323,634,283</u>
			<b><u>P 25,814,679,391</u></b>			<b><u>P 25,814,679,391</u></b>

Notes:

- 1) There are no other financial assets applicable to the Group, except for loans and receivables.
- 2) Trade and other receivables excludes advances to suppliers and advances to subject to liquidation.
- 3) Construction bond is included as part of Others under Prepayments and Other Current Assets.
- 4) Net of allowance for impairment losses of P655,639,182.

**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, 2019**

<i>Name and Designation of debtor</i>	<i>Balance at beginning of period</i>	<i>Additions</i>	<i>Amounts collected</i>	<i>Reclassification</i>	<i>Ending Balance</i>		<i>Balance at end of period</i>
					<i>Current</i>	<i>Non-current</i>	
Calaca Industrial Seaport Corporation	P 933,096,022	P -	P -	( P 933,096,022 )	P -	P -	P -
P-H-O-E-N-I-X Philippines Foundation, Inc.	58,118	94,090	( 58,118 )	-	94,090	-	94,090
Phoenix Asphalt Philippines, Inc.	5,241,248	1,979,538	( 5,241,248 )	-	1,979,538	-	1,979,538
Galaxi Petroleum Fuels, Inc.	876,256	-	( 876,256 )	-	-	-	-
Udenna Corporation	540,810	-	( 540,810 )	-	-	-	-
	<b>P 939,812,454</b>	<b>P 2,073,627</b>	<b>( P 6,716,432 )</b>	<b>( P 933,096,022 )</b>	<b>P 2,073,627</b>	<b>P -</b>	<b>P 2,073,627</b>

Notes:

- 1) There are no amounts written-off. However, allowance for impairment of P86,816 was recognized. Balance at end of period net of allowance for impairment losses amounted to P1,986,810.
- 2) All are related parties under common ownership except for Udenna Corporation, which is the Ultimate Parent Company.



**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, 2019**

Creditor	Name and designation of debtor	Balance at beginning of period	Additions	Amounts Collected	Set-off and Adjustments	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 28,846,863	P 21,370,735	P -	P 25,833,140	P 24,384,458	P -	P 24,384,458
	PFL Petroleum Management, Inc.	435,701,855	1,678,237,329	18,905,540	390,225,000	1,704,808,474	-	1,704,808,474
	Subic Petroleum Trading and Transport Phils., Inc.	1,246,786,873	2,967,902,092	2,898,276,100	-	1,316,412,865	-	1,316,412,865
	PNX Petroleum Singapore, PTE Ltd.	24,442,898	-	24,442,898	-	-	-	-
	DUTA, Inc.	267,349,103	971,142,857	2,180,648	-	1,236,311,312	-	1,236,311,312
	Phoenix LPG Philippines, Inc.	55,152,138	20,191,729	45,063,886	-	30,279,981	-	30,279,981
	Action.Able, Inc.	198,892,712	177,157,030	35,320,566	-	340,729,176	-	340,729,176
	Philippine Familymart CVS, Inc.	692,498,930	222,869,692	1,042,247	-	914,326,375	-	914,326,375
	Phoenix Pilipinas Gas and Power, Inc.	-	300,100,000.00	-	-	300,100,000	-	300,100,000
			<b>P 2,949,671,202</b>	<b>P 6,358,971,464</b>	<b>P 3,025,231,886</b>	<b>P 416,058,140</b>	<b>P 5,867,352,640</b>	<b>P -</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 6,015,926	P 1,313,581	P -	P -	P 7,329,507	P -	P 7,329,507
	PFL Petroleum Management, Inc.	14,299,648	86,435,630	88,185,654	-	12,549,624	-	12,549,624
	Phoenix LPG Philippines, Inc.	161,417,629	212,949,986	154,248,973	-	220,118,642	-	220,118,642
	PNX Petroleum Singapore, PTE Ltd.	97,261,125	-	97,261,125	-	-	-	-
	Philippine Familymart CVS, Inc.	58,122	2,629,900	23,050	-	2,664,972	-	2,664,972
	Action.Able, Inc.	-	7,231,271	-	-	7,231,271	-	7,231,271
			<b>P 279,052,450</b>	<b>P 310,560,368</b>	<b>P 339,718,802</b>	<b>P -</b>	<b>P 249,894,016</b>	<b>P -</b>
Phoenix LPG Philippines, Inc. <i>Advances in subsidiaries/parent</i>	P-H-O-E-N-I-X Petroleum Philippines, Inc.	P 16,104,048	P -	P 16,104,048	P -	P -	P -	P -
	DUTA, Inc.	44,883,631	60,378,024	55,857,526	-	49,404,129	-	49,404,129
		<b>P 60,987,679</b>	<b>P 60,378,024</b>	<b>P 71,961,574</b>	<b>P -</b>	<b>P 49,404,129</b>	<b>P -</b>	<b>P 49,404,129</b>
Phoenix LPG Philippines, Inc. <i>Trade and Other Receivables</i>	PNX Petroleum Singapore, PTE Ltd.	<b>P 138,847,494</b>	<b>P -</b>	<b>P 138,847,494</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
DUTA, Inc.	Phoenix LPG Philippines, Inc. ( <i>Lease Receivable</i> )	<b>P 13,703,343</b>	<b>P 8,929</b>	<b>P 2,297,523</b>	<b>P -</b>	<b>P 11,414,748</b>	<b>P -</b>	<b>P 11,414,748</b>
PFL Petroleum Management, Inc.	P-H-O-E-N-I-X Petroleum Philippines, Inc. ( <i>Trade Receivables</i> )	<b>P 1,072,527</b>	<b>P 1,265,636</b>	<b>P 1,975,421</b>	<b>P -</b>	<b>P 362,742</b>	<b>P -</b>	<b>P 362,742</b>
PNX Petroleum Singapore, PTE Ltd. <i>Trade and Other Receivables</i>	P-H-O-E-N-I-X Petroleum Philippines, Inc.	P 1,847,066,349	P 4,024,727,273	P -	P -	P 5,871,793,622	P -	P 5,871,793,622
	Phoenix LPG Philippines, Inc.	-	126,299,647	-	-	126,299,647	-	126,299,647
	Subic Petroleum Trading & Transport Phils., Inc.	-	360,506,688	-	-	360,506,688	-	360,506,688
		<b>P 1,847,066,349</b>	<b>P 4,511,533,609</b>	<b>P -</b>	<b>P -</b>	<b>P 6,358,599,958</b>	<b>P -</b>	<b>P 6,358,599,958</b>
PNX Petroleum Singapore, PTE Ltd. <i>Advances in subsidiaries/parent</i>	P-H-O-E-N-I-X Petroleum Philippines, Inc.	<b>P -</b>	<b>P 5,230,027</b>	<b>P -</b>	<b>P -</b>	<b>P 5,230,027</b>	<b>P -</b>	<b>P 5,230,027</b>
Action.Able, Inc. <i>Trade and Other Receivables</i>	P-H-O-E-N-I-X Petroleum Philippines, Inc.	P -	P 3,929,138	P -	P -	P 3,929,138	P -	P 3,929,138
	Phoenix LPG Philippines, Inc.	-	321,429	-	-	321,429	-	321,429
	Philippine Familymart CVS, Inc.	-	235,000	-	-	235,000	-	235,000
		<b>P -</b>	<b>P 4,485,566</b>	<b>P -</b>	<b>P -</b>	<b>P 4,485,566</b>	<b>P -</b>	<b>P 4,485,566</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 - Long-Term Debt**  
**December 31, 2019**

<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>
Installment, notes and loans payable				
<i>Peso-denominated</i>				
BDO Unibank, Inc.	6,000,000,000	660,000,000	3,828,129,172	Interest rate of 5.3884%, seven-year term, maturing on August 7, 2024
BDO Unibank, Inc.	1,000,000,000	-	1,000,000,000	Interest rate of 5.713%, five year term, maturing on, August 18, 2021
BDO Unibank, Inc.	1,000,000,000	-	1,000,000,000	Interest rate of 5.3840%, maturing on November 10, 2022
BDO Unibank, Inc.	1,000,000,000	-	1,000,000,000	Interest rate of 5.3840%, maturing on November 10, 2022
Land Bank of the Philippines	5,000,000,000	50,000,000	4,900,000,000	Interest rate of 6.500%, seven-year term, maturing on July 4, 2025
Philippine National Bank	<u>500,000,000</u>	<u>100,000,000</u>	<u>25,000,000</u>	Interest rate of 6.2105%, five-year term, maturing on January 2, 2021
Total Installment, notes and loans payable	<u>14,500,000,000</u>	<u>810,000,000</u>	<u>11,753,129,172</u>	
<b>TOTAL</b>	<b><u>P 14,500,000,000</u></b>	<b><u>P 810,000,000</u></b>	<b><u>P 11,753,129,172</u></b>	

**P-H-O-E-N-I-X Petroleum Philippines, Inc.**  
**Schedule G - Capital Stock**  
**December 31, 2019**

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Preferred shares - P1 par value Non-voting, non-participating, non-convertible into common shares Issued and outstanding - 27,000,000	50,000,000	27,000,000	-	-	-	27,000,000
Common shares - P1 par value Issued and outstanding	2,500,000,000	1,406,204,232	-	717,852,743	7,576,326	680,775,163

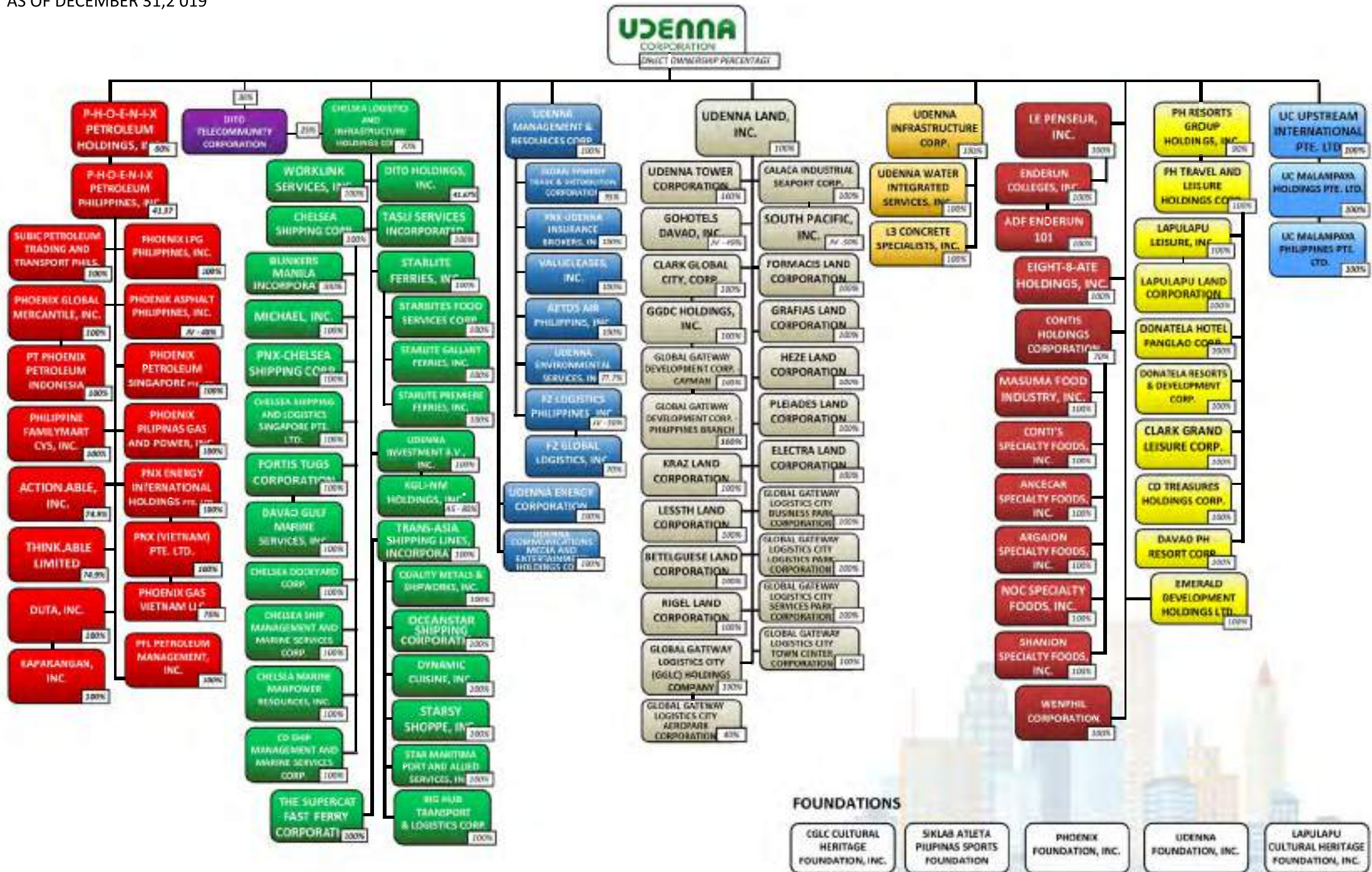
**P-H-O-E-N-I-X Petroleum Philippines, Inc.**  
**Stella Hizon Reyes Road, Barrio Pampang, Davao City**  
**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**December 31, 2019**

<b>UNAPPROPRIATED RETAINED EARNINGS AS ADJUSTED TO AVAILABLE FOR DIVIDEND DISTRIBUTION, BEGINNING</b>		<b>P</b>	<b>4,116,624,114</b>
<b>Net Profit based on the audited Statement of Comprehensive Income</b>	P		1,615,932,685
<b>Less: Non-actual/unrealized income net of tax</b>			
Other unrealized gains or adjustment to retained earnings as a result of day one gain on financial instrument			11,714,075
<b>Add: Non-actual losses</b>			
Unrealized foreign exchange loss - net (except those attributable to cash and cash equivalents)			21,511,838
Other unrealized loss or adjustment to retained earnings as a result of day one loss on financial instrument			17,730,707
Equity in net loss of joint venture net of tax			<u>471,893</u>
<b>Subtotal</b>			<u>28,000,362</u>
<b>Net income actually earned during the period</b>			<u>1,643,933,047</u>
<b>Add/Less:</b>			
Dividend declarations during the period:			
Common shares cash dividends	(	210,495,635 )	
Preferred shares cash dividends	(	<u>312,550,868</u> )	( <u>523,046,503</u> )
<b>UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED, ENDING</b>		<b>P</b>	<b><u>5,237,510,658</u></b>

# UDENNA CORPORATION AND SUBSIDIARIES

## UDENNA GROUP MAP

AS OF DECEMBER 31, 2019



\*CLC has indirect ownership in 2GO Group, Inc. of 28.17%