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Company's Annual Report	
<p>_____</p>	

**(082) 235-8888**

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Any day in March

12/31

MR. JOSEPH JOHN L. ONG

jojo.ong@phoenixfuels.ph

(082) 235-8888

\_\_\_\_\_

Stella Hizon Reyes Road, Bo. Pampanga, Davao City

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

## Report of Independent Auditors

**Punongbayan & Araullo**  
20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288

**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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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*

Revenue is recognized to the extent that the revenue can be reliably measured and that it is probable that the future economic benefits will flow to the Group. The Group's revenue is primarily generated from the sales of goods [fuels, liquefied petroleum gas (LPG), lubricants and other petroleum products], which is recognized once risks and rewards of the goods have passed to the buyer, and fuel services, which is recognized when the performance of contractually agreed tasks has been substantially rendered. The Group focuses on revenue as a key performance measure, which could create an incentive for revenues, particularly from sale of goods, to be recognized before the risks and rewards have been transferred. The accounting policies for revenues are included in Note 2 to the consolidated financial statements. We identified the valuation, occurrence, completeness and cut-off of revenue recognition as key audit matters.

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

Our audit procedures included, among others, the following:

- evaluating the appropriateness of the Group's revenue recognition policies;
- assessing, with the assistance of our internal IT specialists, the design and operating effectiveness of controls surrounding the revenues cycle;
- performing cut-off procedures to ensure that revenue was recognized in the correct period;
- performing substantive analytical procedures and tests of details on revenues; and,
- substantiating transactions with the underlying documentation, including sales invoices, contracts and third party correspondence.

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

##### *Description of the Matter*

Under the PFRS, the Group is required to assess its trade and other receivables for impairment. The allowance for impairment of trade and other receivables is considered to be a matter of significance as it requires the application of judgment and estimation. The Group recognized allowance for impairment on trade and other receivables based on management's assessment.

As of December 31, 2017, the Group had trade and other receivables amounting to P7,509.2 million, which contributed to 17% of the Group's total assets. As of December 31, 2017, the allowance for impairment on trade and other receivables amounted to P478.2 million.

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

*How the Matter was Addressed in the Audit*

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

- obtaining an understanding of the processes used by the Group's management to estimate the allowance for impairment of trade and other receivables;
- performing independent assessment on the aging of the trade and other receivables;
- checking the basis used in determining the main factors in computing the impairment loss on selected trade and other receivables accounts;
- testing the subsequent collections and/or movements of the long-outstanding receivables on selected trade and other receivable accounts; and,
- assessing the reasonableness of the Group's estimates on recoveries.

**(c) Business Combination**

*Description of the Matter*

As disclosed in Note 1.4, in 2017, the Group completed the acquisitions of Phoenix LPG Philippines, Inc. (PLPI) and Duta Group for P6,481.1 million and P394.2 million, respectively. The Group has determined these acquisitions to be business combinations for which the purchase price is to be allocated between the identifiable assets and liabilities at their respective fair values.

Following the various acquisitions, the management has determined Goodwill amounting to P3,980.4 million for the PLPI acquisition and Excess of Fair Value of Net Assets Acquired over Acquisition Cost (gain/income) amounting to P650.2 million for the Duta Group acquisition. We, therefore, considered the accounting treatment of the acquisition of these subsidiaries in the consolidated financial statements as a key audit matter due to the significance of the goodwill and gain from these business acquisitions, and due to the nature of transactions which involves significant management's judgments and estimates, especially on the valuation of the fair value of net assets acquired as of the acquisition date.

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

*How the Matter was Addressed in the Audit*

Our audit procedures included, among others, the following:

- reviewing the relevant minutes of meeting of the Parent Company for the approval of the transaction and executed share purchase agreement;
- examining the cash consideration given and verifying the net assets acquired as of the acquisition date;
- obtaining the valuations prepared by independent appraisers on certain properties;
- assessing the competencies and capabilities of the appraisers;
- testing the reasonableness of the fair values of the identifiable assets and liabilities of PLPI and Duta Group at the acquisition date; and,
- recalculating the consideration, goodwill and gain, and determining the appropriate treatment of the difference between the net assets acquired and considerations given.



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

*Description of the Matter*

As of December 31, 2017, the Group held P12,970.0 million of fuels, LPG and lubricant inventories, which is 29% of the total consolidated assets of the Group. Given the size of the inventory balance relative to the consolidated total assets of the Group and the estimates and judgments involved in this account, the valuation of inventory required our significant audit attention. As disclosed in Note 2.5, inventories are held at the lower of cost and net realizable value using the moving average method. As of year-end, the valuation of inventory is reviewed by the management and the cost of inventory is reduced where inventory is forecast to be sold below cost. The breakdown of inventory as of December 31, 2017 is disclosed in Note 8 in the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures included among others, the following:

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

**(e) Provision for Losses on Lost LPG Cylinders**

*Description of the Matter*

As a result of the acquisition of PLPI, the Group has acquired LPG cylinders by which the carrying value as of December 31, 2017 amounted to P948.7 million. Bulk of these LPG cylinders are at the dealers' and users' premises and management is not able to physically examine their 100% existence. Due to the lack of means to track their existence on a regular basis, there is a possibility that a portion of the issued LPG cylinders to the market may no longer be existing due to scrappage by third parties and regular wear and tear. However, management estimates provision for losses on lost LPG cylinders based on internal simulations and computations on non-generating LPG cylinders.

Given the significant volume and cost of the LPG cylinders and the estimates and judgments involved in this account, the provision for losses on lost LPG cylinders required our significant audit attention. Based on management's assessment, no provision is provided in 2017, however, the accumulated provision for losses on lost LPG cylinders as of December 31, 2017 amounted to P238.8 million.

The disclosures of the Group on the policy of provision for losses on lost LPG cylinders, key sources of estimation uncertainty and carrying values are disclosed in Notes 2.7, 3.2(i) and 11 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures included among others, the following:

- understanding the cycle of the Group's LPG inventories sold in LPG cylinders;
- testing the simulation prepared by the management on the possible number of LPG cylinders circulating in the market in respect to the actual generated revenues from the sale of LPG through LPG cylinders and the reasonable turnover of LPG-filled cylinders;
- comparing the results of the simulation to the outstanding number of cylinders issued to the market, based on the Group's records; and,
- performing ocular inspection on a random basis on the available LPG cylinders within the Group's plants and refilling stations.

**(f) Goodwill**

*Description of the Matter*

Under the PFRS, the Group is required to annually test the amount of goodwill for impairment or whenever there is an impairment indicator. In 2017, significant goodwill arose when the Group acquired the 100% shares of PLPI. Goodwill is determined as the difference between the acquisition or purchase cost and the fair value of the net assets acquired. This annual impairment test was significant to our audit because the balance of the goodwill amounting to P3,990.7 million as of December 31, 2017 is material to the Group's consolidated financial statements. In addition, management's process is complex and highly judgmental and is based on assumptions.

The Group's disclosures about Goodwill and the policy are included in Notes 14 and 1.4, respectively.

*How the Matter was Addressed in the Audit*

Our audit procedures included among others, the following:

- Obtaining managements impairment assessment over the goodwill; and,
- Evaluating the management's cashflow forecasts and the processes by which they are developed, including mathematical accuracy of the underlying calculations.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the Parent Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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



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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 2017 audit 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. 6616015, January 3, 2018, Makati City

SEC Group A Accreditation

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

Firm - No. 0002-FR-4 (until Apr. 30, 2018)

BIR AN 08-002511-19-2015 (until Mar. 18, 2018)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

**February 15, 2018**



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein and as enumerated below, for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.


- a) Supplementary schedules required under Annex 68-E of the Securities Regulation Code
- b) Map showing the relationship between and among related entities
- c) Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2017
- d) Schedule showing financial soundness indicators

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

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

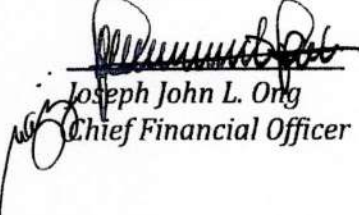
The Board of Directors reviews and approves the consolidated financial statements, including the schedules attached therein, and submits the same to the stockholders.

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



\_\_\_\_\_  
**Domingo T. Uy**  
Chairman

\_\_\_\_\_  
**Dennis A. Uy**  
President



\_\_\_\_\_  
**Joseph John L. Ong**  
Chief Financial Officer

**HEAD OFFICE:** Phoenix Bulk Depot, Lanang, Davao City 8000, Philippines  
Trunkline: +63 (82) 235-8888  
Fax: +63 (82) 233-0168

**MANILA OFFICE:** 25F Fort Legend Towers, 3rd Avenue corner 31st St., Fort Bonifacio Global City, Taguig City 1634, Philippines  
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Fax: +632-403-4009

**CEBU OFFICE:** Phoenix Magulay Gasoline Station, M.C. Briones St., National Highway, Magulay, Mandaue City, Cebu 6014, Philippines  
Tel. No.: +63 (32) 236-8168 / 236-8198

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

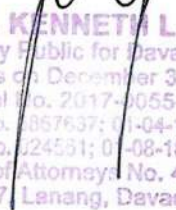
**SUBSCRIBED AND SWORN** to before me on FEB 15 2018 in Davao City, Philippines. Affiants have confirmed their identities by presenting competent evidence of identity, viz:

Name	Competent Evidence of Identity
Domingo T. Uy	TIN 140-162-193
Dennis A. Uy	TIN 172-020-135
Joseph John L. Ong	TIN 101-116-899

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

Doc. No. 517 ;  
Page No. 105 ;  
Book No. 91 ;  
Series of 2018.



  
**ATTY. KENNETH L. DABI**  
Notary Public for Davao City  
Expires on December 31, 2018  
Serial No. 2017-0055-2018  
PTR No. 357637; 01-04-18; D.C.  
IBP No. 024551; 01-08-18; D.C.  
Roll of Attorneys No. 47836  
Km. 7, Lanang, Davao City



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

	Notes	2017	2016
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	<b>P 1,831,542,441</b>	P 2,338,780,526
Trade and other receivables - net	7	<b>7,509,198,377</b>	8,789,006,059
Inventories - net	8	<b>12,969,947,045</b>	2,998,780,146
Due from related parties	27	<b>518,004,898</b>	1,506,997,926
Restricted deposits	9	<b>51,281,559</b>	50,925,404
Input value-added tax - net		<b>1,773,091,281</b>	731,735,790
Prepayments and other current assets	10	<b>581,435,883</b>	595,963,599
Total Current Assets		<b>25,234,501,484</b>	17,012,189,450
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment - net	11	<b>13,400,687,345</b>	9,002,313,141
Investment properties	15	<b>1,114,780,281</b>	-
Intangible assets - net	12	<b>274,931,452</b>	275,037,490
Goodwill - net	14	<b>3,990,666,606</b>	10,221,849
Deferred tax assets - net	26	<b>231,866,237</b>	46,191,775
Other non-current assets	16	<b>223,467,068</b>	192,084,216
Total Non-current Assets		<b>19,236,398,989</b>	9,525,848,471
<b>TOTAL ASSETS</b>		<b>P 44,470,900,473</b>	P 26,538,037,921
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	17	<b>P 16,796,874,145</b>	P 11,262,858,843
Trade and other payables	19	<b>3,832,668,620</b>	3,232,652,616
Income tax payable		<b>17,301,439</b>	100,283,443
Total Current Liabilities		<b>20,646,844,204</b>	14,595,794,902
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	17	<b>11,374,559,853</b>	1,921,565,000
Other non-current liabilities	20	<b>497,806,312</b>	258,584,286
Total Non-current Liabilities		<b>11,872,366,165</b>	2,180,149,286
Total Liabilities		<b>32,519,210,369</b>	16,775,944,188
<b>EQUITY</b>			
Capital stock	28	<b>1,456,538,232</b>	1,123,097,449
Additional paid-in capital		<b>5,709,303,309</b>	5,320,816,182
Revaluation reserves		<b>( 2,306,049 )</b>	( 12,148,102 )
Other reserves		<b>( 730,361,725 )</b>	( 730,361,725 )
Accumulated translation adjustment		<b>( 6,065,195 )</b>	-
Retained earnings		<b>5,524,581,532</b>	4,060,689,929
Total Equity		<b>11,951,690,104</b>	9,762,093,733
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 44,470,900,473</b>	P 26,538,037,921

*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, 2017, 2016 AND 2015**  
*(Amounts in Philippine Pesos)*

	Notes	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>				
Sale of goods	27	P 44,051,471,509	P 29,471,907,077	P 28,620,971,473
Fuel service and other revenues	2	281,941,966	205,587,559	186,661,739
Rent and storage income	15, 31	92,626,832	148,340,733	122,425,059
Charter fees and other charges	2	-	624,704,375	562,523,731
Port revenues	2	-	126,128,262	105,565,142
Sale of real estate	2	-	-	455,692,000
		<u>44,426,040,307</u>	<u>30,576,668,006</u>	<u>30,053,839,144</u>
<b>COST AND EXPENSES</b>				
Cost of sales and services	21	37,908,797,906	25,123,949,229	25,268,851,163
Selling and administrative expenses	22	4,411,742,322	3,339,789,045	2,724,906,711
		<u>42,320,540,228</u>	<u>28,463,738,274</u>	<u>27,993,757,874</u>
<b>OTHER CHARGES (INCOME)</b>				
Finance costs	23	855,043,260	1,019,277,024	968,682,307
Excess of fair value of net assets acquired over acquisition cost	1	( 650,182,327 )	-	-
Finance income	23	( 56,629,280 )	( 207,687,618 )	( 7,553,833 )
Equity share in net loss of a joint venture	13	-	50,068,966	16,310,368
Others - net	15	( 36,852,747 )	( 11,006,428 )	( 9,069,835 )
		<u>111,378,906</u>	<u>850,651,944</u>	<u>968,369,007</u>
<b>PROFIT BEFORE TAX</b>		1,994,121,173	1,262,277,788	1,091,712,263
<b>TAX EXPENSE</b>	26	202,272,019	169,802,891	185,843,550
<b>NET PROFIT</b>		<u>P 1,791,849,154</u>	<u>P 1,092,474,897</u>	<u>P 905,868,713</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	( 6,065,195 )	-	-
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Remeasurements of post-employment defined benefit obligation	24	14,060,076	15,360,800	18,116,705
Tax expense	26	( 4,218,023 )	( 4,608,240 )	( 13,304,602 )
Revaluation of tankers		-	-	202,245,220
		<u>9,842,053</u>	<u>10,752,560</u>	<u>207,057,323</u>
<b>Other Comprehensive Income - net of tax</b>		<u>3,776,858</u>	<u>10,752,560</u>	<u>207,057,323</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>P 1,795,626,012</u>	<u>P 1,103,227,457</u>	<u>P 1,112,926,036</u>
<b>Basic and Diluted Earnings per share</b>	29	<u>P 1.16</u>	<u>P 0.64</u>	<u>P 0.60</u>

*See Notes to Consolidated Financial Statements.*



**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
*(Amounts in Philippine Pesos)*

		Capital Stock									Accumulated Translation Adjustment	Retained Earnings	Total Equity
Notes	Preferred Stock	Preferred Treasury Stock - At Cost	Common Stock	Common Treasury Stock - At Cost	Total	Additional Paid-in Capital	Revaluation Reserves	Other Reserves					
Balance at January 1, 2017	P	30,000,000	( P 5,000,000 )	P 1,428,777,232	( P 330,679,783 )	P 1,123,097,449	P 5,320,816,182	( P 12,148,102 )	( P 730,361,725 )	P -	P 4,060,689,929	P 9,762,093,733	
Sale of treasury shares	28	-	-	-	440,087,488	440,087,488	367,136,612	-	-	-	-	807,224,100	
Cash dividends	28	-	-	-	-	-	-	-	-	-	( 331,118,383 )	( 331,118,383 )	
Acquisition of shares during the year	28	-	-	-	( 109,407,705 )	( 109,407,705 )	-	-	-	-	-	( 109,407,705 )	
Issuance of shares during the year	28	-	-	2,761,000	-	2,761,000	21,350,515	-	-	-	( 8,429,034 )	15,682,481	
Share-based compensation	24	-	-	-	-	-	-	-	-	-	11,589,866	11,589,866	
Translation adjustments during the year	2	-	-	-	-	-	-	-	-	( 6,065,195 )	-	( 6,065,195 )	
Total comprehensive income for the year		-	-	-	-	-	-	9,842,053	-	-	1,791,849,154	1,801,691,207	
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 2,306,049 )	( P 730,361,725 )	( P 6,065,195 )	P 5,524,581,532	P 11,951,690,104	
Balance at January 1, 2016	P	30,000,000	( P 5,000,000 )	P 1,428,777,232	P -	P 1,453,777,232	P 5,320,816,182	P 559,295,266	( P 622,952,239 )	P -	P 3,312,425,742	P 10,023,362,183	
Deconsolidation of subsidiaries	1	-	-	-	-	-	-	( 557,352,943 )	( 107,409,486 )	-	( 65,599,296 )	( 730,361,725 )	
Acquisition of shares during the year	28	-	-	-	( 330,679,783 )	( 330,679,783 )	-	-	-	-	-	( 330,679,783 )	
Cash dividends	28	-	-	-	-	-	-	-	-	-	( 309,212,179 )	( 309,212,179 )	
Share-based compensation	24	-	-	-	-	-	-	5,757,780	-	-	5,757,780	5,757,780	
Total comprehensive income for the year		-	-	-	-	-	-	10,752,560	-	-	1,092,474,897	1,103,227,457	
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	-	-	-	( 24,842,985 )	-	-	24,842,985	-	
Balance at December 31, 2016	P	30,000,000	( P 5,000,000 )	P 1,428,777,232	( P 330,679,783 )	P 1,123,097,449	P 5,320,816,182	( P 12,148,102 )	( P 730,361,725 )	P -	P 4,060,689,929	P 9,762,093,733	
Balance at January 1, 2015	P	10,000,000	( P 5,000,000 )	P 1,428,777,232	P -	P 1,433,777,232	P 3,367,916,774	P 372,138,419	( P 622,952,239 )	P -	P 2,499,345,913	P 7,050,226,099	
Issuance of shares for the year	28	20,000,000	-	-	-	20,000,000	1,952,899,408	-	-	-	-	1,972,899,408	
Cash dividends	28	-	-	-	-	-	-	-	-	-	( 112,689,360 )	( 112,689,360 )	
Total comprehensive income for the year		-	-	-	-	-	-	207,057,323	-	-	905,868,713	1,112,926,036	
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	-	-	-	( 19,900,476 )	-	-	19,900,476	-	
Balance at December 31, 2015	P	30,000,000	( P 5,000,000 )	P 1,428,777,232	P -	P 1,453,777,232	P 5,320,816,182	P 559,295,266	( P 622,952,239 )	P -	P 3,312,425,742	P 10,023,362,183	

*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, 2017, 2016 AND 2015**  
*(Amounts in Philippine Pesos)*

	<i>Notes</i>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		<b>P 1,994,121,173</b>	P 1,262,277,788	P 1,091,712,263
Adjustments for:				
Depreciation and amortization	22	850,380,505	1,002,088,441	821,733,247
Interest expense on bank loans and other borrowings	23	780,917,196	863,399,371	786,929,274
Excess of fair value of net assets acquired over acquisition cost	1	( 650,182,327 )	-	-
Impairment losses on trade and other receivables	23	50,335,399	112,986,854	79,208,744
Gain on reversal of impairment losses on investment properties	15	( 40,278,281 )	-	-
Interest income	23	( 18,480,943 )	( 7,110,105 )	( 5,540,995 )
Employee share options	24	11,589,866	5,757,780	-
Loss on disposal of property, plant and equipment		9,085,746	-	-
Translation adjustment	1	( 6,065,195 )	-	-
Unrealized foreign exchange currency loss (gain) - net		3,893,468	( 171,372,659 )	( 3,370,552 )
Gain on reversal of allowance for inventory obsolescence	8	( 3,216,085 )	-	-
Impairment losses on non-financial assets		92,823	-	-
Share in net loss of an indirectly-owned joint venture	15	-	50,068,966	16,310,368
Loss on sale of investment in an associate		-	-	2,250,000
Operating profit before working capital changes		2,982,193,345	3,118,096,436	2,789,232,349
Decrease (increase) in trade and other receivables		1,980,678,107	528,697,133	( 3,030,720,014 )
Decrease (increase) in inventories		11,170,166,814	( 370,318,364 )	232,214,381
Decrease in land held for sale and land development costs		-	22,667,290	23,496,614
Decrease (increase) in restricted deposits		( 356,155 )	20,046,803	( 565,464 )
Increase in input value-added tax - net		( 1,041,355,491 )	( 36,265,532 )	( 170,627,061 )
Decrease (increase) in prepayments and other current assets		( 206,291,369 )	( 637,592,575 )	393,229,544
Increase (decrease) in trade and other payables		362,759,847	( 288,096,189 )	( 334,848,958 )
Cash generated from (used in) operations		15,247,795,098	2,357,235,002	( 98,588,609 )
Cash paid for income taxes		( 7,345,345 )	( 4,508,301 )	( 712,198 )
Net Cash From (Used in) Operating Activities		<u>15,240,449,753</u>	<u>2,352,726,701</u>	<u>( 99,300,807 )</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of subsidiaries	1	( 6,705,620,931 )	-	-
Acquisitions of property, plant and equipment	11	( 3,175,635,973 )	( 2,155,960,542 )	( 2,704,508,788 )
Collections from related parties	27	1,158,519,706	25,000	3,561,445
Advances to related parties	27	( 669,526,678 )	( 944,762,083 )	( 5,448,932 )
Acquisitions of intangible assets	12	( 30,021,932 )	( 203,908,603 )	( 27,672,355 )
Increase in other non-current assets		27,350,919	( 15,994,274 )	( 27,854,741 )
Interest received		15,769,301	3,777,233	3,402,894
Proceeds from disposal of property, plant and equipment		14,611,630	2,434,359	4,946,617
Proceeds from disposal of subsidiaries	27	-	2,450,000,000	-
Increase in land held for future development		-	( 151,281,172 )	( 77,592,159 )
Additional investment in an indirectly-owned joint venture	13	-	-	( 107,250,000 )
Net Cash Used in Investing Activities		<u>( 9,364,553,958 )</u>	<u>( 1,015,670,082 )</u>	<u>( 2,938,416,019 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayments of interest-bearing loans and borrowings		( 43,104,708,803 )	( 19,886,544,848 )	( 36,164,656,734 )
Proceeds from additional interest-bearing loans and borrowings		37,016,647,657	20,684,209,975	39,306,012,177
Proceeds from sale of treasury shares	28	807,224,100	-	-
Interest paid		( 741,202,295 )	( 801,737,593 )	( 848,790,538 )
Payments of cash dividends	28	( 331,118,383 )	( 309,212,179 )	( 112,689,360 )
Acquisition of treasury shares	28	( 109,407,705 )	( 330,679,783 )	-
Increase (decrease) in other non-current liabilities		63,749,068	13,900,134	( 21,573,921 )
Proceeds from issuance of shares of stock	28	15,682,481	-	1,972,899,408
Repayments to related parties		-	-	( 17,204,725 )
Net Cash From (Used in) Financing Activities		<u>( 6,383,133,880 )</u>	<u>( 630,064,294 )</u>	<u>4,113,996,307</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>( 507,238,085 )</u>	<u>706,992,325</u>	<u>1,076,279,481</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>2,338,780,526</u>	<u>1,631,788,201</u>	<u>555,508,720</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><b>P 1,831,542,441</b></u>	<u><b>P 2,338,780,526</b></u>	<u><b>P 1,631,788,201</b></u>

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

- On August 14, 2017, the Parent Company acquired the 100.00% shares of stocks of Duta, Inc. and Subsidiary for the amount of P394.2 million, of which P267.3 million advances of Duta, Inc.'s previous stockholder was novated in favor of the former (see Note 1.4).
- Interest payments amounting to P19.7 million, P61.7 million and P61.9 million in 2017, 2016 and 2015, respectively, were capitalized as part of the cost of property, plant and equipment (see Notes 11.1 and 17.6).
- Certain hauling and heavy equipment with carrying amount of nil and P3.1 million as of December 31, 2017 and 2016, respectively, are accounted for under finance leases (see Notes 11.2 and 17.4).
- On November 24, 2016, the Parent Company sold its entire investments in Chelsea Shipping Corp. and Calaca Industrial Seaport Corp. to related parties under common ownership for a total consideration of P3,000.0 million (see Note 1.5). The outstanding receivable from the sale of subsidiaries amounted to P550.0 million, and is presented as part of the Due from Related Parties in the 2016 consolidated statement of financial position (see Notes 27.4 and 27.10). The disposal of the subsidiaries resulted to a recognition of Other Reserves, accounted as the difference between the net asset values of the subsidiaries and consideration received (see Notes 1.5 and 2.12). As of December 31, 2017, the outstanding receivable from the sale of subsidiaries was reclassified to Non-trade receivable under Trade and Other Receivables account in the 2017 consolidated statement of financial position (see Note 27.4).

*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, 2017, 2016 AND 2015**  
*(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 41.14% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines.

The Parent Company's shares of stock are listed with the Philippine Stock Exchange (PSE). 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, 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 530 operating retail service stations, and a total of eight service stations under construction as of December 31, 2017.

## 1.2 Subsidiaries, Associate, Joint Venture and their Operations

As of December 31, the Parent Company holds ownership interests in the following entities, which are all incorporated in the Philippines, except for PNX Petroleum Singapore Pte. Ltd., which is incorporated and domiciled in Singapore:

Subsidiaries/ Associate/Joint Venture	Explanatory Notes	Percentage of Ownership	
		2017	2016
P-F-L Petroleum Management, Inc. (PPMI)	(a)	100.00%	100.00%
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	(b)	100.00%	100.00%
Subic Petroleum Trading and Transport Phils., Inc. (SPTT)	(c)	100.00%	100.00%
PNX Petroleum Singapore Pte. Ltd. (PNX SG)	(d)	100.00%	100.00%
Phoenix LPG Philippines, Inc. (PLPI) <sup>1</sup>	(e)	100.00%	-
Duta, Inc. (Duta) <sup>1</sup>	(f)	100.00%	-
Kaparangan, Inc. (Kaparangan) <sup>1, 2</sup>	(g)	100.00%	-
Calaca Industrial Seaport Corp. (CISC) <sup>7</sup>	(h)	-	-
Chelsea Shipping Corp. (CSC) <sup>7</sup>	(i)	-	-
Bunkers Manila, Inc. (BMI) <sup>4, 7</sup>	(j)	-	-
Michael Inc. (MI) <sup>4, 7</sup>	(k)	-	-
PNX – Chelsea Shipping Corp. (PNX – Chelsea) <sup>4, 7</sup>	(l)	-	-
Chelsea Ship Management & Marine Services Corp. (CSMMSC) <sup>4, 7</sup>	(m)	-	-
Fortis Tugs Corporation (FTC) <sup>4, 7</sup>	(n)	-	-
Norse/Phil Marine Services Corp. (NPMSC) <sup>5, 7</sup>	(o)	-	-
South Pacific, Inc. (SPI) <sup>6, 7</sup>	(p)	-	-

Notes:

1 New subsidiaries

2 Wholly-owned subsidiary of Duta

3 Duta and Kaparangan, collectively known as Duta Group

4 Wholly-owned subsidiaries of CSC

5 Associate of CSC

6 Joint venture of CISC

7 Deconsolidated in 2016 (see Note 1.5)

- (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 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.
- (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 and started operations in October 2017. It is the regional trading arm of the Company. It currently holds office in Singapore and is able to buy directly from the refineries in the region due to its bigger requirements. It also 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. It is formerly known as Petronas Energy Philippines, Inc.
- (f) Incorporated on November 9, 1994 to engage in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.
- (g) Incorporated on January 21, 1994 to engage in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.
- (h) Incorporated on March 7, 1996 and is engaged in real estate development and is also registered with the Housing and Land Use Regulatory Board under Executive Order No. 648 and was granted to sell parcels of land on CISC's project, the Phoenix Petroleum Industrial Park (the Park). CISC is formerly known as Phoenix Petroterminals & Industrial Park Corp. and was sold to Udenna Development (Udevco) Corporation (UDEVCO) on November 24, 2016.
- (i) Incorporated in the Philippines on July 17, 2006 and started commercial operations on January 1, 2007 and is engaged in maritime trade through conveying, carrying, loading, transporting, discharging and storing of petroleum products, goods and merchandise of every kind, over waterways in the Philippines. CSC was sold to Chelsea Logistics Holdings, Corp. (CLHC) on November 24, 2016.
- (j) Incorporated on March 7, 2000 and is established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies. BMI is a subsidiary of CSC, which was sold to CLHC on November 24, 2016.
- (k) Incorporated on December 26, 1957 and is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule. MI is also engaged in the trading of fuel oil. On May 6, 2008, the SEC approved the extension of the Company's corporate life of another 50 years. MI is a subsidiary of CSC, which was sold to CLHC on November 24, 2016.
- (l) Incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description. PNX-Chelsea is a subsidiary of CSC, which was sold to CLHC on November 24, 2016.
- (m) Incorporated on March 30, 2012 and is engaged in the business of ship management and to act as agent, broker, ship chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels. CSMMSC is a subsidiary of CSC, which was sold to CLHC last November 24, 2016.
- (n) Incorporated on April 8, 2013 and is engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbours, and other waterways between the various ports of the Philippines, and acquire by purchase, charter, lease or modes recognized by law of obtaining title to or use of such equipment and properties, real or personal, which may be necessary to achieve such purpose. FTC is a subsidiary of CSC, which was sold to CLHC on November 24, 2016.



- (o) Incorporated on January 30, 2013 and is engaged in the business of providing technical ship services and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals, and to equip any and all kinds of ships, barges and vessels of every class and description owned by any shipping corporation. In 2015, CSC disposed all of its ownership interest in the associate.
- (p) Incorporated on March 27, 2014 and is engaged in bulk or wholesale supply and distribution of LPG and other petroleum products, which also includes importation, storage, and wholesale, refilling thereof and to operate and maintain storage terminals, equipment and transport facilities to be used therein. SPI is an associate of CISC, which was sold to UDEVCO on November 24, 2016.

### 1.3 Other Corporate Information

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

SPTT	– Units 113 and 115 Subic International Hotel, Alpha Building, Rizal Highway, Subic Bay Freeport Zone, Zambales
PNX SG	– 350 Orchard Road, #17-05/06 Shaw House, Singapore
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

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

### 1.4 Business Combinations

On August 14, 2017, the Parent Company finalized the purchase and sale agreements with PDB (Netherlands) B.V., an entity organized under the laws of Netherlands and is an investment holdings Company of PETRONAS Dagangan Berhad (a Malaysia-listed entity), for the acquisition of the 100.00% voting rights of PLPI and Duta Group for P6,481.1 million and P394.2 million, respectively. Aggregate information at the acquisition date are as follows:

	Notes	<u>PLPI</u>	<u>Duta Group</u>
Fair values of assets acquired		P 2,799,236,717	P 1,109,715,306
Fair values of liabilities assumed		<u>298,619,669</u>	<u>65,316,461</u>
Total identifiable net assets		2,500,617,048	1,044,398,845
Total acquisition costs		<u>6,481,061,805</u>	<u>394,216,518</u>
Goodwill	2.12, 14	<u>P 3,980,444,757</u>	
Excess of fair value of net assets acquired over acquisition cost	2.12		<u>P 650,182,327</u>
Cash flow on acquisition:			
Net cash acquired with the subsidiary		P 145,913,428	P 23,743,964
Cash paid		( <u>6,481,061,805</u> )	( <u>394,216,518</u> )
Net cash outflow		( <u>P 6,335,148,377</u> )	( <u>P 370,472,554</u> )

	<u>PLPI</u>	<u>Duta Group</u>
Pre-acquisition income	P 273,205,535	P 6,244,345

The acquisition of PLPI and Duta Group strategically supports the Parent Company's expansion in operation as well as product lines. The total acquisition related costs amounted to P76.7 million.

The excess of the fair value of the nets assets of Duta Group over the acquisition cost amounting to P650.2 million is presented in the 2017 consolidated statement of comprehensive income as Excess of Fair Value of Net Assets Acquired Over Acquisition Cost (see Note 2.12). The real properties of Duta Group, which pertain to investment properties were appraised by an independent appraiser [see Note 3.2(b)]. The fair values of the said properties are determined by reference to market-based evidence, which is the amount 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.

### ***1.5 Disposal of Investment of Shares of CSC and CISC***

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

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

The consolidated financial statements of the Group as of and for the year ended December 31, 2017 (including the comparative consolidated financial statements as of and for the years ended December 31, 2016 and 2015) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 15, 2018.

## **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 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.

(c) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, 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 2017 that are Relevant to the Group*

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses

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

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.



Management has applied these amendments in the current year and has not disclosed comparative figures as allowed by the transitional provisions. A reconciliation between the opening and closing balances of liabilities arising from financing activities, which includes both cash and non-cash changes are presented in Note 18.

- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has had no impact on the Group's consolidated financial statements.

(b) *Effective in 2017 that are not Relevant to the Group*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2017 but are not relevant to the Group's financial statements:

Annual Improvements to	
PFRS (2014-2016 Cycle)	
PFRS 12	: Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests classified as held for sale

(c) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2017, 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 40 (Amendments), *Investment Property – Reclassification to and from investment property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. Management has assessed that this amendment has no significant impact on the Group's consolidated financial statements.

- (ii) PFRS 2 (Amendments), *Share-based Payments – Classification and Measurement of Share-based Payment Transactions*. The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management is currently assessing the impact on the consolidated financial statements of the Group.
- (iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment of the Group's financial assets and liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most impacted by the application of PFRS 9 (2014):

- On classification and measurement of the Group's financial assets, management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects the majority of trade and other receivables to continue to be accounted for at amortized cost. However, a number of other financial assets are likely to be measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest.
  - The expected credit loss model will apply to the Group's trade receivables. For other financial assets and trade receivables, the Group will apply a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component.
  - The Group's equity securities, regardless if quoted or not, will be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition.
- (iv) 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.
- (v) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.



Based on an assessment and comprehensive study of the Group's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenues pertain to the sale of fuel, LPG and other petroleum products.

The fuels, LPG, lubricants and other petroleum products can be sold and used separately. Revenue from the sale of goods shall be recognized at a point in time when the control has been transferred to the customer.

- (vi) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this amendment has no material impact on the Group's consolidated financial statements.
- (vii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to as financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

Management is currently assessing the impact of this new standard in its consolidated financial statements.

- (viii) IFRIC 23, *Uncertain over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new standard in its consolidated financial statements.
- (ix) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:
- PAS 12 (Amendments), *Income taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
  - PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

### **2.3 Basis of Consolidation**

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

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

The Parent Company accounts for its investments in subsidiaries as follows.

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

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

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

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

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

On the other hand, business combinations arising from transfers or acquisition of interests in entities that are under the common control of the shareholder that controls the Group are normally accounted for under the pooling-of-interests method and reflected in the consolidated financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognized in the Group's consolidated financial statements at the carrying amounts previously recognized. The difference between the consideration transferred and the net assets of the subsidiary acquired is recognized as Other Reserves as part of the equity (see Notes 2.12 and 2.23).



If the Parent Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, derecognizes the cumulative translation differences recorded in equity, recognizes the fair value of the consideration received and reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets and liabilities. The difference between the consideration received and the net asset of the subsidiary disposed is recognized as Other Reserves as part of the equity (see Notes 2.12 and 2.23).

## **2.4 Financial Assets**

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets are classified into the following categories: FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

Currently, the financial assets category relevant to the Group is loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding certain advances to suppliers and advances subject to liquidation), Due from Related Parties, Restricted Deposits, and Refundable Rental Deposits (presented as part of Other Non-Current Assets in the consolidated statement of financial position). Cash and cash equivalents include cash on hand, savings and demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Refundable rental deposits are initially recognized at fair value. Interest on the rental deposits arising from subsequent amortization is accounted for using the effective interest method and is presented as part of Finance Income under Other Charges (Income) in the consolidated statement of comprehensive income. The excess of the principal amount of the deposit over its present value is immediately recognized as deferred minimum lease payments (presented as part of Other Non-Current Assets in the consolidated statement of financial position). Meanwhile, rent expense arising from subsequent amortization of deferred minimum lease payments is accounted for using the straight-line method over the lease term and is presented as part of Rent under Selling and Administrative Expenses in the consolidated statement of comprehensive income.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Income or Finance Costs account in the consolidated statement of profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

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 for, where necessary, for obsolete, slow-moving and defective inventories (see Note 8).

## ***2.6 Prepayments and Other Current Assets***

Prepayments and other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

## ***2.7 Property, Plant and Equipment***

Land is stated at cost less any impairment in value. All other property, plant and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other expenditures for repairs and maintenance are charged to expense as incurred (see Note 2.13).

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Tankers	30 years
LPG cylinders	30 years
Buildings, depot, plant and pier facilities	5-25 years
Transportation and other equipment	1-10 years
Vessel equipment	5 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 lost LPG cylinders. The Group performs an internal simulation and assessment of the quantity of LPG cylinders circulating and being stored in the market. A provision is provided for lost assets in accordance with the computed quantities. The assessment will be conducted every other year and when the lost LPG cylinders are ascertained, the lost cylinders will be written-off.

Leasehold and land improvements are amortized over the terms of the related leases or the useful lives of the improvements, whichever is shorter.

Hauling and heavy equipment held under finance lease agreements (see Note 2.14) are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, 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 are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

These properties are held for lease under operating lease agreements, which comprise land and land improvements, and are carried at cost less amortization 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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (see Note 2.16).

The residual values, estimated useful lives and method of amortization of investment properties, except for land, are reviewed and adjusted, if appropriate, at the end of each reporting period.

Transfers to or from investment properties shall be made when and only when there is a change in use or purpose for such property.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties are recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

## ***2.9 Intangible Assets***

Intangible assets include acquired computer software licenses and basketball franchise, which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition. The useful lives of intangible assets are assessed as either finite or indefinite.

Capitalized costs for computer software licenses are amortized on a straight-line basis over the estimated useful lives (ranging from one to ten years) as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.16.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets if, and only if, the Group can demonstrate all of the following recognition requirements:

- (i) technical feasibility of completing the prospective product for internal use or sale;
- (ii) the intangible asset will generate probable economic benefits through internal use or sale;
- (iii) intention and ability to complete, i.e., availability of sufficient technical, financial and other resources necessary for completion, and use or sell the asset; and,
- (iv) ability to measure reliably the expenditure attributable to the intangible asset during development.

Development costs not meeting these criteria for capitalization are expensed as incurred. Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs.

The Group assessed the useful life of basketball franchise to be indefinite because this is expected to contribute to net cash flows indefinitely. The basketball franchise is not amortized but is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

## ***2.10 Financial Liabilities***

Financial liabilities, which include interest-bearing loans and borrowings, trade and other payables (excluding tax-related payables), security deposits, customers' cylinder deposits and cash bond deposits (which are presented under Other Non-Current Liabilities in the consolidated statement of financial position), are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.18). All other interest related charges are recognized as an expense in the consolidated statement of comprehensive income under the caption Finance Costs.



Interest-bearing loans and borrowings are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables (excluding tax-related payables), security deposits, customers' cylinder deposits and cash bond deposits are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Security deposits are initially recognized at fair value. Interest on security deposits arising from subsequent amortization is accounted for using the effective interest method and is presented as part of Finance Costs. The excess of the principal amount of the deposit over its present value is immediately recognized as Unearned rent (presented as part of Other Non-Current Liabilities in the consolidated statement of financial position). Meanwhile, the rent income arising from subsequent amortization of unearned rent is accounted for using the straight-line method over the lease term and is presented as part of Rent and Storage 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 44.00-77.00% 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 2017 consolidated statement of financial position, are reduced for estimated non-returns. The reduction is recognized directly in profit or loss.

Obligations under finance lease (included as part of Interest-bearing Loans and Borrowings) are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments, at the inception of the lease (see Notes 2.14 and 31.5).

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### ***2.11 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

## ***2.12 Business Combinations***

Business acquisitions are accounted for using the acquisition method of accounting and pooling-of-interest method.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

Negative goodwill which is the excess of the Group's interest in the fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Under the pooling-of-interest method which is applicable for the acquisition and disposal of an entity under common control, similar accounts of the entities are combined on a line-by-line basis except for the equity accounts which were offset with the new shares issued by the new entity in which the difference between the net assets received and the amount of the consideration (shares issued and cash) is accounted for as Other Reserves (see Note 2.23).

### ***2.13 Revenue and Expense Recognition***

Revenue comprises revenue from the sale of goods and rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (VAT), rebates and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the specific recognition criteria presented below must also be met before revenue is recognized.

- (a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e. generally when the customer has acknowledged delivery of goods or when the customer has taken undisputed delivery of goods.
- (b) *Fuel service and other revenues, port revenues and storage income* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. In addition, this includes revenue arising from port and cargo handling services
- (c) *Rent income* – Revenue is recognized on a straight-line basis over the lease term (see Note 2.14).
- (d) *Charter fees and other charges* – Revenue, which consists mainly of charter income arising from the charter hire of tankers, is recognized based on the type of charter arrangement entered into, either under a time charter (TC), a continuing voyage charter (CVC), or a bareboat agreement (BB) [see Note 3.1(e)]. Under a TC and BB, revenue is recognized based on the terms of the contract, with the distinction that in a BB, no administration or technical maintenance is included as part of the agreement. Under a CVC, revenue is recognized upon completion of the voyage; however, appropriate accrual of revenue is made at the end of the reporting period.
- (e) *Sale of real estate* – Revenue on sale of real estate is recognized using the full accrual method. Under the full accrual method, revenue is recognized when the risks and rewards of ownership of the land have passed to the buyer and the amount of revenue can be measured reliably. Revenue is also recognized when a downpayment of at least 25.00% has been collected.
- (f) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in the profit or loss upon utilization of goods or services or at the date they are incurred. 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).

The cost of real estate sold, if any, before the completion of the development is determined based on the actual costs incurred to date, which include the cost of land plus estimated costs to complete the project development. The estimated expenditures for the development of sold real estate, as determined by project engineers, are charged to Cost of Sales and Services in the consolidated statement of comprehensive income with a corresponding credit to Liability for Land Development presented under the Trade and Other Payables account in the consolidated statement of financial position, which is already deconsolidated in 2016 as a result of sale of CISC (see Note 1.5).

## **2.14 Leases**

The Group accounts for its leases as follows:

### *(a) Group as Lessee*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Finance lease obligations, net of finance charges, are included in the Interest-bearing Loans and Borrowings account in the consolidated statement of financial position.

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, which uses the Singapore Dollars as its functional currency, the accounting records of the Parent Company and its subsidiaries are maintained in Philippine Peso. Foreign currency transactions during the year are translated into functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

*(b) Translation of Financial Statements of a Foreign Subsidiary*

The operating results and financial position of a foreign subsidiary (i.e. PNX SG), which are measured using the Singapore Dollar, its functional currency, are translated to Philippine pesos, to the Group's functional currency as follows:

- i. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- ii. Income and expenses for each profit or loss account are translated at the average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- iii. All resulting exchange differences are recognized in other comprehensive income and in a separate component of equity under Accumulated Translation Adjustments account (see Note 2.23).

On consolidation, exchange differences arising from the translation of the net investment in PNX SG is recognized under Translation Adjustment Related to a Foreign Subsidiary in the 2017 consolidated statement 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 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 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 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, 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 bond as published by Philippine Dealing & Exchange Corp., 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.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs or Finance Income in the consolidated statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

*(b) Post-employment Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

*(c) Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

*(d) Profit-sharing and Bonus Plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

*(e) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

**2.18 Borrowing Costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

**2.19 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets, if any, are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities, the carrying amount of such properties is presumed to be recovered entirely through sale, unless the presumption is rebutted, that is when the land held for sale and development costs are held within the business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

## ***2.20 Offsetting Financial Instruments***

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

## ***2.21 Related Party Transactions and Relationships***

Related party transactions are transfer of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

## ***2.22 Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Parent Company's BOD and management committee responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 30, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements, except that post-employment benefit expenses are not included in arriving at the operating profit of the operating segments. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

## ***2.23 Equity***

Preferred and common stock represents the nominal value of shares that have been issued.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves comprise of gains and losses arising from the revaluation of the Group's tankers and from the remeasurements of post-employment defined benefit obligation, net of applicable taxes.

Other reserves in 2016 pertain to the difference between the Parent Company's consideration received and the disposed net assets of CSC and CISC (see Note 1.5). Other reserves in 2015 pertain to the difference between the Parent Company's cost of investment and the acquired net assets of CSC accounted for under the pooling-of-interest method (see Notes 2.3 and 2.12).

Accumulated translation adjustment pertains to translation adjustments resulting from the translation of foreign-currency denominated financial statements of a certain foreign subsidiary into the Group's functional and presentation currency [see Note 2.15(b)].

Retained earnings include all current and prior period results of operations as reported in the profit or loss section of the consolidated statement of comprehensive income, reduced by the amounts of dividends declared.

### ***2.24 Earnings per Share***

Basic earnings per share (EPS) is computed by dividing net profit attributable to common shareholders by the weighted average number of common shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares, if any.

### ***2.25 Share-based Payments***

The Parent Company grants share options to qualified employees of the Parent Company eligible under a share option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any.

The share-based remuneration, if any, is recognized as an expense in profit or loss and the corresponding credit to retained earnings.

The expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number that ultimately vests on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as additional paid-in capital.

### ***2.26 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Group's position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.



### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

#### ***3.1 Critical Management Judgments in Applying Accounting Policies***

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements.

##### *(a) Distinction between Operating and Finance Leases*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement, either as a lessor or a lessee, as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Certain hauling and heavy equipment are acquired and accounted for under finance lease.

##### *(b) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant contingencies are presented in Note 31.

##### *(c) 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 intention when it determines whether the asset is a qualifying asset and considers the facts and circumstances and uses its judgment to determine whether an asset takes a substantial period of time to get ready for its intended use or sale. Based on the facts and circumstances affecting the Group's qualifying asset, the management concludes that the Group's retail station, depot facilities, tankers and land held for sale and development costs are qualifying assets as the management assesses that it takes substantial period of time for the completion of those assets.

##### *(d) 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.

*(e) Revenue Recognition for Charter Fee Arrangements*

In determining the appropriate method to use in recognizing the Group's revenue from TC, CVC and BB, management considers the following criteria: (1) whether the fulfilment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract (see Note 2.13). Otherwise, revenue will be recognized based on contract terms when substantial agreed tasks have been rendered.

**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) Impairment of Trade and Other Receivables and Due from Related Parties*

Adequate amount of allowance for impairment is provided for specific and group of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the customers and the related party, the customers' current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7. The carrying value of due from related parties is shown in Note 27.4. The Group has determined that no impairment loss on Due from Related Parties should be recognized in 2017, 2016 and 2015.

*(b) Determination of Net Realizable Value of Inventories*

In determining the net realizable values of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. Future realization of the carrying amounts of inventories, as presented in Note 8, is affected by price changes and action from competitors. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial reporting period.

(c) *Estimation of Useful Lives of Property, Plant and Equipment, Intangible Assets and Investment Properties*

The Group estimates the useful lives of property, plant and equipment, intangible assets and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property, plant and equipment and intangible assets are analyzed in Notes 11 and 12, respectively. The carrying amount of investment properties is disclosed in Note 15. Based on management's assessment as of December 31, 2017 and 2016, there is no change in the estimated useful lives of the property, plant and equipment, intangible assets and investment properties during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Fair Value Measurement of Tankers*

The Group's tankers, which is previously presented as part of the Property, Plant and Equipment account, are carried at revalued amount at the end of the reporting period. In determining the fair values of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies.

For tankers with appraisals conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of the Group's tankers. The tankers are among the assets deconsolidated in 2016.

(e) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2017 and 2016 will be fully utilized in the coming years. The carrying value of deferred tax assets as of December 31, 2017 and 2016 is disclosed in Note 26.

(f) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24 and include, among others, discount rates and salary increase rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 24.3.

*(g) Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.16). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2017, 2016 and 2015.

*(h) Fair Value Measurements of Business Combinations*

On initial recognition in a business combination using the purchase method of accounting, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates and obtains assistance from third party valuation specialists on the acquired investment properties (see Note 1.4). Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in profit or loss in the subsequent period.

*(i) Provision for Losses on Lost LPG Cylinders*

Management estimates provision for losses on lost LPG cylinders based on the quantities computed from its internal simulations and computations. The estimated quantities do not represent the exact quantities of the LPG cylinders but they are assessed based on management's assumptions and historical loss experience representing the management's best estimate of the quantities of lost cylinders. Management will arrange for the appraisal by an external expert to take place every other year to obtain confidence in the estimate of the provision amount.

Management has assessed that no provision for losses on lost LPG cylinders is required to be recognized in 2017.

#### 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its Parent Company, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

##### 4.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from both its operating, investing and financing activities.

##### (a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's sales to a certain customer and, fuel and tanker importations, which are primarily denominated in U.S. dollars (U.S.\$). The liability covering the fuel importation is covered by letter of credits (LCs) which is subsequently closed to Philippine peso trusts receipts (TRs). Further, in 2016, the Group has several U.S. dollar loans from certain banks, which were used to finance its capital expenditures (see Note 17). The Group also holds U.S. and Singapore dollar-denominated cash and cash equivalents.

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:

	2017		2016
	U.S. Dollar	Singapore Dollar	U.S. Dollar
Financial assets	P 1,260,407,888	P 317,739	P 5,678,959,607
Financial liabilities	(1,566,782,434)	-	(350,848,259)
Net exposure	<u>(P 306,374,546)</u>	<u>P 317,739</u>	<u>P 5,328,111,348</u>



The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine peso against U.S. and Singapore dollar exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99.00% confidence level.

	2017		2016
	U.S. Dollar	Singapore Dollar	U.S. Dollar
Reasonably possible change in rate	10.77%	16.88%	12.93%
Effect in profit before tax	(P 32,996,539)	P 53,635	P 688,924,797
Effect in equity after tax	( 23,097,577)	37,544	482,247,358

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, 2017 and 2016, the Group is exposed to changes in market interest rates through its cash and cash equivalents and certain interest-bearing loans and borrowings which are subject to variable interest rates (see Notes 6 and 17). All other financial assets and financial liabilities have fixed rates.

Cash in banks are tested on a reasonably possible change of +/-0.47% and +/-0.54% in 2017 and 2016, respectively, for Philippine Peso and +/-0.50% and nil in 2017 and 2016, respectively, for Singapore dollar. Short-term money placements and time deposits are tested on a reasonably possible change of +/-0.90% in 2017. Banks loans subject to variable interest rates are tested on a reasonably possible change of +/-0.30% and +/-0.32% for Philippine peso and nil and +/-0.25% for U.S. dollar in 2017 and 2016, respectively. 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 +/-P94.5 million and +/-P45.0 million for the year ended December 31, 2017 and 2016, respectively, and equity after tax by +/-P66.2 million and +/-P31.5 million for the year ended December 31, 2017 and 2016, respectively.

(c) *Other Price Risk*

The Group's market price risk arises from its purchases of fuels. It manages its risk arising from changes in market prices by monitoring the daily movement of the market price of fuels and to some extent, using forward and other similar contracts to manage the fluctuation of the fuel price.

## 4.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting of loans and selling goods and services to customers including related parties; and placing deposits with banks.

The Group 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, advance payments are received to mitigate credit risk.

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	2017	2016
Cash and cash equivalents	6	<b>P 1,831,542,441</b>	P 2,338,780,526
Trade and other receivables – net*	7	<b>6,843,698,948</b>	8,039,947,280
Due from related parties	27.4	<b>518,004,898</b>	1,506,997,926
Restricted deposits	9	<b>51,281,559</b>	50,925,404
Refundable rental deposits	16	<b>182,480,300</b>	140,817,250
		<b><u>P 9,427,008,146</u></b>	<b><u>P12,077,468,386</u></b>

*\*excluding certain advances to suppliers and advances subject to liquidation*

The Group's management considers that all the above financial assets that are not impaired or past due for each reporting dates are of good credit quality.

None of the financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

### (a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corp. up to a maximum coverage of P0.5 million for every depositor per banking institution.

### (b) Trade and Other Receivables and Due from Related Parties

In respect of trade and other receivables and due from related parties, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good.

The Group has a Credit Committee, which approves credit lines given to its customers. The Group's Credit Risk Management Unit (formerly Credit and Collection Department), which regularly reports to the Credit Committee, continuously monitors customers' performance and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

Some of the unimpaired trade and other receivables are past due at the end of the reporting date. The age of financial assets past due but not impaired is presented below.

	<u>2017</u>	<u>2016</u>
Not more than one month	<b>P 577,035,340</b>	P 2,337,949,143
More than one month but not more than two months	<b>681,732,537</b>	57,804,099
More than two months but not more than six months	<b>1,475,835,606</b>	83,468,815
More than six months but not more than one year	<b>579,628,183</b>	902,428,898
More than one year	<u><b>455,810,155</b></u>	<u>5,249,731,017</u>
	<u><b>P 3,770,041,821</b></u>	<u>P 8,631,381,972</u>

In respect of due from a related party, the Group has assessed that these advances are collectible and the credit risk exposure is considered to be low.

### ***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, 2017, the Group's financial liabilities have contractual maturities which are summarized as follows:

	<b>Current</b>		<b>Non-current</b>	
	<b>Within 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>
Interest-bearing loans and borrowings	P 17,093,687,980	P 770,678,974	P 9,934,502,651	P 2,318,636,250
Trade and other payables (excluding tax-related payables)	3,730,046,488	-	-	-
Security deposits	-	-	245,488,541	-
Customers' cylinder deposits	-	-	-	196,380,513
Cash bond	-	-	-	33,492,002
	<b><u>P 20,823,734,468</u></b>	<b><u>P 770,678,974</u></b>	<b><u>P 10,179,991,192</u></b>	<b><u>P 2,548,508,765</u></b>

This compares to the maturity of the Group's financial liabilities as of December 31, 2016 as presented below.

	<b>Current</b>		<b>Non-current</b>
	<b>Within 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>
Interest-bearing loans and borrowings	P 10,386,388,575	P 2,826,900,125	P 2,528,962,920
Trade and other payables (excluding tax-related payables)	3,152,398,546	-	-
Security deposits	-	-	219,790,571
	<b><u>P 13,538,787,121</u></b>	<b><u>P 2,826,900,125</u></b>	<b><u>P 2,748,753,491</u></b>

The contractual maturities of the financial liabilities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

## 5. CATEGORIES, FAIR VALUE MEASUREMENTS AND DISCLOSURES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the consolidated statements of financial position are presented below.

		2017		2016	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Assets</b>					
Loans and receivables:					
Cash and cash equivalents	6	P 1,831,542,441	P 1,831,542,441	P 2,338,780,526	P 2,338,780,526
Trade and other receivables-net*	7	6,843,698,948	6,843,698,948	8,039,947,280	8,039,947,280
Due from related parties	27.4	518,004,898	518,004,898	1,506,997,926	1,506,997,926
Restricted deposits	9	51,281,559	51,281,559	50,925,404	50,925,404
Refundable rental deposits	16	182,480,300	182,480,300	140,817,250	140,817,250
		P 9,427,008,146	P 9,427,008,146	P 12,077,468,386	P 12,077,468,386
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	17	P 28,171,433,998	P 28,171,433,998	P 13,184,423,843	P 13,184,423,843
Trade and other payables**	19	3,730,046,488	3,730,046,488	3,152,398,546	3,152,398,546
Security deposits	20	245,488,541	245,488,541	219,790,571	219,790,571
Customers' cylinder deposits	20	196,380,513	196,380,513	-	-
Cash bond deposits	20	33,492,002	33,492,002	-	-
		P 32,376,841,542	P 32,376,841,542	P 16,556,612,960	P 16,556,612,960

\* Excluding certain advances to suppliers and advances subject to liquidation

\*\* Excluding tax-related payables

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

## ***5.2 Fair Value Hierarchy***

In accordance with PFRS 13, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

## ***5.3 Financial Instruments Measurement at Fair Value***

There are no financial assets and financial liabilities that are measured at fair value as of December 31, 2017 and 2016.

#### 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.

		2017			
	Notes	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
<i>Loans and receivables:</i>					
Cash and cash equivalents	6	P 1,831,542,441	P -	P -	P 1,831,542,441
Trade and other receivables - net	7	-	-	6,843,698,948	6,843,698,948
Due from related parties	27.4	-	-	518,004,898	518,004,898
Restricted deposits	9	51,281,559	-	-	51,281,559
Refundable rental deposits	16	-	-	182,480,300	182,480,300
		<b><u>P 1,882,824,000</u></b>	<b><u>P -</u></b>	<b><u>P 7,544,184,146</u></b>	<b><u>P 9,427,008,146</u></b>
<b>Financial Liabilities</b>					
<i>Financial liabilities at amortized cost:</i>					
Interest-bearing loans and borrowings	17	P -	P -	P 28,171,433,998	P 28,171,433,998
Trade and other payables	19	-	-	3,730,046,488	3,730,046,488
Security deposits	20	-	-	245,488,541	245,488,541
Customers' cylinder deposits	20	-	-	196,380,513	196,380,513
Cash bond deposits	20	-	-	33,492,002	33,492,002
		<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 32,376,841,542</u></b>	<b><u>P 32,376,841,542</u></b>
		2016			
	Notes	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
<i>Loans and receivables:</i>					
Cash and cash equivalents	6	P 2,338,780,526	P -	P -	P 2,338,780,526
Trade and other receivables - net	7	-	-	8,039,947,280	8,039,947,280
Due from related parties	27.4	-	-	1,506,997,926	1,506,997,926
Restricted deposits	9	50,925,404	-	-	50,925,404
Refundable rental deposits	16	-	-	140,817,250	140,817,250
		<b><u>P 2,389,705,930</u></b>	<b><u>P -</u></b>	<b><u>P 9,687,762,456</u></b>	<b><u>P 12,077,468,386</u></b>
<b>Financial Liabilities</b>					
<i>Financial liabilities at amortized cost:</i>					
Interest-bearing loans and borrowings	17	P -	P -	P 13,184,423,843	P 13,184,423,843
Trade and other payables	19	-	-	3,152,398,546	3,152,398,546
Security deposits	20	-	-	219,790,571	219,790,571
		<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 16,556,612,960</u></b>	<b><u>P 16,556,612,960</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 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, 2017						
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 6,843,698,948	P -	P 6,843,698,948	P -	(P 278,980,543)	P 6,564,718,405
Restricted deposits	51,281,559	-	51,281,559	( 51,281,559)	-	-
Total	<b>P 6,894,980,507</b>	<b>P -</b>	<b>P 6,894,980,507</b>	<b>(P 51,281,559)</b>	<b>(P 278,980,543)</b>	<b>P 6,564,718,405</b>

December 31, 2016						
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 8,098,928,922	(P 58,981,642)	P 8,039,947,280	P -	(P 219,790,571)	P 7,820,156,709
Restricted deposits	50,925,404	-	50,925,404	( 50,925,404)	-	-
Total	<b>P 8,149,854,326</b>	<b>(P 58,981,642)</b>	<b>P 8,090,872,684</b>	<b>(P 50,925,404)</b>	<b>(P 219,790,571)</b>	<b>P 7,820,156,709</b>

The following financial liabilities with net amounts presented in the consolidated statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

December 31, 2017						
Gross amounts recognized in the consolidated statement of financial position			Net amount presented in the consolidated statement of financial position	Related amounts not set-off in the consolidated statement of financial position		
Financial liabilities	Financial assets set-off	Financial instruments		Cash collateral received	Net amount	
Interest-bearing loans and borrowings	P 28,171,433,998	P -	P 28,171,433,998	(P 51,281,559)	P -	P 28,120,152,440
Security deposits	245,488,541	-	245,488,541	-	( 245,488,541)	-
Cash bond deposits	33,492,002	-	33,492,002	-	( 33,492,002)	-
Total	<b><u>P 28,450,414,541</u></b>	<b><u>P -</u></b>	<b><u>P 28,450,414,541</u></b>	<b><u>(P 51,281,559)</u></b>	<b><u>(P 278,980,543)</u></b>	<b><u>P 28,120,152,440</u></b>

December 31, 2016						
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 13,184,423,843	P -	P 13,184,423,843	(P 50,925,404)	P -	P 13,133,498,439
Trade and other payables	3,182,159,260	( 29,760,714)	3,152,398,546	-	-	3,152,398,546
Security deposits	219,790,571	-	219,790,571	-	( 219,790,571)	-
Total	<b><u>P 16,586,373,674</u></b>	<b><u>(P 29,760,714)</u></b>	<b><u>P 16,556,612,960</u></b>	<b><u>(P 50,925,404)</u></b>	<b><u>(P 219,790,571)</u></b>	<b><u>P 16,285,896,985</u></b>

For financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements presented above, each agreement between the Group and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	<u>2017</u>	<u>2016</u>
Cash in banks	<b>P 1,549,265,669</b>	P 2,330,247,063
Cash on hand	<b>412,846</b>	8,458,713
Revolving fund	<b>11,527,561</b>	74,750
Short-term placements	<b><u>270,336,365</u></b>	<u>-</u>
	<b><u>P 1,831,542,441</u></b>	<b><u>P 2,338,780,526</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 P15.7 million, P3.9 million and P2.8 million in 2017, 2016 and 2015, respectively, and is included as part of Finance income under Other Charges (Income) in the consolidated statements of comprehensive income (see Note 23.2).

The balances of cash in banks as of December 31, 2017 and 2016 exclude restricted time deposits totalling to P51.3 million and P50.9 million, respectively, which are shown as Restricted Deposits account (see Note 9) and restricted time deposits under Other Non-current Assets (see Note 16) in the consolidated statements of financial position. Such amounts are not available for the general use of the Group under the loan agreement (see Note 17).

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Trade receivables:			
Third parties		<b>P 5,241,341,414</b>	P 2,513,174,190
Related parties	27.1	<u><b>955,539,554</b></u>	<u>157,624,601</u>
		<u><b>6,196,880,968</b></u>	<u>2,670,798,791</u>
Advances to suppliers:			
Third parties		<b>219,626,441</b>	5,571,866,972
Related parties	27.2	<u><b>424,838,624</b></u>	<u>438,294,800</u>
		<u><b>644,465,065</b></u>	<u>6,010,161,772</u>
Non-trade receivables			
Third parties		<b>517,507,971</b>	325,483,131
Related parties	27.4, 27.7	<u><b>586,598,808</b></u>	<u>88,737,836</u>
		<u><b>1,104,106,779</b></u>	<u>414,220,967</u>
Advances subject to liquidation		<u><b>21,034,364</b></u>	<u>29,633,211</u>
Other receivables		<u><b>20,864,877</b></u>	<u>3,240,165</u>
		<b>7,987,352,053</b>	9,128,054,906
Allowance for impairment		<u><b>( 478,153,676)</b></u>	<u>( 339,048,847)</u>
		<u><b>P 7,509,198,377</b></u>	<u>P 8,789,006,059</u>

Trade and other receivables generally do not bear any interest. All receivables are subject to credit risk exposure (see Note 4.2).

PLPI entered into deferred payment agreement (DPA) with customers that are unable to pay their due and outstanding payable to PLPI. PLPI agreed to collect, inclusive of interest, through instalments as stated in the terms and conditions of the agreement. As of December 31, 2017, the balance of receivables under DPA amounted to P28.3 million and is presented as part of Trade Receivables – Third Parties in the Trade and Other Receivables account in the 2017 statement of financial position. There are no non-current trade receivables as of the said cut-off.

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:

- 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 obtain any financial assistance from any banks and/or financial institutions to finance its business operation. The entire remaining outstanding amount of the debt shall become immediately due without further demand, formal or informal advice in the event any of the monthly instalments are not received by the PLPI on or before the due date;

- iii) Should PLPI be compelled to institute extra-judicial foreclosure of the collateral and/or judicial actions to foreclose or collect unpaid amounts, the customer shall be liable for the costs and fees incurred by PLPI in the preparation, monitoring and enforcement of the DPA, as well as costs and fees incurred by the PLPI on account filing and prosecution and enforcement of any judicial foreclosures, extra-judicial foreclosures, and collection suits; and,
- iv) The customer further agrees that in the event it fails to pay any of the monthly instalments, then PLPI shall be at liberty to recover the same through the process of court, in which event all costs and expenses incurred by the PLPI including the legal costs on a solicitor and client basis shall be solely borne by them.

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables, which are due from customers, were found to be impaired; hence, adequate amount of allowance for impairment has been recorded as of December 31, 2017 and 2016.

Impairment losses amounting to P50.3 million, P113.0 million and P79.2 million in 2017, 2016 and 2015, respectively, are presented as part of Finance Costs under Other Charges (Income) in the consolidated statements of comprehensive income (see Note 23.1). 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 2017 and 2016 is shown below.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year		<b>P 339,048,847</b>	P 358,488,027
Business combination	1.4	<b>138,498,702</b>	-
Impairment loss for the year	23.1	<b>46,167,713</b>	112,986,854
Written-off during the year		<b>( 44,844,753)</b>	( 17,669,476)
Recovery of bad debts		<b>( 716,833)</b>	( 74,741)
Disposals due to deconsolidation		<b>-</b>	( 114,681,817)
Balance at end of year		<b><u>P 478,153,676</u></b>	<b><u>P 339,048,847</u></b>

In 2017, the Group directly written off past due accounts amounting to P4.1 million, which is also presented as part of Impairment losses on trade and other receivables under Finance Costs (see Note 23.1).

## 8. INVENTORIES

The breakdown of inventories are as follows:

	<u>2017</u>	<u>2016</u>
At cost:		
Fuels	<b>P 12,571,587,151</b>	P 2,662,777,903
LPG	<b>124,305,656</b>	-
Others	<b><u>2,185,536</u></b>	<u>72,864</u>
	<b>12,698,078,343</b>	2,662,850,767
At net realizable value –		
Lubricants	<b><u>271,868,702</u></b>	<u>335,929,379</u>
	<b><u>P12,969,947,045</u></b>	<b><u>P 2,998,780,146</u></b>

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of P5,139.1 million and P2,223.9 million as of December 31, 2017 and 2016, respectively, have been released to the Group in trust for by the bank. The Group is accountable to the bank for the trusted inventories or their sales proceeds (see Note 17.1).

There were no inventory write-down in 2017 and 2016. Certain lubricants are stated at net realizable value as acquired from the business combination in 2017 (see Note 1.4). Presented below is the breakdown of lubricants to derive at the net realizable value in 2017.

Cost	P 274,673,603
Allowance for inventory write-down	( 6,020,986)
Recoveries	<u>3,216,085</u>
	<b><u>P 271,868,702</u></b>

An analysis of the cost of inventories included in the cost of fuels and lubricants sold in each year is presented in Note 21.1.

## 9. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Notes 6 and 17.1) amounting to P51.3 million and P50.9 million as of December 31, 2017 and 2016, respectively. As such, these are restricted as to withdrawals. The proceeds from availment of the banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies. Interest rates for this type of deposit range from 0.80% to 0.88% per annum for December 31, 2017 and 2016. Interest income earned from restricted deposits amounted to P0.1 million, P0.7 million, P0.6 million in 2017, 2016 and 2015, respectively, and is included as part of Finance Income in the consolidated statements of comprehensive income (see Note 23.2).

## 10. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account as of December 31, 2017 and 2016 is shown below.

	Note	<u>2017</u>	<u>2016</u>
Creditable withholding tax		<b>P 122,773,907</b>	P 245,287,284
Prepayments	27.3	<b>299,066,139</b>	225,823,002
Supplies		<b>159,214,128</b>	124,853,313
Others		<u><b>381,709</b></u>	<u>-</u>
		<b><u>P 581,435,883</u></b>	<b><u>P 595,963,599</u></b>

## 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 2017 and 2016 are shown below.

	<b>Buildings, Depot, Plant and Pier Facilities</b>	<b>Leasehold and Land Improvements</b>	<b>Gasoline and LPG Station Equipment</b>	<b>LPG Cylinders</b>	<b>Office Furniture and Equipment</b>	<b>Hauling and Heavy Equipment</b>	<b>Transportation and Other Equipment</b>	<b>Tankers</b>	<b>Vessel Equipment</b>	<b>Land</b>	<b>Construction in Progress</b>	<b>Total</b>
December 31, 2017												
Cost	P 7,938,264,335	P 280,550,323	P 4,307,161,317	P 1,725,126,080	P 174,830,660	P 723,956,478	P 60,325,908	P -	P -	P 2,431,765,273	P 761,915,936	P 18,403,896,310
Accumulated depreciation, amortization, and impairment	( 1,853,643,912 )	( 172,228,961 )	( 1,547,282,631 )	( 776,460,696 )	( 106,213,403 )	( 491,547,359 )	( 55,832,003 )	-	-	-	-	( 5,003,208,965 )
Net carrying amount	<b><u>P 6,084,620,423</u></b>	<b><u>P 108,321,362</u></b>	<b><u>P 2,759,878,686</u></b>	<b><u>P 948,665,384</u></b>	<b><u>P 68,617,257</u></b>	<b><u>P 232,409,119</u></b>	<b><u>P 4,493,905</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 2,431,765,273</u></b>	<b><u>P 761,915,936</u></b>	<b><u>P 13,400,687,345</u></b>
December 31, 2016												
Cost	P 4,634,286,358	P 294,381,659	P 3,115,535,438	P -	P 105,444,580	P 652,099,361	P 38,154,152	P -	P -	P 1,696,586,766	P 1,081,354,000	P 11,617,842,314
Accumulated depreciation and amortization	( 1,135,333,357 )	( 89,335,859 )	( 857,037,528 )	-	( 84,301,661 )	( 411,366,616 )	( 38,154,152 )	-	-	-	-	( 2,615,529,173 )
Net carrying amount	<b><u>P 3,498,953,001</u></b>	<b><u>P 205,045,800</u></b>	<b><u>P 2,258,497,910</u></b>	<b><u>P -</u></b>	<b><u>P 21,142,919</u></b>	<b><u>P 240,732,745</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 1,696,586,766</u></b>	<b><u>P 1,081,354,000</u></b>	<b><u>P 9,002,313,141</u></b>
January 1, 2016												
Cost	P 4,163,838,819	P 148,718,098	P 2,379,895,263	P -	P 92,824,177	P 599,610,911	P 46,944,514	P 5,085,134,597	P 335,436,389	P 1,138,498,896	P 1,727,856,115	P 15,718,757,779
Accumulated depreciation And amortization	( 945,023,733 )	( 55,127,432 )	( 575,008,715 )	-	( 74,896,989 )	( 348,317,991 )	( 33,254,229 )	( 715,593,100 )	( 128,532,272 )	-	-	( 2,875,754,461 )
Net carrying amount	<b><u>P 3,218,815,086</u></b>	<b><u>P 93,590,666</u></b>	<b><u>P 1,804,886,548</u></b>	<b><u>P -</u></b>	<b><u>P 17,927,188</u></b>	<b><u>P 251,292,920</u></b>	<b><u>P 13,690,285</u></b>	<b><u>P 4,369,541,497</u></b>	<b><u>P 206,904,117</u></b>	<b><u>P 1,138,498,896</u></b>	<b><u>P 1,727,856,115</u></b>	<b><u>P 12,843,003,318</u></b>

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016 of property, plant and equipment is shown below.

	<b>Buildings, Depot, Plant and Pier Facilities</b>	<b>Leasehold and Land Improvements</b>	<b>Gasoline and LPG Station Equipment</b>	<b>LPG Cylinders</b>	<b>Office Furniture and Equipment</b>	<b>Hauling and Heavy Equipment</b>	<b>Transportation and Other Equipment</b>	<b>Tankers</b>	<b>Vessel Equipment</b>	<b>Land</b>	<b>Construction in Progress</b>	<b>Total</b>
Balance at January 1, 2017 net of accumulated depreciation and amortization	P 3,498,953,001	P 205,045,800	P 2,258,497,910	P -	P 21,142,919	P 240,732,745	P -	P -	P -	P 1,696,586,766	P 1,081,354,000	P 9,002,313,141
Business combination - cost (see Note 1.4)	1,475,209,901	-	494,487,528	1,665,092,760	20,693,043	-	18,814,376	-	-	-	4,753,049	3,679,050,657
Business combination - accumulated depreciation and provision for loss on lost cylinders (see Note 1.4)	( 507,141,325 )	-	( 333,104,296 )	( 757,139,740 )	( 16,551,492 )	-	( 18,125,459 )	-	-	-	-	( 1,632,062,312 )
Additions	915,256	6,799,404	5,402,980	74,504,679	57,390,498	103,659,961	4,227,327	-	-	735,178,507	2,207,257,158	3,195,335,770
Transfers	1,827,852,820	( 19,666,168 )	723,567,010	( 521,536 )	-	-	-	-	-	-	( 2,531,232,126 )	-
Cost of asset disposed	-	( 964,572 )	( 31,831,639 )	( 13,949,823 )	( 8,697,461 )	( 31,802,844 )	( 869,947 )	-	-	-	( 216,145 )	( 88,332,431 )
Accumulated depreciation of asset disposed	-	964,572	23,068,476	4,610,559	8,567,528	26,568,472	855,448	-	-	-	-	64,635,055
Depreciation and amortization charges for the year	( 211,169,230 )	( 83,857,674 )	( 380,209,283 )	( 23,931,515 )	( 13,927,778 )	( 106,749,215 )	( 407,840 )	-	-	-	-	( 820,252,535 )
Balance at December 31, 2017 net of accumulated depreciation and amortization	<b><u>P 6,084,620,423</u></b>	<b><u>P 108,321,362</u></b>	<b><u>P 2,759,878,686</u></b>	<b><u>P 948,665,384</u></b>	<b><u>P 68,617,257</u></b>	<b><u>P 232,409,119</u></b>	<b><u>P 4,493,905</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 2,431,765,273</u></b>	<b><u>P 761,915,936</u></b>	<b><u>P 13,400,687,345</u></b>
Balance at January 1, 2016 net of accumulated depreciation and amortization	P 3,218,815,086	P 93,590,666	P 1,804,886,548	P -	P 17,927,188	P 251,292,920	P 13,690,285	P 4,369,541,497	P 206,904,117	P 1,138,498,896	P 1,727,856,115	P 12,843,003,318
Disposals due to deconsolidation	( 662,970,883 )	-	-	-	( 3,851,001 )	( 105,795,073 )	( 8,790,362 )	( 4,067,209,810 )	( 134,043,964 )	-	( 69,203,987 )	( 5,051,865,080 )
Additions	-	-	-	-	17,559,953	182,364,854	-	-	-	558,087,870	1,459,609,643	2,217,622,320
Transfers	1,136,052,311	146,861,297	737,570,774	-	-	-	-	-	-	-	( 2,036,907,771 )	( 16,423,389 )
Cost of asset disposed	-	( 1,197,736 )	( 1,385,484 )	-	( 1,088,549 )	( 24,080,144 )	-	-	-	-	-	( 27,751,913 )
Accumulated depreciation of asset disposed	-	1,197,736	382,420	-	1,063,055	22,674,343	-	-	-	-	-	25,317,554
Depreciation and amortization charges for the year	( 190,309,624 )	( 35,406,163 )	( 282,411,233 )	-	( 10,467,727 )	( 85,722,968 )	( 4,899,923 )	( 302,331,687 )	( 72,860,153 )	-	-	( 984,409,478 )
Reclassifications/adjustments	( 2,633,889 )	-	( 545,115 )	-	-	( 1,187 )	-	-	-	-	-	( 3,180,191 )
Balance at December 31, 2016 net of accumulated depreciation and amortization	<b><u>P 3,498,953,001</u></b>	<b><u>P 205,045,800</u></b>	<b><u>P 2,258,497,910</u></b>	<b><u>P -</u></b>	<b><u>P 21,142,919</u></b>	<b><u>P 240,732,745</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 1,696,586,766</u></b>	<b><u>P 1,081,354,000</u></b>	<b><u>P 9,002,313,141</u></b>



### 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 P19.7 million, P61.7 million and P61.9 million as of December 31, 2017, 2016 and 2015, respectively (see Note 17.6), representing the actual borrowing costs incurred on loans obtained to fund the construction of depot facilities and retail stations. The average capitalization rate used was 8.50% both in 2017 and 2016.

### 11.2 Finance Lease

The carrying amount of hauling and heavy equipment held under finance lease amounted to nil and P3.1 million as of December 31, 2017 and 2016, respectively (see Note 17.4).

### 11.3 Depreciation and Amortization

The Group retired in its books fully-depreciated transportation equipment with a total cost of P24.9 million and P43.1 million in 2017 and 2016, respectively. As of December 2017 and 2016, the cost of fully-depreciated assets that are still being used in the Group's operations amounted to P1,044.8 million and P463.7 million, respectively.

The amount of depreciation and amortization is allocated as follows:

	Notes	2017	2016	2015
Cost of sales and services	21.1, 21.2	P 23,964,493	P 402,281,752	P 246,379,404
Selling and administrative expenses		<u>796,288,042</u>	<u>582,127,726</u>	<u>439,696,459</u>
	22	<u>P 820,252,535</u>	<u>P 984,409,478</u>	<u>P 686,075,863</u>

In 2016, computer software licenses amounting to P16.4 million, which were previously recorded as part of property, plant and equipment, were transferred to intangible assets (see Note 12).

## 12. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of 2017 and 2016 are shown below and in the next page.

	Basketball Franchise	Computer Software Licenses	Software Development Costs	Others	Total
December 31, 2017					
Cost	P 176,861,660	P 195,704,242	P 9,638,891	P 1,262,393	P 383,467,186
Accumulated Amortization	<u>-</u>	<u>( 101,417,010)</u>	<u>( 7,118,724)</u>	<u>-</u>	<u>( 108,535,734)</u>
Net carrying amount	<u>P 176,861,660</u>	<u>P 94,287,232</u>	<u>P 2,520,167</u>	<u>P 1,262,393</u>	<u>P 274,931,452</u>

	<b>Basketball Franchise</b>	<b>Computer Software Licenses</b>	<b>Software Development Costs</b>	<b>Others</b>	<b>Total</b>
December 31, 2016					
Cost	P 176,861,660	P 166,374,580	P 9,275,320	P 933,694	P 353,445,254
Accumulated Amortization	<u>-</u>	<u>( 72,935,492)</u>	<u>( 5,472,272)</u>	<u>-</u>	<u>( 78,407,764)</u>
Net carrying amount	<u>P 176,861,660</u>	<u>P 93,439,088</u>	<u>P 3,803,048</u>	<u>P 933,694</u>	<u>P 275,037,490</u>
January 1, 2016					
Cost	P -	P 127,553,120	P 5,560,142	P -	P 133,113,262
Accumulated amortization	<u>-</u>	<u>( 58,015,880)</u>	<u>( 2,712,921)</u>	<u>-</u>	<u>( 60,728,801)</u>
Net carrying amount	<u>P -</u>	<u>P 69,537,240</u>	<u>P 2,847,221</u>	<u>P -</u>	<u>P 72,384,461</u>

A reconciliation of the carrying amounts of intangible assets at the beginning and end of 2017 and 2016 are shown below.

	<b>Basketball Franchise</b>	<b>Computer Software Licenses</b>	<b>Software Development Costs</b>	<b>Others</b>	<b>Total</b>
Balance at January 1, 2017, net of accumulated amortization	P 176,861,660	P 93,439,088	P 3,803,048	P 933,694	P 275,037,490
Additions		29,329,662	363,571	328,699	30,021,932
Amortization expense for the year	<u>-</u>	<u>( 28,481,518)</u>	<u>( 1,646,452)</u>	<u>-</u>	<u>( 30,127,970)</u>
Balance at December 31, 2017, net of accumulated amortization	<u>P 176,861,660</u>	<u>P 94,287,232</u>	<u>P 2,520,167</u>	<u>P 1,262,393</u>	<u>P 274,931,452</u>
Balance at January 1, 2016, net of accumulated amortization	P -	P 69,537,240	P 2,847,221	P -	P 72,384,461
Additions	176,861,660	22,398,071	3,715,178	933,694	203,908,603
Transfers from property, plant and equipment	-	16,423,389	-	-	16,423,389
Amortization expense for the year	<u>-</u>	<u>( 14,919,612)</u>	<u>( 2,759,351)</u>	<u>-</u>	<u>( 17,678,963)</u>
Balance at December 1, 2016, net of accumulated amortization	<u>P 176,861,660</u>	<u>P 93,439,088</u>	<u>P 3,803,048</u>	<u>P 933,694</u>	<u>P 275,037,490</u>

The amount of amortization is presented as part of selling and administrative expenses in the consolidated statements of comprehensive income (see Note 22).

In 2016, computer software licenses amounting to P16.4 million were transferred from various property, plant and equipment (see Note 11).

### 13. INVESTMENT IN A JOINT VENTURE

In 2015, CISC entered into a joint venture agreement with 168 Gas Corp. and Seaport Offshore Inc. to establish a joint venture Group that shall operate a terminal and storage facility in the Park for LPG and LPG-related products. The joint venture Group, SPI was incorporated and registered with the SEC on March 27, 2014.

Under the joint venture agreement, SPI has an authorized and outstanding capital stock of P175.0 million with par value of P1.00 per share, which was subsequently increased to P700.0 million. As of December 31, 2015, CISC owns 175.0 million shares, 50.00% of the outstanding capital stock, but does not have significant influence on the entity. Total investment in a joint venture as of December 31, 2015 amounted to P175.0 million, of which, P67.8 million was advanced in 2014. The equity share in the net loss of SPI amounting to P50.1 million and P16.3 million in 2016 and 2015, respectively, is presented under Other Charges (Income) in the consolidated statements of comprehensive income.

Under the agreement, the joint venture has no restrictions as to transfer of funds in the form of cash dividends, or to repay loans or advances made by SPI. This account was derecognized as a result of deconsolidation of CISC in 2016 (see Note 1.5).

### 14. GOODWILL

Goodwill represents the excess of acquisition cost over the Group's share in the fair value of identifiable net assets of the acquired subsidiaries at the date of the acquisition and relates mainly to business synergy for economies of scale and scope. The movements of this account as of December 31 are as follows:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year			
– net of allowance on impairment loss		<b>P 10,221,849</b>	P 84,516,663
Additions due to business combinations	1.4	<b>3,980,444,757</b>	-
Disposals due to deconsolidation		<u>-</u>	( <u>74,294,814</u> )
Balance at end of year		<b><u>P3,990,666,606</u></b>	<u>P 10,221,849</u>

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. There are no impairment losses recognized in 2017 and 2016. Based on management's assessment, the carrying amounts of the Goodwill as of both years are fully recoverable.

## 15. INVESTMENT PROPERTIES

The Group's investment properties were acquired through business combinations (see Note 1.4) and consist of several parcels of land and lot improvements, which are held for investment purposes only. Rental income from investment properties amounted to P1.1 million in 2017 and is presented as part of Rent and Storage Income in the 2017 consolidated statement of comprehensive income. Real estate tax on investment properties amounting to P0.2 million was recognized as a related expense in 2017 and is presented as part of Taxes and Licenses under Selling and Administrative Expenses in the 2017 consolidated statement of comprehensive income (see Note 22).

The carrying amount of the investment properties totalled to P1,114.8 million in 2017 as a result of the acquisition of Duta Group. As a result of the increase in the appraisal values, the Group recognized in 2017 a gain on reversal of impairment amounting to P40.3 million, which was previously recognized before the business combination (see Note 1.4). Such is presented as part of Others under the Other Charges (Income) in the 2017 consolidated statement of comprehensive income.

Had the Group's investment properties been carried using the cost model, the carrying amount would have been P338.4 million as of December 31, 2017. The Group's investment properties were last revalued on October 2, 2017.

## 16. OTHER NON-CURRENT ASSETS

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

	Notes	<u>2017</u>	<u>2016</u>
Refundable rental deposits	27.3	<b>P 182,480,300</b>	P 140,817,250
Deferred minimum lease payments		<b>39,079,505</b>	37,913,977
Other prepayments		-	7,000,000
Others		<u><b>1,907,263</b></u>	<u>6,352,989</u>
		<u><b>P 223,467,068</b></u>	<u>P 192,084,216</u>

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. Meanwhile, interest on subsequent amortization of rental deposits using effective interest method amounted to P2.7 million in 2017, P2.6 million in 2016 and P2.1 million in 2015 and is presented as part of Finance Income in the consolidated statements of comprehensive income (see Note 23.2).

The excess of the principal amount of the rental deposit over its present value is recognized in the consolidated statements of financial position as Deferred Minimum Lease Payments. Rent expense on subsequent amortization of the deferred minimum lease payments amounted to P2.7 million, P2.4 million and P2.4 million in 2017, 2016 and 2015, respectively, and is presented as part of Rent under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 22).

## 17. INTEREST-BEARING LOANS AND BORROWINGS

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

	<u>2017</u>	<u>2016</u>
Current:		
Liabilities under LC and TR	<b>P 5,139,141,223</b>	P 2,163,936,859
Term loans	<b>11,657,732,922</b>	7,989,944,730
Liabilities under short-term commercial papers	-	1,107,711,982
Obligations under finance lease	<u>-</u>	<u>1,265,272</u>
	<b>16,796,874,145</b>	11,262,858,843
Non-current –		
Term loans	<u><b>11,374,559,853</b></u>	<u>1,921,565,000</u>
	<b><u>P 28,171,433,998</u></b>	<b><u>P 13,184,423,843</u></b>

### *17.1 Liabilities under Letters of Credits and Trust Receipts*

The Group avails of LC and TR lines with local banks to finance its purchases of inventories (see Note 8). These short-term trust receipts bear interests based on prevailing market interest rates at an average of 3.97% and 4.04% per annum in 2017 and 2016, 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, 9 and 27.5).

## 17.2 Term Loans

The breakdown of the outstanding balances of the term loans per creditor as at December 31 are as follows:

	Explanatory Notes	Term	Interest Rates	Outstanding Balance	
				2017	2016
BDO Unibank, Inc. (BDO)					
i. Term Loan Agreement	(a)	7 years	4.02%	P 5,799,559,853	P -
ii. Notes Facility Agreement	(b), (c)	1.5 months to 5 years	3.75% - 4.94%	<u>4,600,000,000</u>	<u>1,500,000,000</u>
				<u>10,399,559,853</u>	<u>1,500,000,000</u>
Philippine National Bank (PNB)					
i. Notes Payable	(c)	2 months to 3 years	3.75% - 4.80%	<u>2,150,000,000</u>	<u>1,000,000,000</u>
ii. Term Loan Agreement	(d)	5 years	6.21%	<u>325,000,000</u>	<u>425,000,000</u>
				<u>2,475,000,000</u>	<u>1,425,000,000</u>
Multinational Investment Bancorporation (MIB)					
i. Notes Payable	(c)	3 to 7 months	3.00% - 4.50%	<u>2,385,732,922</u>	-
ii. Medium-term loan	(e)	2 to 3 months	4.00%	<u>-</u>	<u>1,800,000,000</u>
				<u>2,385,732,922</u>	<u>1,800,000,000</u>
Land Bank of the Philippines (LBP)					
i. Term Loan Agreement	(f)	5 years	4.00%	<u>1,000,000,000</u>	-
ii. Notes Payable	(c)	2 to 3 months	3.75% - 4.04%	<u>900,000,000</u>	-
				<u>1,900,000,000</u>	-
Development Bank of the Philippines (DBP) – Notes Payable	(c)	2 to 3 months	2.71% - 3.53%	<u>1,200,000,000</u>	<u>600,000,000</u>
Rizal Commercial Banking Corporation	(c)	2 to 3 months	3.75%	<u>1,000,000,000</u>	-
Robinsons Bank Corporation (RBC)					
i. Notes Payable	(b), (c)	2 to 6 months	3.75% - 4.04%	<u>625,000,000</u>	<u>400,000,000</u>
ii. Term Loan Agreement	(g)	5 to 7 years	5.50 - 8.06%	<u>347,000,000</u>	<u>447,500,000</u>
				<u>972,000,000</u>	<u>847,500,000</u>
Philippine Veterans Bank (PVB)	(c)	1 month	3.50%	<u>600,000,000</u>	<u>500,000,000</u>
Bank of Commerce	(c)	3 months	3.50%	<u>500,000,000</u>	-
United Coconut Planters Bank	(c)	3 months	4.50%	<u>500,000,000</u>	<u>200,000,000</u>
Asia United Bank (AUB)	(c)	3 months	3.75%	<u>400,000,000</u>	-
Pentacapital Investment Corporation	(c)	3 months	5%	<u>400,000,000</u>	-
Union Bank of the Philippines (UBP)	(c)	2 months	3.50%-4.00%	<u>300,000,000</u>	-
China Banking Corporation (CBC) and Pentacapital	(b)	3 months to 7 years	3.25% - 7.75%	<u>-</u>	<u>1,445,318,730</u>
Philippine Business Bank (PBB)	(c)	3 months	4.00%	<u>-</u>	<u>1,000,000,000</u>
Maybank International, Ltd.	(b), (f)	5 years	6.81% - 7.74%	<u>-</u>	<u>348,691,000</u>
Philippine Bank of Communication (PBCOMM)	(c)	3 months to 1 year	4.25% - 4.50%	<u>-</u>	<u>200,000,000</u>
Maybank Philippines, Inc.	(f)	3 months to 5 years	3.50%-5.50%	<u>-</u>	<u>45,000,000</u>
				<u>P 23,032,292,775</u>	<u>P 9,911,509,730</u>

**(a) TLA with BDO**

On August 18, 2016, the Parent Company signed with BDO a five-year term loan amounting to P1,000.0 million to be used for capital expenditures and general corporate purposes. The loan was approved on a clean basis and is subject to a floating interest rate based on one year PDSTR-2 plus margin with a floor of 4.00%. Interest rate is repriceable and payable quarterly in arrears. The principal, meanwhile, is payable upon maturity.

Further, the Parent Company obtained a clean short-term loan from BDO on November 21, 2016 amounting to P500.0 million. The said loan was fully settled in 2017.

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 PDST-R2 rate and 150 basis points divided by 0.99, or 4% divided by 0.99 per annum for the period commencing from the avilment 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 PDST-R2 and 150 basis points divided by 0.95, or 4% divided by 0.95 per annum, whichever is higher. The principal loan is payable quarterly in 28 installments. The first 27 installments shall be for the amount of P165.0 million quarterly while the last installment shall be P1,545.0 million.

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ratio of at least 1:1, and debt coverage ratio of at least 1.5.

As of December 31, 2017 and 2016, the Parent Company has complied with its debt covenants.

**(b) Notes Facility Agreement**

In 2011, the Parent Company availed of a P750.0 million clean loan under the notes facility agreement entered into with BDO, Maybank International, Ltd. and RBC. The long-term loan amounting to P700.0 million with interest rate of 7.40% annually is payable on August 24, 2016 and the remaining P50.0 million with interest rate of 7.70% is payable on August 23, 2018.

On August 16, 2017, the Parent Company paid P0.5 million of the principal of the RBC loan. As of December 31, 2017, the balance of the RBC loan amounted to P47.0 million.

**(c) Notes Payable**

The promissory notes represented the borrowings from local banks or investment houses with interest rates ranging from 3.00% to 4.50% per annum and normally has a tenor of less than a year. Some of these loans are clean and unsecured. Certain loans are guaranteed by certain stockholders through surety agreement with the Banks (see Note 27.5).

The total outstanding balance of the various promissory notes as of December 31, 2017 and 2016 are P14,560.7 million and P2,900.0 million, respectively.



***(d) TLA with PNB***

On January 29, 2016, the Parent Company signed with PNB a five-year term clean loan amounting to P500.0 million to be used for capital expenditures and general corporate purposes. The loan is subject to annual interest rate of 6.21% and is payable in twenty quarterly installments. As of December 31, 2017 and 2016, the outstanding principal balance amounted to P325.0 million and P425.0 million, respectively.

***(e) Medium-Term Loan with MIB***

On October 7, 2015, the Parent Company signed with MIB, in behalf of BDO Private Bank, a clean medium-term loan amounting to P500.0 million with a tenor of 548 days. The loan proceeds were used for working capital requirements. The loan is subject to a fixed annual interest rate of 4.25% and has matured on April 7, 2017.

In various dates in 2016, the Parent Company signed with MIB, in behalf of BDO Private Bank and Metropolitan Bank & Trust Corp., a clean short-term loan totaling to P1,800.0 million. The loan proceeds were used for working capital requirements. Such is subject to a fixed annual interest rate of 4.00% and has matured and was paid on various dates until April 7, 2017.

***(f) TLA with LBP***

On November 3, 2017, the Parent Company signed with LBP a three-year term clean loan amounting to P1,000.0 million to partially finance the permanent working capital requirements of the Parent Company. The loan is subject to a floating rate of 4.00% per annum. 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, 2017, the outstanding principal balance amounted to P1,000.0 million.

***(g) TLA with RBC***

On October 9, 2015, the Parent Company signed with RBC a five-year clean term loan amounting to P500.0 million to be used for capital expenditures and general corporate purposes. The loan is subject to annual interest rate of 5.50% and is payable in twenty equal quarterly installments. As of December 31, 2017 and 2016, the outstanding balance amounted to P347.0 million and P447.5 million, respectively.

***(h) Notes Facility Agreement with CBC and Pentacapital***

On November 8, 2012, the Parent Company entered into a notes facility agreement with CBC and Pentacapital totaling P2,500.0 million. The loan is subject to a fixed annual interest rate of 7.80%, which is payable in twenty quarterly payments. The net proceeds of the loan were used by the Group for the roll-out of the retails stations, for debt financing, for capital expenditures and for other general corporate purposes.

The Parent Company has paid the amount of P1,445.3 million on November 10, 2017. There is no outstanding balance of the note facility as of December 31, 2017.

By virtue of the notes facility agreement, the Parent Company affirms that it shall maintain the listing of its common shares with PSE and shall not declare or pay any dividends to stockholders (other than dividends payable solely in shares of its capital stock) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the notes facility agreement are current and updated.

Minimum financial ratios to maintain are as follows: (i) debt-to-equity ratio not to exceed 3:1; (ii) current ratio not to fall below 1:1 and (iii) debt service coverage ratio (DSCR) not to be less than 1.5:1.

The discounted balance of the principal of the note as of December 31, 2017 and 2016 amounted to nil and P1,445.3 million, respectively.

As of December 31, 2017 and 2016, the Parent Company has complied with its debt covenant requirements.

***(i) TLA with Maybank International, Ltd.***

On November 20, 2012, the Parent Company entered into a TLA amounting to US\$24.0 million with Maybank International, Ltd. to fund various capital expenditures. The total amount of the loan is broken down into US\$14.0 million (tranche 1), which is due in five years and US\$10.0 million (tranche 2) with a term of three years.

The loan is subject to interest computed at one-year LIBOR plus applicable margin of 4.20% per annum, or cost of funds plus a margin of 2.00% per annum, whichever is higher. Interest payments are to be serviced quarterly in arrears. Maybank International, Ltd. reserves the right to vary, at its absolute discretion from time to time, such rate of interest, which variation may take place by varying the LIBOR or the margin or spread above the LIBOR, or both.

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ratio of at least 1:1 and debt coverage ratio of at least 1.5.

Moreover, Maybank International, Ltd. has the right of first refusal and right to match any fund raising exercise that may be required to refinance the U.S. dollar-denominated term facility either via follow-on offering of the Parent Company's shares or a syndicated term loan.

The balance of the principal of the loan amounted to nil and P264.1 million, translated into Philippine Peso using the closing rate as of December 31, 2016.

On April 29, 2015, the Parent Company entered into another TLA amounting to US\$10.0 million with Maybank International Labuan Branch to fund various capital expenditures. As of December 31, 2017 and 2016, the loan stood at nil and US\$7.0 million or P348.6 million, respectively, using the closing rate as of reporting period. This loan was fully settled on January 31, 2017.

As of December 31, 2017 and 2016, the Parent Company has complied with its debt covenants.

***(j) TLA with Maybank Philippines***

On July 18, 2012, the Parent Company signed with Maybank Philippines a five-year clean term loan amounting to P300.0 million to be used exclusively for capital expenditure and permanent working capital. The loan is subject to annual interest rate of 6.00% and is payable in twenty equal quarterly installments.

In connection with the TLA, all existing and future advances to the Parent Company by its stockholders or related parties are subordinated to the loan. The Parent Company agrees that any and all of its obligations relative to the TLA shall be settled first before any of its financial obligations to such shareholders' and related parties' advances are paid.

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ratio of at least 1:1 and debt coverage ratio of at least 1.5.

The outstanding balance of the loan as of December 31, 2017 and 2016 amounted to nil and P45.0 million, respectively.

As of December 31, 2017 and 2016, the Parent Company has complied with its debt covenants.

***17.3 Liabilities under Short-term Commercial Papers***

The outstanding balance of the STCP as of December 31, 2016 is P1,108.2 million. The same was fully settled by the Group on January 4, 2017. The Parent Company used the net proceeds to partly finance the regular importation of finished petroleum products through various banks.

There are no outstanding liabilities under STCP as of December 31, 2017.

***17.4 Obligations under Finance Lease***

The finance lease liability has an effective interest rate of 5.10%, which is equal to the rate implicit in the lease contract (see Note 31.5). Lease payments are made on a monthly basis.

As of December 31, 2017 and 2016, the balance of finance lease liability is nil and P1.3 million, respectively.

***17.5 Credit Line***

The Parent Company has an available credit line under LC/TR of P8,902.3 million and P11,797.0 million and as of December 31, 2017 and 2016, respectively. These lines obtained from various banks are being utilized by the Parent Company for procurement of inventories both local and foreign. The credit lines are mostly granted on a clean basis while some of the credit lines are partially secured by the Joint Several Signatures of certain stockholders.

***17.6 Interest Expense***

Interest expense for 2017, 2016 and 2015 are presented as part of Finance Costs in the consolidated statements of comprehensive income amounted to P780.9 million, P863.4 million and P786.9 million (see Note 23.1), respectively, net of the capitalized borrowing cost of P19.7 million, P61.7 million and P61.9 million as of December 31, 2017, 2016 and 2015, respectively (see Note 11.1).

## 18. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Group's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Liabilities under LC and TR (see Note 17)	Term Loans (see Note 17)	Liabilities under STCP (see Note 17)	Obligations under finance lease (see Note 17)	Other Non-current Liabilities (see Note 20)	Total
Balance as of						
January 1, 2017	P 2,163,936,859	P 9,911,509,730	P 1,107,711,982	P 1,265,272	P 258,584,286	P 13,443,008,129
Cash flows from						
financing activities						
Additional borrowings	-	35,895,647,657	1,121,000,000	-	-	37,016,647,657
Repayment of borrowings and TR	( 18,099,859,838 )	( 22,776,136,983 )	( 2,228,711,982 )	-	-	( 43,104,708,803 )
Non-cash financing activities						
Availment of LC and TR	21,075,064,202	-	-	-	-	21,075,064,202
Business combination	-	-	-	-	182,614,490	182,614,490
Increase in non-current liability	-	-	-	-	63,749,068	63,749,068
Interest expense from security deposits	-	-	-	-	6,341,824	6,341,824
Return on plan assets (excluding amounts included in net interest expense	-	-	-	-	3,399,323	3,399,323
Actuarial gain arising from changes in: Financial assumptions	-	-	-	-	( 12,276,998 )	( 12,276,998 )
Experience Adjustments	-	-	-	-	( 5,001,689 )	( 5,001,689 )
Demographic Adjustments	-	-	-	-	( 355,175 )	( 355,175 )
Interest amortization on finance lease obligation	-	-	-	( 1,265,272 )	-	( 1,265,272 )
Amortization of unrecorded discount	-	1,272,371	-	-	-	1,272,371
Interest expense from post-employment defined benefit obligation	-	-	-	-	576,720	576,720
Changes in the effect asset ceiling	-	-	-	-	174,463	174,463
Balance as of						
December 31, 2017	<u>P 5,139,141,223</u>	<u>P 23,032,292,775</u>	<u>P -</u>	<u>P -</u>	<u>P 497,806,312</u>	<u>P 28,669,240,310</u>

## 19. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Trade payables:			
Third parties		<b>P 3,092,973,317</b>	P 2,324,782,388
Related parties	27.2, 27.3	<b><u>20,995,548</u></b>	<u>460,662,159</u>
		<b>3,113,968,865</b>	2,785,444,547
Accrued expenses	27.3	<b>439,067,334</b>	256,953,308
Advances from customers		<b>108,796,437</b>	49,732,927
Retention payable		<b>78,959,503</b>	99,701,792
Non-trade payables		<b>13,344,313</b>	1,982,691
Others		<b><u>78,532,168</u></b>	<u>38,837,351</u>
		<b><u>P 3,832,668,620</u></b>	<u>P 3,232,652,616</u>

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.

## 20. OTHER NON-CURRENT LIABILITIES

This account consists of:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Security deposits		<b>P 245,488,541</b>	P 219,790,571
Customers' cylinder deposits		<b>196,380,513</b>	-
Cash bond		<b>33,492,002</b>	-
Unearned rent		<b>20,724,633</b>	18,003,921
Post-employment defined benefit obligation	24.3	<b><u>1,720,623</u></b>	<u>20,789,794</u>
		<b><u>P 497,806,312</u></b>	<u>P 258,584,286</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 P6.3 million, P11.7 million and P4.8 million in 2017, 2016 and 2015, respectively, and is presented as part of Finance Costs in the consolidated statements of comprehensive income (see Note 23.1).

The excess of the principal amount of the security deposit over its present value is recognized in the consolidated statements of financial position as unearned rent. Subsequent amortization of the unearned rent amounted to P6.4 million, P8.1 million and P5.9 million as of December 31, 2017, 2016 and 2015, respectively, and is presented as part of Rent and Storage 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 (see Note 1.4). In 2017, there were no refunds made to the dealers. The composition of this account in 2017 are as follows:

Deposits for cylinders	P 248,173,086
Less: Amortization of cylinder deposits	( <u>51,792,573</u> )
Deposits for cylinders	<b><u>P 196,380,513</u></b>

Cash bond deposits consists of cash received from PLPI dealers upon entering dealership agreement. This serves as a bond or security in case a dealer defaults from payment. The deposit will be returned to the dealer upon termination of the agreement.

## 21. COST OF SALES AND SERVICES

This account is composed of the following as of December 31:

	Notes	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cost of fuels and lubricants sold	21.1	<b>P 36,814,878,142</b>	P 23,914,378,824	P 23,980,285,783
Cost of LPG	21.1	<b>1,093,919,764</b>	-	-
Cost of services	21.2	-	1,209,570,405	1,125,034,323
Cost of real estate sold	22	<u>-</u>	<u>-</u>	<u>163,531,057</u>
	22	<b><u>P 37,908,797,906</u></b>	<b><u>P 25,123,949,229</u></b>	<b><u>P 25,268,851,163</u></b>

## 21.1 Cost of Fuels, LPG and Lubricants Sold

The cost of fuels and lubricants sold are broken down as follows:

	Notes	2017	2016	2015
Inventories at beginning of year		<b>P 2,998,780,146</b>	P 2,638,614,688	P 2,870,829,069
Net purchases during the year		<b>47,778,391,525</b>	24,274,544,282	23,748,071,402
Business combination	1.4	<b>63,146,150</b>	-	-
Overhead costs	11.3	<b>38,427,130</b>	-	-
Goods available for sale		<b>50,878,744,951</b>	26,913,158,970	26,618,900,471
Inventories at end of year	8	<b>( 12,969,947,045)</b>	( 2,998,780,146)	( 2,638,614,688)
		<b><u>P 37,908,797,906</u></b>	<b><u>P 23,914,378,824</u></b>	<b><u>P 23,980,285,783</u></b>

## 21.2 Cost of Services

There are no cost of services as of December 31, 2017. The details of cost of services as of December 31, 2016 and 2015 follows:

	Notes	2016	2015
Charter hire fees		P 219,480,628	P 343,889,275
Depreciation and amortization	11.3, 12	402,281,752	340,311,738
Salaries and employee benefits		223,104,624	110,723,141
Bunkering		128,272,479	95,822,033
Port expenses		69,045,193	59,642,363
Repairs and maintenance		47,398,625	62,261,852
Insurance		41,880,302	38,754,243
Taxes and licenses		18,061,125	17,855,083
Outside services		6,060,643	16,253,168
Service fees		5,228,607	27,706,457
Security services		2,650,929	3,147,040
Fuel, gas and lubricants		148,605	232,507
Professional fees		-	-
Others		<u>45,956,893</u>	<u>8,435,423</u>
		<b><u>P 1,209,570,405</u></b>	<b><u>P 1,125,034,323</u></b>



## 22. COSTS AND EXPENSES BY NATURE

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

	Notes	2017	2016	2015
Cost of inventories sold		<b>P 37,870,370,774</b>	P 23,914,378,824	P 23,980,915,783
Depreciation and amortization	11, 12	<b>850,380,505</b>	1,002,088,441	821,733,247
Freight and trucking charges		<b>667,780,304</b>	594,195,277	584,007,627
Rent	16, 27.3, 31.3	<b>654,110,277</b>	638,617,179	526,618,286
Taxes and licenses	15	<b>581,832,247</b>	336,339,378	184,277,952
Salaries and employee benefits	24.1	<b>438,875,069</b>	549,545,236	407,249,233
Advertising and promotions		<b>267,197,963</b>	85,071,762	84,319,851
Rebates		<b>258,688,946</b>	125,710,056	125,006,776
Service fees		<b>134,022,166</b>	88,540,285	124,781,797
Repairs and maintenance		<b>90,491,317</b>	118,676,191	125,914,426
Security fees		<b>82,623,951</b>	69,578,620	72,585,144
Utilities		<b>73,874,917</b>	60,577,393	61,064,494
Travel and transportation		<b>58,361,503</b>	50,971,497	39,522,659
Professional fees		<b>53,176,668</b>	107,609,032	39,967,826
Fuel, oil and lubricants		<b>50,194,019</b>	27,084,236	25,663,464
Insurance		<b>40,957,246</b>	71,213,196	83,349,159
Office supplies		<b>16,634,489</b>	12,914,083	10,843,835
Sales incentives		<b>13,481,660</b>	17,120,040	5,371,974
Representation		<b>9,814,799</b>	16,204,648	9,873,984
Deficiency taxes		<b>5,295,972</b>	81,276,439	6,335,281
Outside services		<b>2,881,506</b>	7,753,440	17,358,889
Charter hire fees	31.6	-	152,635,025	342,164,745
Bunkering		-	126,954,879	45,456,098
Port expenses		-	40,173,775	44,900,055
Cost of real estate sold	21	-	-	163,531,057
Miscellaneous	27.11	<b>99,493,930</b>	<b>168,509,342</b>	<b>60,944,232</b>
		<b><u>P 42,320,540,228</u></b>	<b><u>P 28,463,738,274</u></b>	<b><u>P 27,993,757,874</u></b>

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

	Note	2017	2016	2015
Cost of sales and services	21	<b>P 37,908,797,906</b>	P 25,123,949,229	P 25,268,851,163
Selling and administrative expenses		<b><u>4,411,742,322</u></b>	<b><u>3,339,789,045</u></b>	<b><u>2,724,906,711</u></b>
		<b><u>P 42,320,540,228</u></b>	<b><u>P 28,463,738,274</u></b>	<b><u>P 27,993,757,874</u></b>

## 23. FINANCE COSTS AND FINANCE INCOME

The breakdown of these accounts follows:

### 23.1 Finance Costs

	Notes	2017	2016	2015
Interest expense on bank loans and other borrowings	17.6	<b>P 780,917,196</b>	P 863,399,371	P 786,929,274
Impairment losses on trade and other receivables	7	<b>50,335,399</b>	112,986,854	79,208,744
Bank charges		<b>16,779,298</b>	18,828,373	11,184,239
Interest expense from security deposits	20	<b>6,341,824</b>	11,680,584	4,849,042
Interest expense from post-employment defined benefit obligation – net	24.3	<b>576,720</b>	1,678,468	3,665,593
Foreign currency exchange losses – net		<b>92,823</b>	-	37,827,699
Interest expense on advances from locators		-	-	33,555,541
Day-one loss on installment contract receivable		-	-	10,197,054
Others		-	10,703,374	1,265,121
		<b><u>P 855,043,260</u></b>	<b><u>P 1,019,277,024</u></b>	<b><u>P 968,682,307</u></b>

## 23.2 Finance Income

	Notes	2017	2016	2015
Foreign currency exchange gains – net		<b>P 38,148,337</b>	P 200,196,556	P -
Interest income from cash in banks	6	<b>15,662,627</b>	3,874,299	2,826,295
Interest income on amortization of rental deposits	16	<b>2,711,436</b>	2,566,528	2,138,101
Interest income from restricted deposits	9	<b>106,880</b>	669,278	576,599
Interest income from overdue trade receivables		-	380,957	-
Interest income from amortization of instalment contract receivable		-	-	<u>2,012,838</u>
		<b><u>P 56,629,280</u></b>	<b><u>P 207,687,618</u></b>	<b><u>P 7,553,833</u></b>

## 24. EMPLOYEE BENEFITS

### 24.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below.

	Notes	2017	2016	2015
Short-term benefits:				
Salaries and wages		<b>P 323,104,897</b>	P 434,209,853	P 341,168,526
Employee welfare and other benefits		<b>63,959,232</b>	76,840,351	25,657,077
13 <sup>th</sup> month pay and bonuses		<b>30,893,578</b>	23,944,763	29,114,952
Employee share options	24.2	<b>11,589,866</b>	5,757,780	-
Post-employment defined benefit	24.3	<b><u>9,327,496</u></b>	<b><u>8,792,489</u></b>	<b><u>11,308,678</u></b>
	22	<b><u>P 438,875,069</u></b>	<b><u>P 549,545,236</u></b>	<b><u>P 407,219,233</u></b>

### 24.2 Employee Share Option Plan (ESOP)

On January 24, 2013, the BOD of the Parent Company approved the ESOP. Under the ESOP program, the Parent Company will allocate up to a total of 2.20% of its issued and outstanding common shares to be granted to eligible employees. Share options benefit expense included as part of Salaries and employee benefits under Selling and Administrative Expenses in the 2017 and 2016 consolidated statements of comprehensive income amounted to P11.6 million and P5.8 million, respectively, while the corresponding credit to Retained Earnings of the same amount are presented under the Equity section of the 2017 and 2016 consolidated statements of financial position.

### 24.3 Post-employment Defined Benefit Plan

#### (a) Characteristics of the Defined Benefit Plan

The Group has maintained a partially funded, tax-qualified, noncontributory post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. Normal retirement benefit is an amount equivalent to 75.00% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

#### (b) Explanation of Amounts Presented in the Consolidated Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2017 and 2016.

The amounts of post-employment defined benefit obligation, which is presented as part of Other Non-current Liabilities account (see Note 20) in the consolidated statements of financial position, are determined as follow:

	<u>2017</u>	<u>2016</u>
Present value of obligation	<b>P 123,569,725</b>	P 59,336,376
Fair value of plan assets	<b>( 121,849,102)</b>	( 38,546,582)
	<b><u>P 1,720,623</u></b>	<b><u>P 20,789,794</u></b>

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	<b>P 59,336,376</b>	P 74,572,352
Business combination	<b>75,111,933</b>	-
Current service cost	<b>9,327,496</b>	8,792,489
Remeasurements:		
Actuarial gains arising from:		
Changes in financial assumptions	<b>( 12,276,998)</b>	( 3,020,965)
Experience adjustments	<b>( 5,001,689)</b>	( 10,503,287)
Changes in demographic assumptions	<b>( 355,175)</b>	-
Benefits paid from:		
Plan assets	<b>( 7,100,000)</b>	( 1,425,865)
Book reserves	<b>( 5,453,559)</b>	-
Settlement loss	<b>3,582,092</b>	-
Interest expense	<b>6,399,249</b>	3,053,348
Effect of deconsolidation	<b>-</b>	<b>( 12,131,696)</b>
Balance at end of year	<b><u>P 123,569,725</u></b>	<b><u>P 59,336,376</u></b>

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	<b>P 86,148,347</b>	P 26,752,146
Contributions to the plan	<b>41,209,772</b>	15,863,865
Benefits paid from plan assets	<b>( 7,100,000)</b>	( 1,425,865)
Interest income	<b>5,164,769</b>	1,374,880
Return (loss) on plan assets (excluding amounts included in net interest)	<b>( 3,399,323)</b>	1,836,547
Effect of the asset ceiling	<b>( 174,463)</b>	-
Effect of deconsolidation	<u>-</u>	<u>( 5,854,991)</u>
Balance at end of year	<b><u>P 121,849,102</u></b>	<b><u>P 38,546,582</u></b>

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	<b><u>P 17,335,228</u></b>	<b><u>P 3,271,309</u></b>
Quoted equity securities:		
Holding	<b>6,115,830</b>	4,994,451
Property	<b>3,199,153</b>	3,108,791
Construction	<b>2,966,310</b>	2,984,892
Telecommunications	<b>2,226,695</b>	2,298,766
Manufacturing (Preferred)	<b><u>1,831,803</u></b>	<u>1,875,068</u>
	<b><u>16,339,791</u></b>	<b><u>15,261,968</u></b>
Government bonds	<b><u>44,335,183</u></b>	<u>-</u>
Unit investment trust funds (UITF)	<b><u>27,611,035</u></b>	<u>10,606,898</u>
Unit Corporate Bonds	<b><u>16,227,865</u></b>	<u>8,925,579</u>
Unit STCP	<u>-</u>	<u>480,828</u>
	<b><u>P 121,849,102</u></b>	<b><u>P 38,546,582</u></b>

The fair value of the above investments are determined based on quoted market prices in active markets (classified as Level 1 in the fair value hierarchy). Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	Notes	2017	2016	2015
<i>Reported in profit or loss:</i>				
Current service cost	24.1	P 9,327,496	P 8,792,489	P 11,308,678
Settlement loss		3,582,092	-	-
Net interest expense	23.1	<u>576,720</u>	<u>1,678,468</u>	<u>3,665,593</u>
		<b>P 13,486,308</b>	<b>P 10,470,957</b>	<b>P 14,974,271</b>
<i>Reported in other comprehensive income:</i>				
Actuarial gains or losses arising from changes in:				
Experience adjustments		(P 5,001,689)	(P 10,503,288)	P 25,371,878
Financial assumptions		( 12,276,998)	( 3,020,965)	( 37,016,344)
Demographic assumptions		( 355,175)	-	-
Effect of asset ceiling		174,463	-	-
Return on plan assets (excluding amounts included in net interest expense)		<u>3,399,323</u>	<u>( 1,836,547)</u>	<u>( 6,472,239)</u>
		<b>(P 14,060,076)</b>	<b>(P 15,360,800)</b>	<b>(P 18,116,705)</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 22).

The net interest expense is included as part of Finance Costs under the Other Charges (Income) (see Note 23.1).

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

	2017	2016	2015
Discount rates	5.70% to 5.82%	5.38%	4.89% to 5.20%
Expected rate of salary increases	5.00% to 6.00%	5.00%	5.00% to 8.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 for both males and females is 25.7 and 20.9 for the Parent Company and PLPI, respectively.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, quoted equity securities and UITF.

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31:

2017			
	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
Discount rate	+/- 1.00%	(P 13,204,709)	P 15,537,569
Salary increase rate	+/- 1.00%	14,128,498	( 12,313,513)
2016			
	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
Discount rate	+/- 1.00%	(P 5,517,594)	P 6,416,720
Salary increase rate	+/- 1.00%	6,190,908	( 5,439,575)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

*(ii) Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. A large portion of the plan assets as of December 31, 2017 and 2016 is allocated to market gains and losses and accrued receivables.

*(iii) Funding Arrangements and Expected Contributions*

As of December 31, 2017, the plan is underfunded by P1.5 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 21 years' time when a significant number of employees is expected to retire.

The Group expects to make contribution of P10.0 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within ten years as of December 31 follows:

	<u>2017</u>	<u>2016</u>
Within one year	<b>P 5,296,457</b>	P 2,128,954
More than one year to five years	<b>23,841,856</b>	23,512,544
More than five years to ten years	<b><u>81,961,568</u></b>	<u>57,097,009</u>
	<b><u>P 111,099,881</u></b>	<b><u>P 82,738,507</u></b>

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



## 25. REGISTRATION WITH THE BOARD OF INVESTMENTS

### ***25.1 BOI Registration as New Industry Participant – Batangas Depot***

The Parent Company was registered with the Board of Investments (BOI) on February 26, 2010 as a new industry participant with new investment in storage, marketing and distribution of petroleum products under Republic Act (RA) 8479, *Downstream Oil Industry Deregulation Act*, for its storage tanks in Calaca, Batangas. 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 is also entitled to certain tax and non-tax incentives as follows:

- (a) Income tax holiday (ITH) for five years from February 26, 2010, without extension or bonus year from the date of registration;
- (b) Additional deduction from taxable income of 50.00% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to number of workers set by the board of not more than US\$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH;
- (c) The Parent Company may qualify to import capital requirement, spare parts and accessories at zero percent (0%) from the date of registration up to June 16, 2011 pursuant to the Executive Order No. 528 and its implementing rules and regulations.

Special transport equipment such as but not limited to tanks, trucks/lorries may be imported with incentives subject to land transportation operation requirements;

- (d) Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment;
- (e) Importation of consigned equipment for a period of five years from the date of registration, subject to posting of a re-export bond; and,
- (f) Other non-fiscal incentives, which may be applicable.

The ITH incentive for Calaca, Batangas Terminal expired last February 26, 2015.

### ***25.2 BOI Registration as New Industry Participant – Zamboanga Depot***

The Parent Company was also registered with the BOI on November 25, 2010 as a new industry participant with new investment in storage, marketing and distribution of petroleum products under RA 8479 for its storage tanks in Talisayan, Zamboanga 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 to Zamboanga Depot is also entitled to certain tax and non-tax incentives as also mentioned in Note 25.1. The ITH will expire five years from November 25, 2010.

The ITH incentive for Zamboanga Depot expired last November 25, 2015.

### ***25.3 BOI Registration for the New Investment in Downstream Oil Industry Activities – Davao Expansion***

On May 14, 2010, the Parent Company was registered with the BOI for the new investment in downstream oil industry activities under RA 8479 for the additional two storage tanks for petroleum products with storage capacity of 7.4 million liters in Davao depot. Under its registration, the Parent Company shall be entitled to avail of the incentives as cited previously. However, ITH for five years from May 14, 2010 is subjected to the base figure of 148.2 million liters representing the Parent Company's highest attained sales volume of its existing depot facilities (in Davao Depot) prior to the filing of application for registration of new investment.

The ITH incentive for Davao Expansion expired last May 14, 2015.

### ***25.4 BOI Registration for New Investment – Bacolod 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 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.

Under its registration, the Parent Company's transaction relating to Bacolod storage terminal is also entitled to certain tax and non-tax incentives as also mentioned previously.

The ITH incentive for Bacolod Storage Terminal expired last May 10, 2017.

### ***25.5 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 last May 10, 2017.

### ***25.6 BOI Registration for MT Chelsea Thelma and MT Chelsea Cherylyn***

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Chelsea Thelma and MT Chelsea Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, CSC is entitled to tax and non-tax incentives which include a six-year ITH. For MT Chelsea Cherylyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Chelsea Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered project.

***25.7 BOI Registration for MT Chelsea Denise II and MT Chelsea Donatela***

On March 12, 2015 and September 3, 2013, the CSC had registered its activity for MT Chelsea Denise II and MT Chelsea Donatela, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, as a new operator of domestic/inter-island shipping on a pioneer status. As a registered entity, CSC is entitled to tax and non-tax incentives which include a six-year ITH. For MT Chelsea Donatela, the related tax incentives started in January 2014. Meanwhile, the tax incentive for MT Chelsea Denise II started in November 2015. ITH incentives shall be limited only to the revenues generated by the registered project.

***25.8 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 case earlier than the date of registration.

***25.9 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 case earlier than the date of registration.

***25.10 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 (2) 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 (5) years without extension from October 2017 or date of registration whichever is earlier but in case earlier than the date of registration.

**25.11 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 (6) 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 (5) years without extension from November 2017 or date of registration whichever is earlier but in case earlier than the date of registration.

**25.12 BOI Registration for New Investment in Calaca, Batangas Oil Depot**

On December 22, 2017, the Parent Company has registered with BOI under Registration No. 2017-353 its new project for the Bulk Marketing of Petroleum Products in Calapan, Batangas Oil Depot with 78.3 million liters combined capacity of seven (7) 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 (5) years without extension from January 2018 or date of registration whichever is earlier but in case earlier than the date of registration.

**26. TAXES**

The components of tax expenses reported in the consolidated profit or loss and in the consolidated other comprehensive income follow:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30.00% and 17.00%	<b>P 262,725,051</b>	P 195,720,139	P 172,469,409
Final tax at 20.00% and 7.50%	<b>3,157,079</b>	1,928,511	712,198
Minimum corporate income tax (MCIT) at 2.00%	<u><b>1,657,937</b></u>	<u>3,214,611</u>	<u>6,093,000</u>
	<b>267,540,067</b>	200,863,261	179,274,607
Deferred tax expense (income) relating to origination and reversal of temporary differences	<u><b>( 65,268,048)</b></u>	<u>( 31,060,370)</u>	<u>6,568,943</u>
	<u><b>P 202,272,019</b></u>	<u>P 169,802,891</u>	<u>P 185,843,550</u>
<i>Reported in other comprehensive income:</i>			
Deferred tax expense relating to origination and reversal of temporary differences	<u><b>P 4,218,023</b></u>	<u>P 4,608,240</u>	<u>P 13,304,602</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>2017</u>	<u>2016</u>	<u>2015</u>
Tax on pretax profit at 30.00% and 17%	<b>P 598,236,352</b>	P 378,683,336	P 327,513,679
Adjustment for income subjected to lower income tax rates	<b>( 186,606,000)</b>	( 982,323)	( 356,902)
Tax effects of:			
Adjustment for income and expenses under ITH	<b>( 190,713,945)</b>	( 212,788,085)	( 158,876,440)
Reversal of deferred tax liability (DTL) on 2016 unrealized forex gain, realized in 2017	<b>( 83,181,314)</b>	-	-
Non-deductible expenses	<b>62,995,167</b>	69,479,619	14,333,891
Reversal of MCIT	<b>3,157,282</b>	3,051,968	88,177
Reversal of net operating loss carry over (NOLCO)	<b>2,761,014</b>	179,839	4,320,436
Non-taxable income	<b>( 2,732,284)</b>	( 3,205,464)	( 1,245,283)
Share benefit expense on on exercised stock options	<b>( 2,528,710)</b>	-	-
Derecognition of previously recognized deferred tax assets (DTA)	<b>884,457</b>	4,759,159	65,992
Recognition of previously unrecognized DTA on impairment losses	<u>-</u>	<u>( 69,375,158)</u>	<u>-</u>
Tax expense reported in consolidated profit or loss	<b><u>P 202,272,019</u></b>	<b><u>P 169,802,891</u></b>	<b><u>P 185,843,550</u></b>

The net deferred tax assets and liabilities as of December 31, 2017 and 2016 pertain to the following:

	Consolidated Statements of		Effects of	Consolidated Statements of Comprehensive Income					
	Financial Position		Combination	Profit or Loss			Other Comprehensive Income (Loss)		
	2017	2016	2017	2017	2016	2015	2017	2016	2015
Deferred tax assets:									
Impairment losses on trade and other receivables	P 135,499,033	P 101,709,658	P 37,745,041	(P 3,955,666 )	P 93,522,541	P 713,140	P -	P -	P -
Provision for losses on lost cylinders	71,627,356	-	71,627,356	-	-	-	-	-	-
NOLCO	15,291,370	11,174,605	-	4,116,765	4,808,625	( 25,034,417)	-	-	-
Unamortized past service cost	7,730,775	-	6,130,225	1,600,550	-	( 25,855)	-	-	-
MCIT	6,620,729	7,658,613	-	( 1,037,884)	( 1,248,706)	5,791,267	-	-	-
Post-employment benefit obligation	3,110,141	6,236,938	7,097,383	( 6,006,157)	( 618,401)	9,514,862	( 4,218,023)	( 4,608,240)	( 5,435,012)
Unrealized foreign currency loss – net	1,849,446	-	739,064	1,110,382	-	-	-	-	-
Accrued rent expense	-	2,593,275	-	( 2,593,275)	1,776,960	( 65,992)	-	-	-
Others	841,470	-	1,883,341	( 1,041,871)	-	( 5,410,097)	-	-	-
	<u>242,570,320</u>	<u>129,373,089</u>	<u>125,222,410</u>	<u>( 7,807,156)</u>	<u>98,241,019</u>	<u>( 14,517,092)</u>	<u>( 4,218,023)</u>	<u>( 4,608,240)</u>	<u>( 5,435,012)</u>
Deferred tax liabilities:									
Accrued rent income	( 10,704,083)	-	( 597,973)	( 10,106,110)	-	-	-	-	-
Unrealized foreign currency gains – net	-	( 83,181,314)	-	83,181,314	( 67,180,649)	68,738	-	-	-
Revaluation reserves of tankers	-	-	-	-	-	7,559,066	-	-	-
Capitalized borrowing cost	-	-	-	-	-	320,345	-	-	-
	<u>( 10,704,083)</u>	<u>( 83,181,314)</u>	<u>( 597,973)</u>	<u>73,075,204</u>	<u>( 67,180,649)</u>	<u>7,948,149</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net deferred tax asset	<u>P 231,866,237</u>	<u>P 46,191,775</u>	<u>P 124,624,437</u>						
Net deferred tax income (expense)				<u>P 65,268,048</u>	<u>P 31,060,370</u>	<u>(P 6,568,943)</u>	<u>(P 4,218,023)</u>	<u>(P 4,608,240)</u>	<u>(P 5,435,012)</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>
2017	P	25,917,269	P	7,775,181	2020
2016		23,172,463		6,951,739	2019
2015		<u>1,881,501</u>		<u>564,450</u>	2018
	P	<u>50,971,233</u>	P	<u>15,291,370</u>	

The Group is subject to the MCIT, which is computed at 2.00% of gross income net of allowable deductions, as defined under the tax regulations or RCIT, whichever is higher. PGMI's RCIT was higher than MCIT in 2016 while in the current year, MCIT was higher than RCIT for the years 2017 and 2015, respectively. MCIT was higher than RCIT for all the years presented for PPMI and SPTT, respectively.

The amounts of MCIT and the applicable years that are valid and deductible from future regular income tax payable are shown below.

<u>Taxable Years</u>		<u>Normal Income Tax</u>	<u>MCIT</u>	<u>Excess of MCIT over Income Tax</u>	<u>Tax Effect</u>	<u>Valid Until</u>
2017	P	-	P 1,657,937	P 1,657,937	P 1,657,937	2020
2016		-	2,266,676	2,266,676	2,266,676	2019
2015		<u>-</u>	<u>2,696,116</u>	<u>2,696,116</u>	<u>2,696,116</u>	2018
	P		<u>P 6,620,729</u>	<u>P 6,620,729</u>	<u>P 6,620,729</u>	

In 2017, 2016 and 2015, the Group claimed itemized deductions in computing for its income tax due.

## 27. RELATED PARTY TRANSACTIONS

The Group's related parties include the ultimate Parent Company, PPHI, stockholders, the Group's key management personnel, entities under common ownership by the ultimate parent Company and others as described in the succeeding pages.

The summary of the Group's transactions with its related parties as of December 31, 2017, 2016 and 2015 is presented in the next page.

Related Party Category*	Notes	Amount of Transactions			Outstanding Balance	
		2017	2016	2015	2017	2016
<b>Other related parties under common ownership</b>						
Sale of subsidiaries	1.5, 7, 27.10	P -	P 3,000,000,000	P -	P 500,000,000	P 550,000,000
Sale of goods*	7, 27.1	2,038,584,803	120,662,536	22,168,571	955,539,554	157,624,601
Purchases of services*	19, 27.2	115,202,871	72,601,698	4,566,971	20,995,548	457,557,815
Advances to suppliers*	27.2	-	( 438,294,800 )	( 24,800 )	-	-
Management fees	7, 27.7	( 2,139,028 )	24,255,000	-	86,598,808	88,737,836
Rentals	19, 27.3	41,194,056	74,840,032	73,702,144	2,740,627	3,104,344
Due from related parties*	27.4	( 988,966,628 )	-	1,887,086	518,004,898	1,506,977,926
Donations	27.11	-	-	100,000	-	-
<b>Udenna Corporation</b>						
Advances to suppliers	7, 27.2	13,456,176	438,294,800	378,294,800	424,838,624	438,294,800
Rentals	19, 27.3	1,101,775	9,616,314	7,654,678	710,545	621,000
<b>Joint Venture - SPI</b>						
Sale of real estate	7, 27.7	-	-	402,192,000	-	-
Port revenues	7, 27.7	-	-	1,473,920	-	-
<b>Key management personnel</b>						
Salaries and employee benefits	27.8	80,182,994	66,518,009	63,672,431	-	-

\*As a result of the deconsolidation of CISC and CSC (see Note 1.5), these formerly wholly-owned subsidiaries fall under related party under common ownership in 2016.

## 27.1 Sale of Goods

The Group sells products to certain related parties under common ownership. Goods are sold on the basis of the price lists in force with non-related parties. Revenues arising from these transactions are presented as part of Sale of Goods in the consolidated statements of comprehensive income. The outstanding receivables from sales of goods to other related parties are presented as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from related parties are unsecured, do not bear any interest and collectible in cash on demand. No impairment loss was recognized in 2017, 2016 and 2015 based on management's assessment.

## 27.2 Purchases of Goods and Services

The Group purchased goods and services from related parties on the basis of price lists in force with non-related parties. Total purchase of goods and services from related parties is presented as part of Cost of Sales in the consolidated statements of comprehensive income and the related outstanding payables for goods purchased and services obtained are presented as part of trade payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 19).



The outstanding balances are unsecured, non-interest bearing, payable on demand and normally settled in cash.

In addition, the Group advances certain amount to certain related parties for the purchase of services. The amount is credited upon the performance of the contractual obligation by the related parties. The outstanding balances are presented as part of advances to suppliers under Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

Management has assessed that there are no impairment losses required to be recognized on the advances to suppliers as of December 31, 2017 and 2016.

### **27.3 Rentals**

The Group has the following lease agreements with the following related parties under common ownership:

- a. Udenna Corporation – of which total rent expense incurred in the years 2017, 2016 and 2015 amounted to P1.1 million, P9.6 million and P7.7 million, respectively. The outstanding rental payable amounting to P0.7 million and P0.6 million in 2017 and 2016, respectively, is presented as part of trade payables under Trade and Other Payables in the consolidated statements of financial position (see Note 19).
- b. UDEVCO – of which total rent expense in the years 2017, 2016 and 2015 amounted to P6.3 million, P48.3 million and P57.4 million, respectively. Prepaid rent amounted to P1.3 million in 2017 and nil in 2016 (see Note 10). Rental deposit for the lease amounted to P6.5 million and P7.7 million as of December 31, 2017 and 2016, respectively, is presented as part of refundable rental deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 16).
- c. Valueleases, Inc. (VLI) – of which total rent expense in the years 2017, 2016 and 2015 amounted to P34.9 million, P25.7 million and P16.3 million, respectively. Prepaid rent amounted to P17.8 million in 2017 and nil in 2016 (see Note 10). Refundable rental deposits amounted to P15.0 million and P11.6 million as of December 31, 2017 and 2016, respectively, and is presented as part of refundable rental deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 16).

The rent expenses aforementioned are presented as part of Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 22) and the related outstanding rent payables for UDEVCO and VLI are presented as part of Trade Payables while the outstanding rent payable to Udenna Corporation is presented as part of Accrued Expenses, both under Trade and Other Payables account in the consolidated statements of financial position (see Note 19).

### **27.4 Due from Related Parties**

The Group grants and obtains unsecured advances to and from related parties under common ownership for working capital requirements and other purposes.

As of December 31, 2017 and 2016, the outstanding receivable from related parties are shown as Due From Related Parties in the consolidated statements of financial position. Due from Related Parties are either receivable in cash or paid through offsetting, unsecured non-interest-bearing liabilities and are expected to be paid within one year. Interest income earned on the Parent Company's advances to CISC amounted to nil in 2017, P5.0 million in 2016 and nil in 2015. However, the income and cost are eliminated in the 2016 consolidated statement of comprehensive income.

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

	<u>Note</u>	<u>2017</u>	<u>2016</u>
CISC		<b>P 496,819,699</b>	P 942,812,571
CLHC	27.10	-	500,000,000
UDEVCO	27.10	-	50,000,000
P-H-O-E-N-I-X Philippines Foundation, Inc. (PPFI)		<b>20,236,382</b>	13,256,329
CSC		<b>948,817</b>	929,026
		<b><u>P 518,004,898</u></b>	<b><u>P 1,506,997,926</u></b>

The movement of due from related parties as of December 31 is as follows:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year		<b>P 1,506,997,926</b>	P 12,260,843
Collections		<b>( 1,158,519,706)</b>	( 25,000)
Reclassification	7, 27.10	<b>( 500,000,000)</b>	-
Additions	27.10	<b>669,526,678</b>	1,494,762,083
Balance at end of year		<b><u>P 518,004,898</u></b>	<b><u>P 1,506,997,926</u></b>

No impairment loss is recognized in 2017, 2016 and 2015 related to the advances to related parties.

### ***27.5 Loan Collateral***

- (a) Certain properties and a surety of a stockholder secured certain bank loans, notes payable and liabilities under LCs and TRs (see Notes 17.1, 17.2 and 17.5). The disposition of CSC resulted to the deconsolidation of the related liabilities.
- (b) The TLA with DBP, OLSA with BDO and PBCComm, loan agreement with RBC and certain banks loans of the Parent Company were guaranteed by certain stockholders through a surety agreement with the respective banks see Note 9). Certain receivables and tankers owned by the Group and were also used as security on particular loans (see Note 7).

### ***27.6 Transactions with SPI***

In 2015, the Group sold real estate to SPI amounting to P402.2 million and is presented as part of the Sale of Real Estate account in the 2015 consolidated statement of comprehensive income. The related outstanding receivable amounting to P309.9 million is presented as part of Installment Contract Receivable under Trade and Other Receivables in the 2015 consolidated statement of financial position. Port revenues were also generated from SPI amounting to P1.5 million and is presented as part of Port Revenues account in the 2015 consolidated statement of comprehensive income.

The outstanding receivables from SPI are unsecured, do not bear any interest and collectible in cash on demand. No impairment loss was recognized in 2015 based on management's assessment. This account was derecognized as a result of the deconsolidation (see Note 1.5).

## 27.7 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).

The management has determined that there are no impairment losses required to be recognized as of December 31, 2017 and 2016.

## 27.8 Key Management Compensations

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Salaries and wages	<b>P 59,621,546</b>	P 53,164,063	P 51,522,286
Honoraria and allowances	<b>6,242,372</b>	5,566,274	5,362,224
13 <sup>th</sup> month pay and bonuses	<b>5,488,660</b>	7,384,629	6,479,132
Share-based payment	<b>5,207,284</b>	-	-
Post-employment benefits	<b><u>3,623,132</u></b>	<u>403,043</u>	<u>308,789</u>
	<b><u>P 80,182,994</u></b>	<b><u>P 66,518,009</u></b>	<b><u>P 63,672,431</u></b>

## 27.9 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, 2017 and 2016 is shown in Note 24.3. As of December 31, 2017 and 2016, the retirement plan has no investment in shares of stocks of the Parent Company.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments covered by any restrictions or liens.

The details of the contributions of the Group and the benefits paid out by the plan are presented in Note 24.3.

## 27.10 Sale of Subsidiaries

In 2016, the Parent Company disposed its equity share in CSC to CLC, and in CISC to UDEVCO. Total consideration of the sale of subsidiaries amounted to P3,000.0 million, in which a total of P500.0 million and P550.0 million is still receivable in 2017 and 2016, respectively. The outstanding receivables arising from the sale of subsidiaries is presented as part of Non-trade receivables under Trade and Other Receivables in the 2017 consolidated statement of financial position and Due from related parties account in 2016 in the 2016 consolidated statements of financial position (see Notes 7 and 27.4).

## 27.11 Others

The Group granted P0.1 million donations to Udenna Foundation, Inc. in 2015. These are presented as part of miscellaneous under the Selling and Administrative expenses account in the consolidated statements of comprehensive income (see Note 22).

## 28. EQUITY

### 28.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2017	2016	2015	2017	2016	2015
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	30,000,000	30,000,000	10,000,000	P 30,000,000	P 30,000,000	P 10,000,000
Issuance during the year	-	-	20,000,000	-	-	20,000,000
Balance at end of year	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Treasury shares	( 5,000,000)	( 5,000,000)	( 5,000,000)	( 5,000,000)	( 5,000,000)	( 5,000,000)
Issued and outstanding	<u>25,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>	<u>P 25,000,000</u>	<u>P 25,000,000</u>	<u>P 25,000,000</u>
Common – P1 par value						
Authorized:	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>P 2,500,000,000</u>	<u>P 2,500,000,000</u>	<u>P 2,500,000,000</u>
Issued:						
Balance at beginning of year	1,428,777,232	1,428,777,232	1,428,777,232	P 1,428,777,232	P 1,428,777,232	P 1,428,777,232
Issuance during the year	2,761,000	-	-	2,761,000	-	-
Balance at end of year	1,431,538,232	1,428,777,232	1,428,777,232	1,431,538,232	1,428,777,232	1,428,777,232
Treasury shares	-	( 54,393,300)	-	-	( 330,679,783)	-
Issued and outstanding	<u>1,431,538,232</u>	<u>1,374,383,932</u>	<u>1,428,777,232</u>	<u>P 1,431,538,232</u>	<u>P 1,098,097,449</u>	<u>P 1,428,777,232</u>
				<u>P 1,456,538,232</u>	<u>P 1,123,097,449</u>	<u>P 1,453,777,232</u>

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.

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.

In 2017, the Parent Company purchased 15.8 million of its shares with corresponding total cost of P109.4 million. Subsequently, the Parent Company sold all of its treasury shares amounting to P440.1 million. The total consideration received on November 6, 2017 for the sale of treasury shares amounted to P807.2 million which resulted to an additional paid-in capital of P367.1 million (see Note 28.4).

The preferred shares shall have the following features:

- (a) Non-convertible into common shares;
- (b) Non-participating in any other corporation activities or other further dividends, non-voting, except in cases specified by law;
- (c) 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,
- (d) The preferred shares shall be redeemable at the Parent Company's option under such terms as the BOD may provide at the time of issuance. It shall also be re-issuable when fully redeemed.

Moreover, preferred shares have the following features among others as provided in the subscription agreement;

- (a) Dividends on the preferred shares shall have a fixed rate of 11.50% per annum calculated in respect of each share with reference to the Issue Price thereof in respect to each dividend period.
- (b) 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.

- (c) The preferred shares shall have priority in the payment of dividends at the stipulated rate at the time of issuance and in the distribution of corporate assets in the event of liquidation and dissolution of the Parent Company. As such, the BOD to the extent permitted by law shall declare dividends each quarter sufficient to pay the equivalent dividend. Dividends on the shares shall be cumulative. If for any reason the Parent Company's BOD does not declare a dividend on the Preferred Shares for a particular dividend period, the Parent Company shall not pay a dividend for said dividend period. However, on any future Dividend Payment Date on which dividends are declared, the holders of the shares shall receive the dividends accrued and unpaid to the holders of the Preferred Shares prior to such Dividend Payment Date. Holders of Preferred Shares shall not be entitled to participate in any other further dividends beyond the dividends specifically payable on the Preferred Shares.

Moreover, the subscription agreement requires that the Parent Company undertakes to maintain a long-term debt to equity ratio of 1:1 throughout the life of the preferred shares.

On December 20, 2013, the Parent Company redeemed the preferred shares issued in 2010 and re-issued the same amount and features of preferred shares except for the rate, which was reduced to 8.25% per annum.

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 28.2).

The 3<sup>rd</sup> tranche of preferred shares have the same features with the 1<sup>st</sup> and 2<sup>nd</sup> tranche of preferred shares except for the following:

- |     |                         |   |                 |
|-----|-------------------------|---|-----------------|
| (a) | Dividend rates:         | PNX3A   | 7.43% per annum |
|     |                         | PNX3B   | 8.11% per annum |
| (b) | 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. |                 |
| (c) | Debt-to-equity ratio:   | The Parent Company shall maintain a debt-to-equity ratio of 3:1 throughout the life of these preferred shares.  |                 |

## 28.2 Listing with PSE

On July 11, 2007, the Parent Company offered a portion of its common stocks for listing with the PSE. Number of common shares registered was 29.0 million with an issue price of P9.80.

The Parent Company' successfully listed its perpetual preferred shares Series 3 with the PSE on December 18, 2015 (see Note 28.1).

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
PNX (Common)	<b>P 12.88</b>	P 5.63	P 3.85
PNX 3A (Preferred)	<b>103.70</b>	105.00	103.50
PNX 3B (Preferred)	<b>108.80</b>	115.00	106.50

## 28.3 Track Registration of Shares

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Common	<b>60</b>	66	66
Preferred			
a) First tranche	-	-	-
b) Second tranche	<b>1</b>	1	1
c) PNX 3A	<b>5</b>	5	2
d) PNX 3B	<b>4</b>	4	2

In accordance with Securities Regulation Commission Rule 68, as amended, Annex 68-D; presented below is a summary of the Parent Company's track record of registration of securities.

Transaction	Type of Stock Common or Preferred	No. of Shares Registered	Issue/Offer Price and Par Value	Date of Approval	Issued and Outstanding
Registered, not listed	Common	10,000,000	P 1 Par value	1/11/2004	2,500,000
			1 Issue price		
Registered, not listed	Common	40,000,000	1 Par value	1/12/2006	25,000,000
			1 Issue price		
Registered, not listed	Common	50,000,000	1 Par value	8/7/2006	13,500,000
			1 Issue price		
Registered, not listed	Common	300,000,000	1 Par value	12/29/2006	75,000,000
			1 Issue price		
Initial public offering	Common		1 Par value	7/11/2007	29,000,000
			9.80 Issue price		
30% stock dividends	Common		1 Par value	8/6/2008	43,000,198
40% stock dividends	Common		1 Par value	8/3/2009	73,660,476
Placement SSS	Common		1 Par value	11/13/2009	7,500,000
			5.60 Issue price		
Increase	Common	350,000,000	1	9/7/2010	
Increase	Preferred	50,000,000	1	9/7/2010	
40% stock dividends	Common		1	10/20/2010	107,664,266
30% stock dividends	Common		1	5/6/2011	113,047,475
Increase	Common	1,750,000,000	1	4/23/2012	
50% stock dividends	Common		1	4/26/2012	244,936,203
CSC Acquisitions	Common		1 Par value	9/6/2012	171,250,798
			1.01 Issue price		
Placements	Common		1 Par value	3/11/2013	130,000,000
			9.40 Issue price		
30% stock dividends	Common		1	6/10/2013	329,717,816
Payment for PPHI subscription	Common		1 Par value	10/8/2013	63,000,000
			5.10 Issue price		
Issuance	Preferred		1 Par value	9/21/2010	5,000,000
			100 Issue price		
Redeemed treasury shares	Treasury Shares		1	12/20/2013 (	5,000,000)
Issuance	Preferred		1 Par value	12/20/2013	5,000,000
Issuance	Preferred		1 Par value	12/18/2015	20,000,000
			100 Issue price		
Redeemed treasury shares	Common		1	5/31/2016 (	500,000)
Redeemed treasury shares	Common		1	6/13/2016 (	500,000)
Redeemed treasury shares	Common		1	6/21/2016 (	500,000)
Redeemed treasury shares	Common		1	6/23/2016 (	1,100,000)
Redeemed treasury shares	Common		1	6/27/2016 (	250,000)
Redeemed treasury shares	Common		1	6/28/2016 (	500,000)
Redeemed treasury shares	Common		1	6/30/2016 (	900,000)
Redeemed treasury shares	Common		1	7/1/2016 (	897,700)
Redeemed treasury shares	Common		1	7/4/2016 (	1,900)
Redeemed treasury shares	Common		1	7/5/2016 (	498,900)
Redeemed treasury shares	Common		1	7/7/2016 (	228,400)
Redeemed treasury shares	Common		1	7/8/2016 (	2,650,000)
Redeemed treasury shares	Common		1	7/11/2016 (	4,001,700)
Redeemed treasury shares	Common		1	7/12/2016 (	2,000,000)
Redeemed treasury shares	Common		1	7/14/2016 (	3,000,000)

(Amounts carried forward)

2,550,000,000

P1,436,248,632



<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
<b>Total</b>		<u><u>2,550,000,000</u></u>			<u><u>P1,456,538,232</u></u>

#### ***28.4 Additional Paid-in Capital***

In 2017, the Parent Company redeemed 70.2 million of its treasury shares at a total cost of P807.2 million. Premiums received in excess of the cost of treasury shares amounting to P367.1 million were recorded under Additional Paid-in Capital account in the 2017 consolidated statement of financial position (see Note 28.1).

In addition, 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 P12.9 million (see Note 28.1 and 28.7). The fair value of stock options exercised during the year which was previously recorded as part of Retained Earnings in 2016 was reclassified to Additional Paid-in Capital account in the 2017 consolidated statement of financial position (see Note 28.6). The total amount reclassified from Retained Earnings amounted to P8.4 million which is computed at P3.05 per stock option.

In 2015, the Parent Company issued 20.0 million of its preferred shares at P100.0 per share. Premiums received in excess of the par value during the public offering amounting to P1,952.9 million were recorded under Additional Paid-in Capital account in the 2015 consolidated statement of financial position.

In 2013, the Parent Company issued 130.0 million of its common shares at P9.40 per share and 63.0 million common shares at P5.10 per share. The excess of the par value for such subscriptions amounting to P1,350.3 million was recorded as part of Additional Paid-in Capital account in the 2013 consolidated statement of changes in equity. In addition, direct cost of the share issuances amounting to P34.1 million was deducted from the Additional Paid-in Capital account.

In 2012, the Parent Company issued 171.3 million shares in favor of UMRC in relation to the share-for-share swap acquisition of CSC. The business combination under common control was accounted for under pooling of interest-type method. The excess of par value of such issuance amounted to P1,248.9 million was recorded as part of the beginning balance of the Additional Paid-in Capital account.

In 2010, the Parent Company issued 5.0 million of its preferred shares at P100 per share. The excess of par value for such subscription amounting to P495.0 million was recorded as part of Additional Paid-in Capital account in the consolidated statements of financial position. In addition, the excess of the selling price over the acquisition cost of the treasury shares sold in 2010 also constitutes the Additional Paid-in Capital account. The preferred shares issued in 2010 were redeemed on December 20, 2013 and on the same date, the same share and value of preferred shares were issued, except for the reduced rate.

In 2009, the Social Security System has bought an initial 2.83% stake in the Parent Company representing 7.5 million subscribed common shares for P42.0 million or at P5.60 per share. The excess of par value for such subscription amounting to P34.5 million was recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

In 2007, the Parent Company listed its shares of stock with PSE. Premiums received in excess of the par value during the public offering amounting to P227.1 million were recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

## 28.5 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the consolidated statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

		<b>Property, Plant and Equipment</b>	<b>Defined Benefit Obligation</b>	<b>Total</b>
Balance as of January 1, 2017	P	-	(P 12,148,102)	(P 12,148,102)
Remeasurements of defined post-employment obligation		-	14,060,076	14,060,076
Tax expense		-	(4,218,023)	(4,218,023)
Balance as of December 31, 2017	<b>P</b>	<b>-</b>	<b>(P 2,306,049)</b>	<b>(P 2,306,049)</b>
Balance as of January 1, 2016	P	582,398,558	(P 23,103,292)	P 559,295,266
Remeasurements of defined post-employment obligation		-	15,360,800	15,360,800
Transfers to retained earnings as an effect of the deconsolidation	(	557,555,573)	202,630	( 557,352,943)
Depreciation transfer to retained earnings – revalued tankers	(	24,842,985)	-	( 24,842,985)
Tax expense		-	(4,608,240)	(4,608,240)
Balance as of December 31, 2016	<b>P</b>	<b>-</b>	<b>(P 12,148,102)</b>	<b>(P 12,148,102)</b>

## 28.6 Retained Earnings

On January 25, 2017, the Parent Company's BOD approved the declaration and payment of common share cash dividends of 1 centavo per share totalling to P136.2 million, record date of March 30, 2017. A total of P194.9 million cash dividends were also declared and distributed to 2<sup>nd</sup> and 3<sup>rd</sup> tranche preferred stockholders in 2017. No stock dividends were declared and distributed in 2017.

On March 18, 2016, the Parent Company's BOD approved the declaration and payment of common share cash dividends of 8 centavos per share totalling to P114.3 million, record date of April 5, 2016. A total of P194.9 million cash dividends were also declared and distributed to 2<sup>nd</sup> and 3<sup>rd</sup> tranche preferred stockholders in 2016. No stock dividends were declared and distributed in 2016.

On March 4, 2015, the Parent Company's BOD approved the declaration and payment of common share cash dividends of 5 centavos per share totaling to P71.5 million, record date as of March 18, 2015. A total of P41.2 million cash dividends were also declared and distributed to 2<sup>nd</sup> tranche preferred stockholders in 2015. No stock dividends were declared and distributed in 2015.

On January 29, 2014, the BOD approved the declaration and payment of common share cash dividend of 10 centavos per share totaling to P142.9 million to stockholders of record as of March 17, 2014. In addition, total cash dividends declared and distributed to 2<sup>nd</sup> tranche preferred stockholders amounted to P41.2 million in 2014. No stock dividends were declared and distributed in 2014.

### ***28.7 ESOP***

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

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

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

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

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

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

A total of P11.6 million and P5.8 million share-based executive compensation is recognized in 2017 and 2016, respectively, and presented as part of Employee benefits under Selling and Administrative Expenses account in 2017 and 2016 consolidated statements of comprehensive income, respectively, with a corresponding credit to Retained Earnings account (see Note 28.6).

### ***28.8 Capital Management Objectives, Policies and Procedures***

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and,
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	<u>2017</u>	<u>2016</u>
Total liabilities	<b>P 32,519,210,369</b>	P 16,775,944,188
Total equity	<b><u>11,951,690,104</u></b>	<u>9,762,093,733</u>
Debt-to-equity ratio	<b><u>2.7 : 1.0</u></b>	<u>1.72 : 1.0</u>

The increase of the total assets and liabilities in 2017 is due to the business combinations, wherein the Group acquired the assets and assumed the liabilities of the new subsidiaries acquired, as well as increase in interest-bearing loans and borrowings utilized for the acquisition. The increase in equity is the net effect business combination and the net profit in 2017 less the cash dividend declared and paid during the period for common shares.

The Group's internal goal in capital management is to maintain a debt-to-equity structure ratio not in excess of 2.7 to 1. All externally imposed key ratios have been complied with in all the years presented, otherwise, bank waivers had been obtained (see Note 17).

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

## 29. EARNINGS PER SHARE

EPS were computed as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
a) Net profit pertaining to common shares	<b>P1,596,939,154</b>	P 902,592,062	P 861,146,033
b) Net profit attributable to common shares and potential common shares	<b>1,791,849,154</b>	902,592,062	861,146,033
c) Weighted average number of outstanding common shares	<b>1,372,487,454</b>	1,410,964,421	1,428,777,232
d) Weighted average number of outstanding common and potential common shares	<b>1,377,270,489</b>	1,414,736,438	1,428,777,232
Basic EPS (a/c)	<b><u>P 1.16</u></b>	<u>P 0.64</u>	<u>P 0.60</u>
Diluted EPS (b/d)	<b><u>P 1.16</u></b>	<u>P 0.64</u>	<u>P 0.60</u>

The potential dilutive common shares totalling 4,783,035 and 3,772,017 shares in relation to the unexercised share warrants were considered in the computation of diluted EPS in 2017 and 2016. There are no potential dilutive shares in 2015.

## 30. SEGMENT REPORTING

### ***30.1 Business Segments***

In identifying its operating segments, management generally follows the Group's product and service lines, which represent the main products and services provided by the Group, namely fuels and lubricant sales (trading segment), depot and logistics services, shipping and cargo services and real estate sales. These are also the bases of the Group in reporting its primary segment information.

- (a) Trading segment is engaged in marketing, merchandising, purchasing, selling, dealing, acquiring, disposing and distribution of goods and wares such as but not limited to petroleum products (on wholesale basis), adhesives, glues, bonding agents, epoxy resins, lubricants and other products.
- (b) Depot and logistics services segment is engaged in operating of oil depots, storage facilities and provides logistics services to various entities.
- (c) Shipping and cargo services segment is engaged in hauling of petroleum products, operation of inter-island going vessels for domestic trade, chartering in and out any such vessels and providing complete marine services, either as principal or agent to ship owners, operators and managers.
- (d) Real estate segment is involved in real estate development, management and operations.

### ***30.2 Segment Assets and Liabilities***

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, and other assets, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of trade and other payables, interest-bearing loans and borrowings, and other liabilities. Segment assets and liabilities do not include deferred tax assets or liabilities.

### ***30.3 Intersegment Transactions***

Segment revenues, expenses and performance include sales and purchases between segments and between geographical segments. Such sales and purchases are eliminated upon combination.

The tables presented in the succeeding page present revenue and profit information regarding business segments of the Group for the years ended December 31, 2017 and 2016 and certain asset and liability information regarding industry segments as of December 31, 2017, 2016 and 2015 (in thousands).

	Trading			Depot and Logistics			Shipping and Cargo Services			Real Estate			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
<b>TOTAL REVENUES</b>															
Sales to external customers	P 43,955,424	P 29,468,451	P 28,723,892	P 469,557	P 480,057	P 180,273	P -	P 628,160	P 556,576	P 1,059	P -	P 593,098	P 44,426,040	P 30,576,668	P 30,053,839
Intersegment sales	<u>4,180,373</u>	<u>681,402</u>	<u>2,457,071</u>	<u>-</u>	<u>53,126</u>	<u>-</u>	<u>-</u>	<u>893,299</u>	<u>954,180</u>	<u>22,338</u>	<u>-</u>	<u>27,747</u>	<u>4,202,711</u>	<u>1,627,827</u>	<u>3,438,998</u>
Total revenues	<u>48,135,797</u>	<u>30,149,853</u>	<u>31,180,963</u>	<u>469,557</u>	<u>533,183</u>	<u>180,273</u>	<u>-</u>	<u>1,521,459</u>	<u>1,510,756</u>	<u>23,397</u>	<u>-</u>	<u>620,845</u>	<u>48,628,751</u>	<u>32,204,495</u>	<u>33,492,837</u>
<b>COSTS AND OTHER</b>															
<b>OPERATING EXPENSES</b>															
Cost of sales and services excluding															
depreciation and amortization	45,211,276	27,803,118	29,289,175	437,631	350,437	169,360	-	935,922	907,624	23,964	-	259,345	45,672,871	29,089,477	30,625,504
Depreciation and amortization	<u>841,340</u>	<u>576,126</u>	<u>364,440</u>	<u>9,040</u>	<u>45,912</u>	<u>113,146</u>	<u>-</u>	<u>380,050</u>	<u>317,677</u>	<u>-</u>	<u>-</u>	<u>26,470</u>	<u>850,380</u>	<u>1,002,088</u>	<u>821,733</u>
	<u>46,052,616</u>	<u>28,379,244</u>	<u>29,653,615</u>	<u>446,671</u>	<u>396,349</u>	<u>282,506</u>	<u>-</u>	<u>1,315,972</u>	<u>1,225,301</u>	<u>23,964</u>	<u>-</u>	<u>285,815</u>	<u>46,523,251</u>	<u>30,091,565</u>	<u>31,447,237</u>
<b>SEGMENT OPERATING</b>															
<b>PROFIT (LOSS)</b>	<u>P 2,083,181</u>	<u>P 1,770,609</u>	<u>P 1,527,348</u>	<u>P 22,886</u>	<u>P 136,834</u>	<u>(P 102,233)</u>	<u>P -</u>	<u>P 205,487</u>	<u>P 285,455</u>	<u>(P 567)</u>	<u>P -</u>	<u>P 335,030</u>	<u>P 2,105,500</u>	<u>P 2,112,930</u>	<u>P 2,045,600</u>
<b>ASSETS AND LIABILITIES</b>															
Segment assets	P 47,968,156	P 26,341,954		P 493,812	P 315,121		P -	P -		P 411,922	P -		P 48,873,890	P 26,657,074	
Segment liabilities	33,730,458	16,702,349		363,152	195,875		-	-		324,150	-		34,417,760	16,898,224	



### 30.4 Reconciliations

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statement (in thousands).

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Revenues</b>			
Total segment revenues	<b>P 48,628,751</b>	P 32,204,495	P 33,492,837
Elimination of intersegment revenues	( <u>4,202,711</u> )	( <u>1,627,827</u> )	( <u>3,438,998</u> )
Revenues as reported in profit or loss	<u><b>P44,426,040</b></u>	<u>P 30,576,668</u>	<u>P30,053,839</u>
<b>Profit or loss</b>			
Segment operating profit	<b>P 2,105,500</b>	P 2,112,930	P 2,045,600
Other unallocated income	<b>687,035</b>	11,006	16,311
Other unallocated expense	<u>-</u>	( <u>50,069</u> )	( <u>9,070</u> )
Operating profit as reported in profit or loss	<b>2,792,535</b>	2,073,867	2,052,841
Finance costs	( <b>855,043</b> )	( 1,019,277 )	( 968,682 )
Finance income	<u><b>56,629</b></u>	<u>207,688</u>	<u>7,554</u>
Profit before tax as reported in profit or loss	<u><b>P 1,994,121</b></u>	<u>P 1,262,278</u>	<u>P 1,091,713</u>
<b>Assets</b>			
Segment assets	<b>P48,642,024</b>	P 26,610,882	
Deferred tax asset – net	<b>231,866</b>	46,192	
Elimination of intercompany accounts	( <u>4,402,990</u> )	( <u>119,036</u> )	
Total assets reported in the consolidated statements of financial position	<u><b>P44,470,900</b></u>	<u>P 26,538,038</u>	
<b>Liabilities</b>			
Segment liabilities	<b>P 34,417,760</b>	P 16,898,224	
Elimination of intercompany accounts	( <u>1,898,550</u> )	( <u>122,280</u> )	
Total liabilities as reported in the consolidated statements of financial position	<u><b>P 32,519,210</b></u>	<u>P 16,775,944</u>	

### 31. COMMITMENTS AND CONTINGENCIES

#### 31.1 Capital Commitments

As of December 31, 2017, the Group has commitments of more than P2,000.0 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 530 operating retail service stations as of December 31, 2017. An additional of eight retail service stations are under various stages of completion as of December 31, 2017.

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.

#### 31.2 Unused LCs

As of December 31, 2017 and December 31, 2016, the Parent Company has unused LCs amounting to P8,652.3 million and P10,660.0 million, respectively.

#### 31.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases. The leases have terms ranging from 5 to 15 years, with renewal options, and include annual escalation rates ranging from 3.00% to 10.00%. The future minimum rentals payable under these cancelable operating leases are presented as follows:

	<u>2017</u>	<u>2016</u>
Within one year	<b>P 371,674,361</b>	P 477,468,634
After one year but not more than five years	<b>1,187,252,691</b>	1,760,293,260
More than five years	<b><u>1,554,982,467</u></b>	<u>1,679,047,783</u>
	<b><u>P 3,113,909,519</u></b>	<u>P 3,916,809,677</u>

Total rent expense for the years 2017, 2016 and 2015 amounted to P654.1 million, P638.6 million and P526.6 million, respectively (see Note 22).

#### 31.4 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases with third parties. The leases have terms ranging from 1 to 5 years, with renewal options, and include annual escalation rates ranging from 5.00% to 10.00%. The future minimum rentals receivables under these cancelable operating leases are presented below.

	<u>2017</u>	<u>2016</u>
Within one year	<b>P 87,237,539</b>	P 87,312,939
After one year but not more than five years	<b>138,482,193</b>	192,179,372
More than five years	<b><u>23,917,284</u></b>	<u>27,359,104</u>
	<b><u>P 249,637,016</u></b>	<u>P 306,851,415</u>

Rent income in 2017, 2016 and 2015 amounting to P 91.6 million, P97.3 million and P94.5 million, respectively, is presented as part of Rent and Storage Income in the consolidated statements of comprehensive income.

### ***31.5 Finance Lease Commitments – Group as Lessee***

The Group is a lessee under several finance lease covering certain hauling trucks with a lease term of 2 to 5 years. The leases provide options to purchase the transportation equipment at the end of the lease terms. Future minimum lease payments (MLP) under the finance leases together with the present value (PV) of the net minimum lease payments (NMLP) is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Future MLP</u>	<u>PV of NMLP</u>	<u>Future MLP</u>	<u>PV of NMLP</u>
Within one year	<b>P -</b>	<b>P -</b>	P 1,291,875	P 1,265,272
After one year but not more than five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
			1,291,875	1,265,272
Amounts representing finance charges	<u>-</u>	<u>-</u>	<u>( 26,603)</u>	<u>-</u>
Present value of MLP	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 1,265,272</u></b>	<b><u>P 1,265,272</u></b>

The liabilities relating to the finance leases are shown as part of Interest-bearing Loans and Borrowings in the consolidated statements of financial position (see Note 17.4).

### ***31.6 Charter Agreements***

In 2015, the Group has existing commitments to charterers under TC, CVC, and BB agreements for the use of its tankers in transporting oil products for a fixed period. Also associated with these charter agreements is the obligation to keep the Group's tankers in good working condition and compliant with all the shipping regulations as required by the Maritime Industry Authority.

### ***31.7 Purchase of LPG cylinders***

During the year, PLPI placed an order with a third party to acquire additional LPG cylinders, to augment its current operations and re-establish its market in the Luzon areas. Contractual commitments resulting from such orders amounting to around P1.0 billion and it is payable in 2018. PLPI does not have any other material purchase commitments as at December 31, 2017.

### **31.8 Lawsuits**

In the opinion of the Group's management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's consolidated financial position and results of operations.

- (a) In May 2011, the Bureau of Customs (BOC) filed before the Department of Justice (DOJ) a complaint against the Group's President and Chief Executive Officer and other respondents for alleged violation of Sections 3602, 2501(l)(1) & (5), 1801, 1802 and 3604 of the Tariff and Customs Code of the Philippines. In November 2012, the DOJ dismissed the case for lack of probable cause against all respondents. In April 2013, the DOJ, upon motion for reconsideration filed by the BOC, reversed its earlier resolution and recommended the filing of Criminal Information against the respondents. Criminal Information for alleged violations of Section 3602, in relation to Sections 3601, 2530 1 (l) & 5, 1801 and 3604 of the Tariff and Customs Code of the Philippines were filed before the Regional Trial Courts (RTC) of Batangas and Davao City in August 2013. Separately, in September and October 2013, RTC Batangas and Davao City, respectively, have dismissed all charges against the Parent Company's President and Chief Executive Officer.

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.

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

A Motion for Reconsideration filed by the DOJ and the BOC, seeking the reversal of the decision dated 25 July 2014 of the Court of Appeals' Special Former Special Tenth (10th) Division in the Consolidated Petitions of Dennis Uy, docketed as CA-G.R. SP No. 131702, and Jorlan Cabanes, docketed as CA-G.R. SP No. 129740, with the Court of Appeals, which involve the same basic facts and issues as those raised in CA-G.R. SP No. 06500-MIN. On July 23, 2015, the Group received a resolution denying the said Motion for Reconsideration.

On October 8, 2015, the SOJ and the BOC filed a Petition for Review on Certiorari with the SC, seeking to set aside the Decision dated July 24, 2014 and Resolution dated July 2, 2015 issued by the CA. On October 12, 2016, the Court denied the Petition for Certiorari and further denied petitioner's Motion for Reconsideration on January 25, 2017.

On April 4, 2017, the Group received a copy of the Petition for Review on Certiorari dated March 27, 2017 filed by petitioner docketed as GR No. 229705 with the Supreme Court (SC), Manila, 3rd Division. As of December 31, 2017, the Group is awaiting for the SC's issuance on the resolution directing the Group to file Comment to the Petition for Review.

- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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, 2017 and 2016, the management believes that losses, if any, that may arise from these commitments and contingencies will not have material effects on the consolidated financial statements.

## **32. EVENTS AFTER THE BALANCE SHEET DATE**

### ***32.1 Acquisition of a New Subsidiary***

On January 11, 2018, the Parent Company has signed a deed of absolute sale and concluded the acquisition of the 100.00% shares in Philippine FamilyMart CVS, Inc. (PFM) from its shareholders, namely: SIAL CVS Retailers, Inc., FamilyMart Co. Ltd. and ITOCHU Corporation. PFM is engaged in operating convenience stores under the trademark “Family Mart”.

A new exclusive Area Franchise Agreement of the Family Mart branch of convenience store in the Philippines was granted to Philippine FamilyMart CVS, Inc. under the management of the Parent Company. The transaction was approved by the Philippine Competition Commission (PCC) sometime in January 2018.

### ***32.2 Joint Venture Agreement***

On January 16, 2018, the Parent Company has entered into a JV agreement with TIPCO Asphalt Public Company Limited (TIPCO Asphalt) and Mr. Carlito B. Castrillo to set-up and incorporate a JV company – PhilAsphalt (Dev’t) Corporation (PhilAsphalt). The JV company will be registered for the purpose of operating, marketing and distribution of bitumen and bitumen-related products in the Philippines. The authorized share capital of PhilAsphalt will be P275.0 million divided into 275.0 million shares with par value of P1 per share. Both the Parent Company and TIPCO Asphalt’s percentage of shareholding will be 40% each and 20.00% for Mr. Castrillo.



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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**

**Punongbayan & Araullo**

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The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288

**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, 2017, on which we have rendered our report dated February 15, 2018. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) are presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68 (as amended), and are not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information are the responsibility of the Group's management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

By:   
**Ramilito L. Nafola**  
Partner

CPA Reg. No. 0090741

TIN 109-228-427

PTR No. 6616015, January 3, 2018, Makati City

SEC Group A Accreditation

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

Firm - No. 0002-FR-4 (until Apr. 30, 2018)

BIR AN 08-002511-19-2015 (until Mar. 18, 2018)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 15, 2018

**Certified Public Accountants**

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

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

Offices in Cavite, Cebu, Davao  
BOA/PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002-FR-4

**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**LIST OF SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2017**

<i>Schedule</i>	<i>Description</i>	<i>Page</i>
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B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	<u>2</u>
C	Amounts of Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	<u>3</u>
D	Intangible Assets - Other assets	<u>4</u>
E	Long-Term Debt	<u>5</u>
F	Indebtedness to Related Parties (Long-term loans from related Companies)	<u>N/A</u>
G	Guarantees of Securities of Other Issuers	<u>N/A</u>
H	Capital Stock	<u>6</u>
I	Reconciliation of Retained Earnings Available for Dividend Declaration	<u>7</u>
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**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule A - Financial Assets**  
**DECEMBER 31, 2017**

<i>Description</i>	<i>Carrying Value</i>	<i>Fair Value</i>
Loans and receivables:		
Cash and cash equivalents	P 1,831,542,441	P 1,831,542,441
Trade and other receivables - net <sup>1</sup>	6,843,698,948	6,843,698,948
Due from related parties	518,004,898	518,004,898
Restricted deposits	51,281,559	51,281,559
Refundable rental deposits	182,480,300	182,480,300
	<u>P 9,427,008,146</u>	<u>P 9,427,008,146</u>

Notes:

- 1) Trade and other receivables excludes certain advances from suppliers and advances subject to liquidation.
- 2) There are no other financial assets applicable to the group, except for loans and receivables.

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 SECURITIES AND EXCHANGE COMMISSION  
 OFFICE OF THE SECRETARY  
 1001 KENYON AVENUE  
 SUITE 1000  
 WASHINGTON, D.C. 20006

**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, 2017**

Name and Designation of debtor	Balance at beginning of period	Additions	Ending Balance		Current	Non-current	Balance at end of period
			Amounts collected	Reclassification			
Calaca Industrial Seaport Corporation	P 942,812,571	P 662,319,699	P 1,108,312,571	P -	P 496,819,699	P -	P 496,819,699
P-H-O-E-N-I-XPhilippines Foundation, Inc.	13,256,329	7,187,188	207,135	-	20,236,382	-	20,236,382
Chelsea Shipping Corporation	929,026	19,791	-	-	948,817	-	948,817
Chelsea Logistics Holdings Corp.	500,000,000	-	-	500,000,000	-	-	-
Utenna Development (ULDEVCO) Corporation	50,000,000	-	50,000,000	-	-	-	-
	<b>P 1,506,997,926</b>	<b>P 669,526,678</b>	<b>P 1,158,519,706</b>	<b>P 500,000,000</b>	<b>P 518,004,898</b>	<b>P -</b>	<b>P 518,004,898</b>

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**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule C - Amounts of Receivable from Related Parties**  
**which are Eliminated during Consolidation of Financial Statements**  
**DECEMBER 31, 2017**

Creditor	Name and designation of debtor	Balance at beginning of period	Business Combination	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. PFI Petroleum Management, Inc. Subic Petroleum Trading and Transport Phoenix Singapore, PTE Ltd. DUTA, Inc.	P 1,185,008 52,968,464 ( 7,749,082 ) - -	P - - - 267,349,103 -	P 92,000 218,000 1,769,918,270 47,996,716 -	P - - 1,164,298,616 - -	P - - - - -	P 1,277,008 53,186,464 597,870,572 47,996,716 267,349,103	P - - - - -	P 1,277,008 53,186,464 597,870,572 47,996,716 267,349,103
		<b>P 46,404,390</b>	<b>P 267,349,103</b>	<b>P 1,818,224,986</b>	<b>P 1,164,298,616</b>	<b>P -</b>	<b>P 967,679,863</b>	<b>P -</b>	<b>P 967,679,863</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. PFI Petroleum Management, Inc. Phoenix LPG Philippines, Inc.	P - 38,608,134 -	P - - -	P 7,721,013 18,700,088 107,841,464	P 177,085 6,291,831 14,443,053	P - - -	P 7,543,030 51,016,391 93,398,411	P - - -	P 7,543,030 51,016,391 93,398,411
		<b>P 38,608,134</b>	<b>P -</b>	<b>P 134,262,567</b>	<b>P 20,912,869</b>	<b>P -</b>	<b>P 151,957,832</b>	<b>P -</b>	<b>P 151,957,832</b>
Subic Petroleum Trading & Transport Phils., Inc.	P-H-O-E-N-I-X Petroleum Philippines, Inc. <i>(Trade Receivable)</i>	P - <b>P -</b>	P - <b>P -</b>	P 119,024 <b>P 119,024</b>	P - <b>P -</b>	P - <b>P -</b>	P 119,024 <b>P 119,024</b>	P - <b>P -</b>	P 119,024 <b>P 119,024</b>
Phoenix LPG Philippines, Inc. <i>Advances to subsidiaries/ parent</i>	P-H-O-E-N-I-X Petroleum Philippines, Inc. DUTA, Inc. Kaparangan, Inc.	P - - 14,520,958	P 8,229,284 47,315,123 62,128	P 7,857 521,212 422,128	P - 10,936,335 215,523	P 8,217,141 146,195 215,523	P - 36,753,805 13,945,435	P - - -	P - 36,753,805 13,945,435
		<b>P -</b>	<b>P 70,065,365</b>	<b>P 591,197</b>	<b>P 11,358,463</b>	<b>P 8,598,859</b>	<b>P 50,699,240</b>	<b>P -</b>	<b>P 50,699,240</b>
DUTA, Inc.	Phoenix LPG Philippines, Inc. <i>(Loan Receivable)</i>	P - <b>P -</b>	P - <b>P -</b>	P 12,677,635 <b>P 12,677,635</b>	P - <b>P -</b>	P - <b>P -</b>	P 12,677,635 <b>P 12,677,635</b>	P - <b>P -</b>	P 12,677,635 <b>P 12,677,635</b>

**Terms and conditions:**

All receivables/payables are: unsecured, non interest bearing, collectible/payable on demand and generally settled in cash.

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**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule D - Intangible Assets - Other Assets**  
**DECEMBER 31, 2017**

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at cost</i>	<i>Deductions</i>			<i>Ending balance</i>
			<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>	
Other Non-Current assets						
Goodwill	P 10,221,849	P 3,980,444,757	p -	P -	p -	P 3,990,666,606
Basketball franchise	176,861,660	-	-	-	-	176,861,660
Computer software licenses	93,439,088	29,329,660	28,481,518	-	-	94,287,230
Software cost	3,803,048	363,571	1,646,452	-	-	2,520,167
Others	933,694	328,699	-	-	-	1,262,393
<b>TOTAL</b>	<b>P 285,259,339</b>	<b>P 4,010,466,687</b>	<b>P 30,127,970</b>	<b>P -</b>	<b>P -</b>	<b>P 4,265,598,056</b>

**Explanation:**

*Addition to goodwill was due to the acquisition of PLPI; and,*

*Charged to cost and expenses under Computer Software Licenses was due to amortizations of Intangible Assets.*

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**P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries**  
**Schedule E - Long-Term Debt**  
**DECEMBER 31, 2017**

<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>
<i>Installment, notes and loans payable</i>				
<i>Peso-denominated</i>				
BDO Unibank, Inc.	P 1,000,000,000	P -	P 1,000,000,000	Interest rate of 4.0179%, five year term, maturing on, August 18, 2021
Robinsons Bank Corporation	500,000,000	100,000,000	200,000,000	Interest rate of 5.79%, five-year term, maturing on October 9, 2020
Philippine National Bank	500,000,000	100,000,000	225,000,000	term, maturing on January 2, 2021
BDO Unibank, Inc.	6,000,000,000	-	5,799,559,853	Interest rate of 4.0404%, seven-year term, maturing on August 7, 2024
Land Bank of the Philippines	1,000,000,000	-	1,000,000,000	Interest rate of 4.00%, three-year term, maturing on November 3, 2020
Asia United Bank	400,000,000	400,000,000	-	Interest rate of 3.75%, maturing on January 22, 2018
Bank of Commerce	500,000,000	500,000,000	-	Interest rate of 3.50%, maturing on March 27, 2018
BDO Unibank, Inc.	1,000,000,000	-	1,000,000,000	Interest rate of 4.21%, maturing on November 10, 2022
BDO Unibank, Inc.	1,000,000,000	-	1,000,000,000	Interest rate of 4.91%, maturing on November 10, 2022
BDO Unibank, Inc.	500,000,000	500,000,000	-	Interest rate of 3.75%, maturing on March 13, 2018
BDO Unibank, Inc.	1,100,000,000	1,100,000,000	-	Interest rate of 4.00%, maturing on April 19, 2018
Development Bank of the Philippines	1,000,000,000	1,000,000,000	-	Interest rate of 2.71%, maturing on March 20, 2018
Development Bank of the Philippines	200,000,000	200,000,000	-	Interest rate of 3.53%, maturing on February 13, 2018
Land Bank of the Philippines	500,000,000	500,000,000	-	Interest rate of 3.50%, maturing on February 27, 2018
Land Bank of the Philippines	200,000,000	200,000,000	-	Interest rate of 3.50%, maturing on February 27, 2018
Land Bank of the Philippines	200,000,000	200,000,000	-	Interest rate of 4.04%, maturing on March 2, 2018
Philippine National Bank	1,000,000,000	-	950,000,000	Interest rate of 4.80%, maturing on April 3, 2020
Philippine National Bank	1,000,000,000	1,000,000,000	-	Interest rate of 3.75%, maturing on January 2, 2018
Philippine National Bank	200,000,000	200,000,000	-	Interest rate of 4.25%, maturing on February 28, 2018
Philippine Veterans Bank	600,000,000	600,000,000	-	Interest rate of 3.50%, maturing on January 12, 2018
Rizal Commercial Banking Corporation	400,000,000	400,000,000	-	Interest rate of 3.75%, maturing on January 27, 2018
Rizal Commercial Banking Corporation	600,000,000	600,000,000	-	Interest rate of 3.75%, maturing on March 15, 2018
Robinsons Bank Corporation	200,000,000	200,000,000	-	Interest rate of 3.75%, maturing on January 19, 2018
Robinsons Bank Corporation	100,000,000	100,000,000	-	Interest rate of 3.75%, maturing on January 22, 2018
Robinsons Bank Corporation	325,000,000	325,000,000	-	Interest rate of 3.75%, maturing on January 26, 2018
United Coconut Planters Bank	500,000,000	500,000,000	-	Interest rate of 4.50%, maturing on March 19, 2018
Union Bank of the Philippines	100,000,000	100,000,000	-	Interest rate of 4.00%, maturing on February 13, 2018
Union Bank of the Philippines	200,000,000	200,000,000	-	Interest rate of 3.50%, maturing on January 19, 2018
Multinational Investment Bancorporation	2,385,732,922	2,185,732,922	200,000,000	Interest rates from 3.00% to 4.50%, maturing on various dates
Penta Capital Investment Corporation	400,000,000	400,000,000	-	Interest rate of 5.00%, maturing on March 21, 2018
Robinsons Bank Corporation	50,000,000	47,000,000	-	Interest rate of 7.70%, seven-year term, maturing on August 23, 2018
Total Installment, notes and loans payable	<u>23,660,732,922</u>	<u>11,657,732,922</u>	<u>11,374,559,853</u>	
<b>TOTAL</b>	<b><u>P 23,660,732,922</u></b>	<b><u>P 11,657,732,922</u></b>	<b><u>P 11,374,559,853</u></b>	



P-H-O-E-N-I-X Petroleum Philippines, Inc.  
Schedule H - Capital Stock  
December 31, 2017

<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 - 25,000,000	50,000,000	25,000,000	-	-	-	25,000,000
Common shares - P1 par value						
Issued and outstanding - 1,374,383,932	2,500,000,000	1,431,538,232	-	83,475,787	6,001,110	1,342,061,335

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**P-H-O-E-N-I-X Petroleum Philippines, Inc.**  
**Stella Hizon Reyes Road, Barrio Pampanga, Davao City**  
**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**December 31, 2017**

**UNAPPROPRIATED RETAINED EARNINGS AS ADJUSTED TO  
AVAILABLE FOR DIVIDEND DISTRIBUTION, BEGINNING**

**P 2,398,853,957**

**Net Profit based on the audited Statement of Comprehensive Income** P 1,023,117,873

**Less: Non-actual/unrealized income net of tax**

Other unrealized gains or adjustment to retained earnings as a result of  
day one gain on financial instrument 8,794,918

**Add: Non-actual losses**

Unrealized foreign exchange loss - net (except those attributable  
to cash and cash equivalents 2,674,083

Other unrealized loss or adjustment to retained earnings as a result of  
day one loss on financial instrument 9,038,610

**Subtotal** 11,712,693

**Net income actually earned during the period** 1,026,035,648 1,026,035,648

**Add/Less:**

Dividend declarations during the period:

Common shares cash dividends ( 136,208,383 )

Preferred shares cash dividends ( 194,910,000 ) ( 331,118,383 )

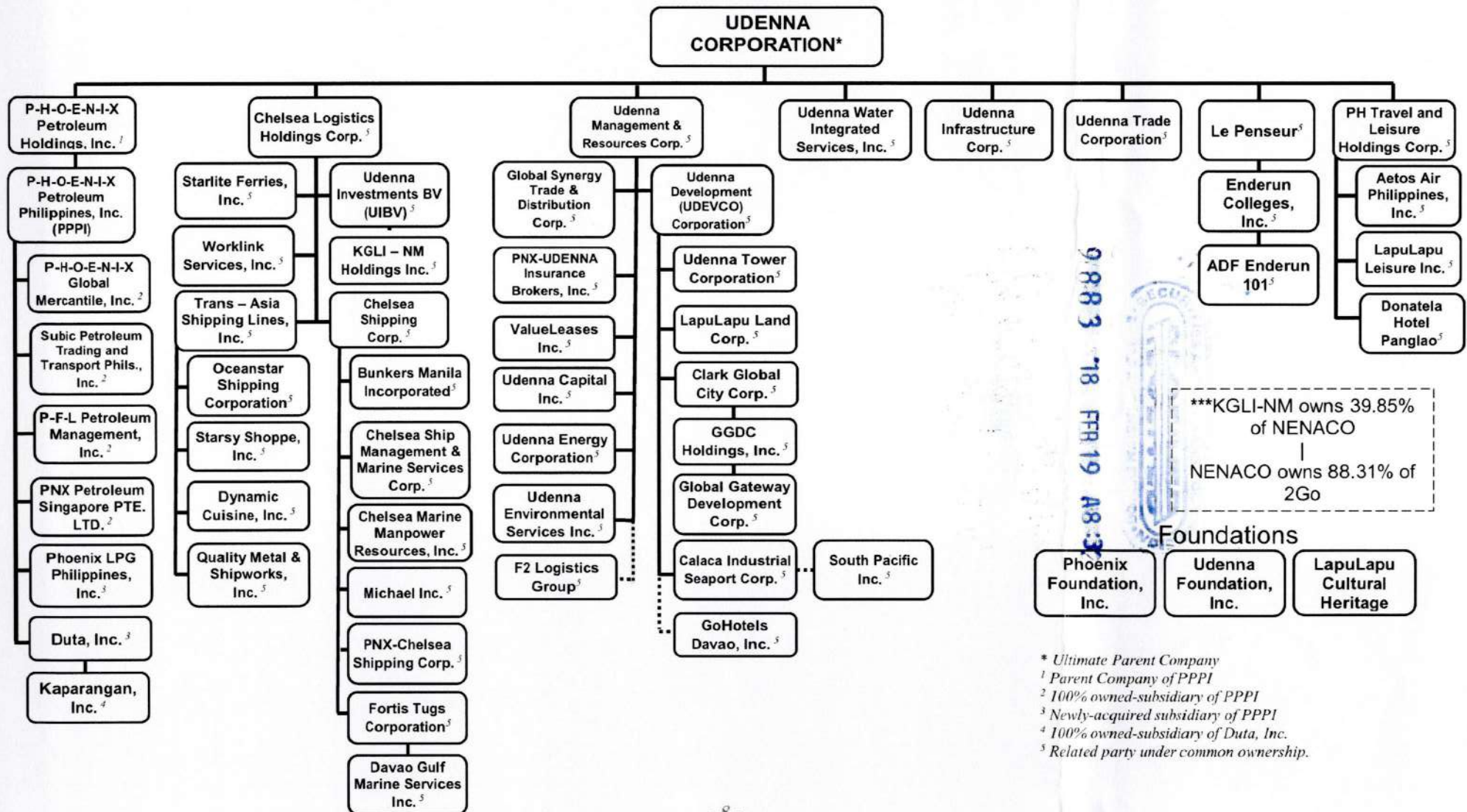
Treasury shares

**UNAPPROPRIATED RETAINED EARNINGS,  
AS ADJUSTED, ENDING**

**P 3,093,771,222**



**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**SCHEDULE J – MAPPING OF THE ORGANIZATIONAL STRUCTURE**  
**DECEMBER 31, 2017**



\* Ultimate Parent Company  
<sup>1</sup> Parent Company of PPPI  
<sup>2</sup> 100% owned-subsiidiary of PPPI  
<sup>3</sup> Newly-acquired subsidiary of PPPI  
<sup>4</sup> 100% owned-subsiidiary of Duta, Inc.  
<sup>5</sup> Related party under common ownership.



**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**

**Schedule of Philippine Financial Reporting Standards and Interpretations  
Adopted by the Securities and Exchange Commission and the  
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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b>		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
<b>Practice Statement Management Commentary</b>			✓	
<b><i>Philippine Financial Reporting Standards (PFRS)</i></b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* ( <i>effective January 1, 2018</i> )			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation* ( <i>effective January 1, 2019</i> )	✓		
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4, <i>Insurance Contracts</i> ( <i>effective January 1, 2018</i> )			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* ( <i>effective when PFRS 9 is first applied</i> )			✓
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments (2014)* ( <i>effective January 1, 2018</i> )			✓
	Amendments to PFRS 9: Prepayment Features with Negative Compensation* ( <i>effective January 1, 2019</i> )			✓

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**

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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* ( <i>effective date deferred indefinitely</i> )			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
<b>PFRS 11</b>	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation ( <i>effective January 1, 2019</i> )			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers* ( <i>effective January 1, 2018</i> )			✓
<b>PFRS 16</b>	Leases* ( <i>effective January 1, 2019</i> )			✓
<b>PFRS 17</b>	Insurance Contracts* ( <i>effective January 1, 2021</i> )			✓
<b>Philippine Accounting Standards (PAS)</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events After the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* ( <i>effective January 1, 2019</i> )			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		



**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**

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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 19 (Revised)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
	Amendment to PAS 23: Eligibility for Capitalization	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Revised)</b>	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
<b>PAS 28 (Revised)</b>	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* ( <i>effective date deferred indefinitely</i> )			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss ( <i>effective January 1, 2018</i> )			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture ( <i>effective January 1, 2019</i> )			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings Per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**

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<b>PAS 39</b>	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
<b>PAS 40</b>	Investment Property	✓		
	Amendment to PAS 40: Reclassification to and from Investment Property* (effective January 1, 2018)			✓
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
<b><i>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</i></b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
<b>IFRIC 6</b>	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners**	✓		
<b>IFRIC 18</b>	Transfers of Assets from Customers**	✓		
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments	✓		
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine**	✓		
<b>IFRIC 21</b>	Levies	✓		
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration (effective January 1, 2018)			✓
<b>IFRIC 23</b>	Uncertainty Over Income Tax Treatments (effective January 1, 2019)			✓
<b><i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i></b>				
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**

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<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services**	✓		
<b>SIC-32</b>	Intangible Assets - Web Site Costs**	✓		

\* These standards will be effective for periods subsequent to 2017 and are not early adopted by the Group.

\*\* These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.



**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION  
OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL  
STATEMENTS**

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC and Subsidiaries** for the year ended **December 31, 2017**.

In discharging this responsibility, I hereby declare that I, **Jonarest Z. Sibog**, am the **Controller**, of **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC and Subsidiaries** and was hired to perform this service.

Furthermore, in my compilation services for preparation of the Financial Statements and notes to the Financial Statements, I was not assisted by or did not avail of the services of Punongbayan and Arraullo who/which is the external auditor who rendered the audit opinion for the said Financial Statements and notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.

15 February 2018, Davao City Philippines.

**JONAREST Z. SIBOG CPA, MBA**

Affiant

**FEB 15 2018**

**SUBSCRIBED AND SWORN TO** before me on \_\_\_\_\_ in Davao City, Philippines. Affiant has confirmed her identity by presenting her competent evidence of identity which is her PRC License with No. 0131121, issued on March 31, 2016 in Davao City, Philippines containing her photo and signature and that she further attests that the same is true and correct.

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Series of 2018



**ATTY. KENNETH L. DABI**  
Notary Public for Davao City  
Expires on December 31, 2018  
Serial No. 2017-0055-2018  
PTR No. 8887837; 01-04-18; D.C.  
IBP No. 024561; 01-08-18; D.C.  
Roll of Attorneys No. 47866  
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