

11. Are any or all of these securities listed on the Philippine Stock Exchange.

Yes [X] No []

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange	Common and Preferred Shares
Philippine Dealing & Exchange Corp.	Series A, B, C and D Bonds

12. Indicate by check mark whether the Registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports).

Yes [X] No []

(b) has been subject to such filing requirements for the past 90 days.

Yes [X] No []

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PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Amounts in Million Pesos)

	<i>Note</i>	Unaudited March 31 2019	Audited December 31 2018
ASSETS			
Current Assets			
Cash and cash equivalents	9, 10	P30,143	P17,405
Financial assets at fair value	9, 10	1,018	1,126
Investments in debt instruments	9, 10	40	40
Trade and other receivables - net	7, 9, 10	43,716	42,497
Inventories		63,709	63,873
Other current assets	7	30,938	37,081
Total Current Assets		169,564	162,022
Noncurrent Assets			
Investments in debt instruments	9, 10	343	338
Property, plant and equipment - net	5, 6	163,524	163,984
Investment property - net		26,798	16,536
Right-of-use assets - net		8,929	-
Deferred tax assets - net		245	257
Goodwill - net		8,671	8,532
Other noncurrent assets - net	9, 10	4,346	6,485
Total Noncurrent Assets		212,856	196,132
		P382,420	P358,154
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	8, 9, 10	P84,124	P82,997
Liabilities for crude oil and petroleum products	9, 10	34,869	25,991
Trade and other payables	7, 9, 10	30,974	28,471
Derivative liabilities	9, 10	466	614
Income tax payable		249	146
Current portion of long-term debt - net	9, 10	17,797	17,799
Current portion of lease liability	9, 10	719	-
Total Current Liabilities		169,198	156,018

Forward

	<i>Note</i>	Unaudited March 31 2019	Audited December 31 2018
Noncurrent Liabilities			
Long-term debt - net of current portion	<i>9, 10, 11</i>	P98,800	P100,201
Retirement benefits liability		2,457	2,433
Deferred tax liabilities - net		7,851	8,450
Lease liability - net of current portion	<i>9, 10</i>	14,024	-
Asset retirement obligation		3,651	3,592
Other noncurrent liabilities	<i>9, 10</i>	1,501	1,274
Total Noncurrent Liabilities		128,284	115,950
Total Liabilities		297,482	271,968
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		9,485	9,485
Additional paid-in capital		19,653	19,653
Capital securities		24,881	24,881
Retained earnings		47,462	49,491
Equity reserves		(13,544)	(14,031)
Treasury stock		(10,000)	(10,000)
Total Equity Attributable to Equity Holders of the Parent Company		77,937	79,479
Non-controlling Interests		7,001	6,707
Total Equity		84,938	86,186
		P382,420	P358,154

See accompanying Management's Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in Million Pesos, Except Per Share Data)

		For the Three Months Ended March 31	
	<i>Note</i>	2019	2018
SALES	5	P124,558	P129,112
COST OF GOODS SOLD		116,083	116,938
GROSS PROFIT		8,475	12,174
SELLING AND ADMINISTRATIVE EXPENSES		(3,610)	(3,378)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	5	(3,184)	(1,906)
INTEREST INCOME	5	242	128
OTHER INCOME (LOSS) - Net		(210)	326
		(6,762)	(4,830)
INCOME BEFORE INCOME TAX		1,713	7,344
INCOME TAX EXPENSE	5	410	1,558
NET INCOME		P1,303	P5,786
Attributable to:			
Equity holders of the Parent Company		P1,105	P5,523
Non-controlling interests		198	263
		P1,303	P5,786
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	12	P0.05	P0.47

See accompanying Management's Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF
COMPREHENSIVE INCOME
(UNAUDITED)
(Amounts in Million Pesos)

	For the Three Months Ended	
	March 31	
	2019	2018
NET INCOME	P1,303	P5,786
OTHER COMPREHENSIVE INCOME		
ITEMS THAT MAY BE RECLASSIFIED TO		
PROFIT OR LOSS		
Net loss on cash flow hedges	(60)	-
Exchange differences on translation of foreign operations	625	3,878
Unrealized fair value gain (loss) on investments in debt instruments at FVOCI	6	(3)
Share in other comprehensive loss of a joint venture	-	(1)
Income tax benefit	16	1
OTHER COMPREHENSIVE INCOME - Net of tax	587	3,875
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - Net of tax	P1,890	P9,661
Attributable to:		
Equity holders of the Parent Company	P1,592	P8,855
Non-controlling interests	298	806
	P1,890	P9,661

See accompanying Management's Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)
(Amounts in Million Pesos)

	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Note	Retained Earnings					Equity Reserves			Total		
		Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
As of January 1, 2019 (Audited)		P9,485	P19,653	P24,881	P15,160	P34,331	(P2,940)	(P11,091)	(P10,000)	P79,479	P6,707	P86,186
Adjustment due to adoption of Philippine Financial Reporting Standard (PFRS) 16		-	-	-	-	(1,014)	-	-	-	(1,014)	(4)	(1,018)
As of January 1, 2019 (As adjusted)		9,485	19,653	24,881	15,160	33,317	(2,940)	(11,091)	(10,000)	78,465	6,703	85,168
Net loss on cash flow hedges - net of tax		-	-	-	-	-	-	(42)	-	(42)	-	(42)
Unrealized fair value gain on investments in debt instruments at FVOCI - net of tax		-	-	-	-	-	-	4	-	4	-	4
Exchange differences on translation of foreign operations		-	-	-	-	-	-	525	-	525	100	625
Other comprehensive income for the period		-	-	-	-	-	-	487	-	487	100	587
Net income for the period		-	-	-	-	1,105	-	-	-	1,105	198	1,303
Total comprehensive income for the period		-	-	-	-	1,105	-	487	-	1,592	298	1,890
Cash dividends	13	-	-	-	-	(1,261)	-	-	-	(1,261)	-	(1,261)
Distributions paid	13	-	-	-	-	(859)	-	-	-	(859)	-	(859)
Transactions with owners		-	-	-	-	(2,120)	-	-	-	(2,120)	-	(2,120)
As of March 31, 2019 (Unaudited)		P9,485	P19,653	P24,881	P15,160	P32,302	(P2,940)	(P10,604)	(P10,000)	P77,937	P7,001	P84,938

Forward

	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings		Equity Reserves			Total		
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
As of January 1, 2018 (Audited)		P9,485	P19,653	P30,546	P15,160	P33,982	(P2,146)	(P3,025)	(P10,000)	P93,655	P5,964	P99,619
Adjustment due to adoption of PFRS 9		-	-	-	-	42	-	-	-	42	(2)	40
As of January 1, 2018 (As adjusted)		9,485	19,653	30,546	15,160	34,024	(2,146)	(3,025)	(10,000)	93,697	5,962	99,659
Unrealized fair value losses on financial assets at fair value through other comprehensive income - net of tax		-	-	-	-	-	-	(2)	-	(2)	-	(2)
Share in other comprehensive loss of a joint venture		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	3,335	-	3,335	543	3,878
Other comprehensive income for the period		-	-	-	-	-	-	3,332	-	3,332	543	3,875
Net income for the period		-	-	-	-	5,523	-	-	-	5,523	263	5,786
Total comprehensive income for the period		-	-	-	-	5,523	-	3,332	-	8,855	806	9,661
Cash dividends	13	-	-	-	-	(1,729)	-	-	-	(1,729)	-	(1,729)
Distributions paid	13	-	-	-	-	(1,972)	-	-	-	(1,972)	-	(1,972)
Redemption of undated subordinated capital securities		-	-	(16,371)	-	-	-	(4,938)	-	(21,309)	-	(21,309)
Issuance of senior perpetual capital securities		-	-	24,878	-	-	-	-	-	24,878	-	24,878
Transactions with owners		-	-	8,507	-	(3,701)	-	(4,938)	-	(132)	-	(132)
As of March 31, 2018 (Unaudited)		P9,485	P19,653	P39,053	P15,160	P35,846	(P2,146)	(P4,631)	(P10,000)	P102,420	P6,768	P109,188

See accompanying Management's Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Amounts in Million Pesos)

		For the Three Months Ended March 31	
	<i>Note</i>	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P1,713	P7,344
Adjustments for:			
Depreciation and amortization	5	3,086	2,857
Interest expense and other financing charges	5	3,184	1,906
Retirement benefits costs		28	151
Unrealized foreign exchange losses - net		88	2,118
Interest income	5	(242)	(128)
Other (gains) losses		(866)	1,717
Operating income before working capital changes		6,991	15,965
Changes in noncash assets, certain current liabilities and others		15,041	(10,881)
Cash generated from operations		22,032	5,084
Contributions to retirement fund		-	(200)
Interest paid		(2,941)	(1,766)
Income taxes paid		(266)	(446)
Interest received		119	153
Net cash flows provided by operating activities		18,944	2,825
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(4,407)	(1,615)
Proceeds from sale of property and equipment		2	37
Additions to investment property		(87)	-
Proceeds from sale of investment property		140	-
Increase in other noncurrent assets		(383)	-
Net cash flows used in investing activities		(4,735)	(1,578)

Forward

For the Three Months Ended March 31			
		2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans	8	P93,337	P77,077
Payments of:			
Loans	8, 11	(93,729)	(76,212)
Cash dividends and distributions	13	(1,049)	(2,088)
Issuance of senior perpetual capital securities		-	24,878
Redemption of undated subordinated capital securities		-	(21,309)
Net cash flows provided by (used in) financing activities		(1,441)	2,346
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		(30)	185
NET INCREASE IN CASH AND CASH EQUIVALENTS		12,738	3,778
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		17,405	17,014
CASH AND CASH EQUIVALENTS AT END OF PERIOD		P30,143	P20,792

See accompanying Management's Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Data, Exchange Rates and Commodity Volumes)

1. Reporting Entity

Petron Corporation (the “Parent Company” or “Petron”) was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the Parent Company’s corporate term to December 22, 2066.

Petron is the leading oil refining and marketing company in the Philippines. Petron is committed to its vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

The Parent Company is a public company under Section 17.2 of Securities Regulation Code and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The accompanying consolidated interim financial statements comprise the financial statements of Petron Corporation and Subsidiaries (collectively referred to as the “Group”) and the Group’s interests in an associate and joint ventures.

The intermediate parent company of Petron is San Miguel Corporation (SMC) while its ultimate parent company is Top Frontier Investments Holdings, Inc. Both companies are incorporated in the Philippines.

The registered office address of Petron is SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

2. Statement of Compliance

The accompanying consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2018. The consolidated interim financial statements do not include all the information required for a complete set of financial statements in accordance with Philippine Financial Reporting Standards (PFRS) and should be read in conjunction with the audited consolidated financial statements of the Group as of and for the year ended December 31, 2018. The audited consolidated financial statements are available upon request from the Group’s registered office at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

The consolidated interim financial statements are presented in Philippine peso, which is the Parent Company’s functional currency. All financial information presented in Philippine peso is rounded off to the nearest million (P000,000), except when otherwise indicated.

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2018. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2019.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new or revised standards, amendments to standards and interpretations as part of PFRS.

Adopted in 2019

The Group has adopted the following new or revised standards, amendments to standards and interpretations starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated interim financial statements:

- *PFRS 16 Leases* supersedes *PAS 17 Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as of January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate ranging from 5.99% to 8.10% as of January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- o applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;

- o excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- o used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Right-of-use assets and lease liabilities are presented separately in the consolidated interim statements of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property.

The impact of the adoption of PFRS 16 as of January 1, 2019 is as follows:

ASSETS	
Other current assets	(P405)
Property, plant and equipment - net	(844)
Investment property - net	10,364
Right-of-use assets - net	7,335
Other noncurrent assets - net	(3,175)
	P13,275
LIABILITIES AND EQUITY	
Trade and other payables	(P994)
Lease liabilities	15,643
Deferred tax liabilities	(356)
Total Liabilities	14,293
Retained earnings	(1,014)
Non-controlling interests	(4)
Total Equity	(1,018)
	P13,275

The operating lease commitments as of December 31, 2018 are reconciled as follows to the recognized lease liabilities as of January 1, 2019:

Operating lease commitments as of December 31, 2018	P25,401
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(9,758)
Lease liabilities recognized based on the initial application of PFRS 16 as of January 1, 2019	P15,643

- *Philippine Interpretation IFRIC 23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 *Income Taxes*, when there is uncertainty over income tax treatments.

Under the interpretation, whether the amounts recorded in the consolidated interim financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change -

e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- *Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28 Investments in Associates)*. The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.
- *Prepayment Features with Negative Compensation (Amendments to PFRS 9)*. The amendments cover the following areas:
 - (a) Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination; and
 - (b) Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.
- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)*. The amendments clarify that: (a) current service cost and net interest for the period are determined using the actuarial assumptions when amendment, curtailment or settlement occurs; and (b) the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).
- *Annual Improvements to PFRS Cycles 2015 – 2017*. This cycle of improvements contains changes to three standards:
 - *Previously Held Interest in a Joint Operation (Amendments to PFRS 3 Business Combinations and PFRS 11 Joint Arrangements)*. The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - *Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12 Income Taxes)*. The amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, OCI or equity.

- *Borrowing Costs Eligible for Capitalization (Amendments to PAS 23 Borrowing Costs)*. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

New or Revised Standards, Amendments to Standards, Interpretation and Framework Not Yet Adopted

A number of new or revised standards, amendments to standards, interpretation and framework are effective for annual periods beginning after January 1, 2019 and have not applied in preparing these consolidated interim financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated interim financial statements.

The Group will adopt the following new or revised standards, amendments to standards, interpretation and framework on the respective effective dates:

To be Adopted 2020

- *Amendments to References to Conceptual Framework* in PFRS Standards sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- *Definition of a Business (Amendments to PFRS 3 Business Combinations)*. The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:
 - confirmed that a business must include inputs and a process, and clarified that:
 - the process must be substantive; and
 - the inputs and process must together significantly contribute to creating outputs;
 - narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
 - added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements, and PAS 8)* refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term ‘could influence’ with ‘could reasonably be expected to influence’; (b) including the concept of ‘obscuring information’ alongside the concept of ‘omitting’ and ‘misstating’ information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general-purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

To be Adopted 2021

- PFRS 17 *Insurance Contracts* replaces the interim standard, PFRS 4 *Insurance Contracts*. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:
 - (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
 - (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
 - (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in OCI.

Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity’s rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the ‘premium allocation approach’, investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2021. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 Financial Instruments and PFRS 15 Revenue from Contracts with Customers on or before the date of initial application of PFRS 17.

Deferral of the local implementation of Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 Consolidated Financial Statements, and PAS 28)*. The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

4. Use of Judgments and Estimates

In preparing these consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as of and for the year ended December 31, 2018.

5. Segment Information

Management identifies segments based on business and geographic locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The Group's major sources of revenues are as follows:

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.
- c. Lease of acquired real estate properties and equipment for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.
- e. Export sales of various petroleum and non-fuel products to other countries such as China, Singapore, South Korea, Taiwan and Thailand.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.
- g. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

Revenues are mainly derived from the sale of petroleum products to retail and commercial customers in various geographical locations.

The Group has no significant remaining performance obligations as it mainly recognizes revenues in amounts that correspond directly to the value of completed performance obligations.

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, net of allowances, depreciation and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Group.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the periods ended March 31, 2019, December 31, 2018 and March 31, 2018:

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
March 31, 2019						
Revenue:						
External sales	P123,964	P -	P302	P230	P62	P124,558
Inter-segment sales	55,265	31	176	-	(55,472)	-
Operating income	4,659	25	135	30	16	4,865
Net income	1,234	31	11	36	(9)	1,303
Assets and liabilities:						
Segment assets*	429,218	2,892	9,534	657	(60,126)	382,175
Segment liabilities*	310,328	1,668	5,191	120	(27,676)	289,631
Other segment information:						
Property, plant and equipment - net	162,957	-	-	133	434	163,524
Depreciation and amortization	3,137	-	-	4	(55)	3,086
Interest expense	3,167	-	46	-	(29)	3,184
Interest income	252	11	3	5	(29)	242
Income tax expense	320	6	81	4	(1)	410

*excluding deferred tax assets and liabilities

**revenues from the use of loaned equipment and provisions of technical support are presented as part of leasing and others, respectively.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
December 31, 2018						
Revenue:						
External sales	P554,958	P -	P1,117	P923	P388	P557,386
Inter-segment sales	284,132	116	686	-	(284,934)	-
Operating income	18,117	90	313	89	312	18,921
Net income	11,854	150	97	94	(5,126)	7,069
Assets and liabilities:						
Segment assets*	398,305	1,418	6,730	622	(49,178)	357,897
Segment liabilities*	276,810	231	2,378	115	(16,016)	263,518
Other segment information:						
Property, plant and equipment - net	163,418	-	-	132	434	163,984
Depreciation and amortization	11,515	-	9	19	-	11,543
Interest expense	9,689	-	154	-	(154)	9,689
Interest income	814	31	5	10	(154)	706
Income tax expense	3,306	22	24	12	22	3,386

*excluding deferred tax assets and liabilities

**revenues from the use of loaned equipment and provisions of technical support are presented as part of leasing and others, respectively.

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
March 31, 2018						
Revenue:						
External sales	P128,904	P -	P7	P208	(P7)	P129,112
Inter-segment sales	66,116	19	133	-	(66,268)	-
Operating income	8,646	17	64	15	54	8,796
Net income	5,739	32	18	24	(27)	5,786
Assets and liabilities:						
Segment assets	407,812	2,721	6,085	656	(61,456)	355,818
Segment liabilities	263,597	1,646	4,634	104	(31,051)	238,930
Other segment information:						
Property, plant and equipment - net	173,200	-	-	129	5,401	178,730
Depreciation and amortization	2,850	-	2	5	-	2,857
Interest expense	1,906	-	39	-	(39)	1,906
Interest income	156	8	1	2	(39)	128
Income tax expense	1,543	7	6	3	(1)	1,558

*excluding deferred tax assets and liabilities

**revenues from the use of loaned equipment and provisions of technical support are presented as part of leasing and others, respectively.

Inter-segment sales transactions amounted to P55,472, P284,934 and P66,268 for the periods ended March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended March 31, 2019, December 31, 2018 and March 31, 2018:

	Retail	Lube	Gasul	Industrial	Others	Total
March 31, 2019						
Revenue	P58,829	P1,213	P6,858	P29,736	P27,328	P123,964
Property, plant and equipment	10,644	76	495	87	151,655	162,957
Capital expenditures	3,830	6	22	6	13,748	17,612
December 31, 2018						
Revenue	P269,255	P4,883	P27,810	P132,397	P120,613	P554,958
Property, plant and equipment	12,192	70	499	90	150,567	163,418
Capital expenditures	3,326	6	14	9	8,989	12,344
March 31, 2018						
Revenue	P62,715	P1,557	P6,425	P32,255	P25,952	P128,904
Property, plant and equipment	22,440	83	444	156	150,077	173,200
Capital expenditures	3,046	2	15	37	5,236	8,336

Geographical Segments

The following table presents segment assets of the Group as of March 31, 2019, December 31, 2018 and March 31, 2018:

	March 31, 2019	December 31, 2018	March 31, 2018
Local	P311,800	P284,469	P284,716
International	70,375	73,428	71,102
	P382,175	P357,897	P355,818

Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the periods ended March 31, 2019, December 31, 2018 and March 31, 2018:

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
March 31, 2019						
Local	P72,676	P25	P478	P230	(P297)	P73,112
Export/international	106,553	6	-	-	(55,113)	51,446
December 31, 2018						
Local	P311,951	P44	P1,803	P923	(P979)	P313,742
Export/international	527,139	72	-	-	(283,567)	243,644
March 31, 2018						
Local	P82,146	P13	P140	P208	(P304)	P82,203
Export/international	112,874	6	-	-	(65,971)	46,909

**revenues from the use of loaned equipment and provisions of technical support are presented as part of leasing and others, respectively.

6. Property, Plant and Equipment

The movements and balances as of and for the periods ended March 31, 2019 and December 31, 2018 follow:

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
Cost:							
January 1, 2018 (Audited)	P32,504	P185,304	P17,436	P4,951	P14,631	P7,429	P262,255
Additions	694	446	424	209	45	8,598	10,416
Disposals/reclassifications	1,661	2,117	(299)	31	131	(3,738)	(97)
Reclassification to investment property	(15,244)	-	-	-	(10,207)	-	(25,451)
Currency translation adjustment	517	370	247	48	218	39	1,439
December 31, 2018 (Audited)	20,132	188,237	17,808	5,239	4,818	12,328	248,562
Adjustment due to adoption of PFRS 16	(1,291)	-	(176)	-	-	-	(1,467)
December 31, 2018 (as adjusted)	18,841	188,237	17,632	5,239	4,818	12,328	247,095
Additions	320	375	628	16	-	3,068	4,407
Disposals/reclassifications	574	(1,785)	(68)	21	(57)	(529)	(1,844)
Currency translation adjustment	(166)	386	139	28	(275)	66	178
March 31, 2019 (Unaudited)	19,569	187,213	18,331	5,304	4,486	14,933	249,836
Accumulated Depreciation and Amortization:							
January 1, 2018 (Audited)	20,205	46,296	12,207	3,797	2,060	-	84,565
Additions	861	7,539	948	481	89	-	9,918
Disposals/reclassifications	(396)	(16)	(903)	(101)	(10)	-	(1,426)
Reclassification to investment property	(8,083)	-	-	-	(1,060)	-	(9,143)
Currency translation adjustment	240	258	127	27	12	-	664
December 31, 2018 (Audited)	12,827	54,077	12,379	4,204	1,091	-	84,578
Adjustment due to adoption of PFRS 16	(560)	-	(63)	-	-	-	(623)
December 31, 2018 (as adjusted)	12,267	54,077	12,316	4,204	1,091	-	83,955
Additions	200	1,891	229	118	19	-	2,457
Disposals/reclassifications	173	(212)	(228)	(3)	(27)	-	(297)
Currency translation adjustment	(10)	171	79	22	(65)	-	197
March 31, 2019 (Unaudited)	12,630	55,927	12,396	4,341	1,018	-	86,312
Carrying Amount:							
December 31, 2018 (Audited)	P7,305	P134,160	P5,429	P1,035	P3,727	P12,328	P163,984
March 31, 2019 (Unaudited)	P6,939	P131,286	P5,935	P963	P3,468	P14,933	P163,524

Capital Commitments

As of March 31, 2019 and December 31, 2018, the Group has outstanding commitments to acquire property, plant and equipment amounting to P11,026 and P17,818, respectively.

7. Related Party Disclosures

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

The balances and transactions with related parties as of and for the periods ended March 31, 2019 and December 31, 2018 follow:

	<i>Note</i>	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	<i>a</i>	2019 2018	P30 211	P - -	P2,429 2,399	P 38 -	On demand; long-term; interest bearing	Unsecured; no impairment
Intermediate Parent	<i>b,e</i>	2019 2018	2 12	3 1,026	6 7	214 25	On demand; non-interest bearing	Unsecured; no impairment
Under Common Control	<i>b,c,d,g</i>	2019 2018	1,416 6,523	1,234 4,904	1,298 2,097	2,647 889	On demand; non-interest bearing	Unsecured; no impairment
Joint Ventures	<i>c,f</i>	2019 2018	- 7	- 59	1 1	- -	On demand; non-interest bearing	Unsecured no impairment
		2019	P1,448	P1,237	P3,734	P2,899		
		2018	P6,753	P5,989	P4,504	P914		

- a. The Parent Company has interest bearing advances to Petron Corporation Employees' Retirement Plan (PCERP), included as part of "Trade and other receivables - net" account in the consolidated interim statements of financial position, for some investment opportunities.
- b. Sales relate to the Parent Company's supply agreements with the Intermediate Parent and various SMC subsidiaries. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- c. Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.
- d. The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rental of P6. The lease, which commenced on June 1, 2014, is for a period of one year and was subsequently renewed on a yearly basis in accordance with the written agreement of the parties.
- e. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- f. Terminal Bersama Sdn Bhd, an operator of Liquefied Petroleum Gas (LPG) bottling plant, provides bottling services to Petron Fuel International Sdn Bhd (PFISB) and another venturer.
- g. In 2015, the New Ventures Realty Corporation (NVRC) leased out certain parcels of its land to SMC Consolidated Power Corporation for a period of 25 years.
- h. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.
- i. Amounts owed to related parties consist of trade and non-trade payables.

8. Loans and Borrowings

Short-term Loans

The movements of short-term loans for three months ended March 31, 2019 follow:

Balance as of January 1, 2019	P82,997
Loan availments	93,337
Loan repayments	(92,318)
Currency Translation adjustment	108
Balance as of March 31, 2019	P84,124

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 3 to 181 days and annual interest ranging from 3.49% to 7.00% and 2.65% to 7.00% as of and for the periods ended March 31, 2019 and December 31, 2018, respectively. These loans are intended to fund the importation of crude oil and petroleum products and working capital requirements.

Long-term Loans

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

The Group is required to comply with two financial covenants, net leverage ratio and consolidated gross debt to consolidated net worth. As of March 31, 2019 and December 31, 2018, the Group has complied with the covenants of its debt agreements.

9. Financial Risk Management Objectives and Policies

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

It is the Group's policy not to enter into derivative transactions for speculative purposes. The Group uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into various hedging instruments such as foreign currency contracts and short-term options to cover the crude and finished product importations. Various hedging instruments such as non-deliverable currency forwards and short term and long-term foreign currency options are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

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

Risk Management Structure

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

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

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

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

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

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

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

- b. The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Group to ensure its functionality and effectiveness.
- c. The Compliance Officer, who is a senior officer of the Parent Company, reports to the BOD chairperson. Among other functions, he monitors compliance with the provisions and requirements of the Corporate Governance Manual and relevant laws and regulations and determines any possible

violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual and other relevant rules and regulations of the SEC.

- d. The Related Party Transaction Committee is tasked with reviewing all material related party transactions of the Group.
- e. The Corporate Governance Committee is responsible for assisting the BOD in the performance of its corporate governance, nomination and remuneration responsibilities and ensures compliance with and proper observance of corporate governance principles and practices.

Foreign Currency Risk

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

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

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

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

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

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

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

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

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

	March 31, 2019		December 31, 2018	
	US dollar (in millions)	Philippine peso Equivalent	US dollar (in millions)	Philippine peso Equivalent
Assets				
Cash and cash equivalents	421	22,086	217	11,397
Trade and other receivables	110	5,799	316	16,635
Other assets	11	603	27	1,426
	542	28,488	560	29,458
Liabilities				
Short-term loans	329	17,294	285	14,977
Liabilities for crude oil and petroleum products	349	18,344	480	25,243
Long-term debt (including current maturities)	950	49,875	950	49,951
Other liabilities	475	24,897	346	18,202
	2,103	110,410	2,061	108,373
Net foreign currency -denominated monetary liabilities	(1,561)	(81,922)	(1,501)	(78,915)

The Group incurred net foreign currency exchange gains (losses) amounting to P208 and (P2,210) for the periods ended March 31, 2019 and 2018, respectively, which were mainly countered by marked-to-market and hedging gains or losses (Note 10). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of reporting dates are shown in the following table:

	PhP to US\$
March 31, 2019	52.500
December 31, 2018	52.580
March 31, 2018	52.160

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of March 31, 2019 and December 31, 2018:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
March 31, 2019				
Cash and cash equivalents	(P382)	(P306)	P382	P306
Trade and other receivables	(74)	(107)	74	107
Other assets	(10)	(8)	10	8
	(466)	(421)	466	421
Short-term loans	300	239	(300)	(239)
Liabilities for crude oil and petroleum products	352	596	(352)	(596)
Long-term debts (including current maturities)	950	665	(950)	(665)
Other liabilities	299	384	(299)	(384)
	1,901	1,884	(1,901)	(1,884)
	P1,435	P1,463	(P1,435)	(P1,463)

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2018				
Cash and cash equivalents	(P99)	(P187)	P99	P187
Trade and other receivables	(122)	(327)	122	327
Other assets	(12)	(24)	12	24
	(233)	(538)	233	538
Short-term loans	150	240	(150)	(240)
Liabilities for crude oil and petroleum products	210	480	(210)	(480)
Long-term debts (including current maturities)	950	665	(950)	(665)
Other liabilities	285	408	(285)	(408)
	1,595	1,793	(1,595)	(1,793)
	P1,362	P1,255	(1,362)	(P1,255)

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P499 and P500 for the period ended March 31, 2019 and for the year ended December 31, 2018, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

As of March 31, 2019 and December 31, 2018, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

March 31, 2019	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P5,672	P5,672	P21,291	P4,768	P9,143	P21,071	P67,617
Interest rate	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	5.5% - 5.8%	4.5% - 5.5%	5.5% - 8.1%	
Floating Rate							
US\$ denominated (expressed in PhP)	12,375	15,000	15,000	7,500	-	-	49,875
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	-	-	
	P18,047	P20,672	P36,291	P12,268	P9,143	P21,071	P117,492

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

December 31, 2018	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P5,672	P5,672	P21,291	P5,643	P9,143	P21,607	P69,028
Interest rate	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	5.5% - 5.8%	4.5% - 5.5%	5.5% - 8.1%	
Floating Rate							
US\$ denominated (expressed in PhP)	12,394	15,023	15,023	7,511	-	-	49,951
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	-	-	
	P18,066	P20,695	P36,314	P13,154	P9,143	P21,607	P118,979

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

Credit Risk

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

amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

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

	March 31, 2019	December 31, 2018
Cash in banks and cash equivalents	P28,349	P14,143
Proprietary membership shares	251	254
Derivative assets	1,308	1,079
Investments in debt instruments	383	378
Trade and other receivables - net	43,716	42,497
Long-term receivables - net	276	253
Noncurrent deposits	111	94
	P74,394	P58,698

Cash in Banks and Cash Equivalents, Derivative Assets and Noncurrent Deposits

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

Investments in Debt Instruments and Proprietary Membership Shares

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

Trade and Other Receivables and Long-Term Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 5.

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

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

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

Class C “Low Grade” are accounts with high probability of delinquency and default.

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P16,902 and P9,204 as of March 31, 2019 and December 31, 2018, respectively. These securities may only be called on or applied upon default of customers.

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

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

March 31, 2019						
Financial Assets at Amortized Cost				Financial Assets at Fair Value Through Profit or Loss (FVPL)	Financial Assets at FVOCI	Total
12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired				
Cash in banks and cash equivalents	P28,349	P -	P -	P -	P -	P28,349
Trade and other receivables	-	43,716	962	-	-	44,678
Derivative assets not designated as cash flow hedge	-	-	-	755	-	755
Derivative assets designated as cash flow hedge	-	-	-	-	553	553
Proprietary membership shares	-	-	-	251	-	251
Investments in debt instruments	226	-	-	-	157	383
Long-term receivables	-	276	55	-	-	331
Noncurrent deposits	111	-	-	-	-	111
	P28,686	P43,992	P1,017	P1,006	P710	P75,411

December 31, 2018						
Financial Assets at Amortized Cost				Financial Assets at FVPL	Financial Assets at FVOCI	Total
12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired				
Cash in banks and cash equivalents	P14,143	P -	P -	P -	P -	P14,143
Trade and other receivables	-	42,497	1,337	-	-	43,834
Derivative assets not designated as cash flow hedge	-	-	-	857	-	857
Derivative assets designated as cash flow hedge	-	-	-	-	222	222
Proprietary membership shares	-	-	-	254	-	254
Investments in debt instruments	226	-	-	-	152	378
Long-term receivables	-	253	73	-	-	326
Noncurrent deposits	94	-	-	-	-	94
	P14,463	P42,750	P1,410	P1,111	P374	P60,108

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of March 31, 2019 and December 31, 2018.

March 31, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P30,143	P30,143	P30,143	P -	P -	P -
Trade and other receivables - net	43,716	43,716	43,716	-	-	-
Derivative assets (including noncurrent portion)	1,308	1,308	767	159	382	-
Proprietary membership shares	251	251	251	-	-	-
Investments in debt instruments	383	422	55	120	247	-
Long-term receivables - net	276	276	-	276	-	-
Noncurrent deposits	111	111	-	3	-	108
Financial Liabilities						
Short-term loans	84,124	84,397	84,397	-	-	-
Liabilities for crude oil and petroleum products	34,869	34,869	34,869	-	-	-
Trade and other payables*	24,957	24,957	24,957	-	-	-
Derivative liabilities (including noncurrent portion)	863	863	466	206	191	-
Long-term debts (including current maturities)	116,597	135,514	23,456	25,265	65,315	21,478
Lease liability (including current portion)	14,743	23,583	1,571	1,659	4,387	15,966
Cash bonds	447	448	-	430	3	15
Cylinder deposits	579	579	-	-	-	579
Other noncurrent liabilities**	78	78	-	32	27	19

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

**excluding cash bonds, cylinder deposits and derivative liabilities

December 31, 2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P17,405	P17,405	P17,405	P -	P -	P -
Trade and other receivables - net	42,497	42,497	42,497	-	-	-
Derivative assets (including noncurrent portion)	1,079	1,079	872	61	146	-
Proprietary membership shares	254	254	254	-	-	-
Investments in debt instruments	378	394	-	136	258	-
Long-term receivables - net	253	253	-	-	253	-
Noncurrent deposits	94	94	-	-	3	91
Financial Liabilities						
Short-term loans	82,997	83,402	83,402	-	-	-
Liabilities for crude oil and petroleum products	25,991	25,991	25,991	-	-	-
Trade and other payables*	23,189	23,189	23,189	-	-	-
Derivative liabilities (including noncurrent portion)	802	802	614	115	73	-
Long-term debts (including current maturities)	118,000	138,128	23,649	25,503	66,861	22,115
Cash bonds	434	434	-	416	3	15
Cylinder deposits	573	573	-	-	-	573
Other noncurrent liabilities**	77	78	-	33	25	20

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

**excluding cash bonds, cylinder deposits and derivative liabilities

Commodity Price Risk

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

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

Other Market Price Risk

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

Capital Management

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

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

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

	March 31, 2019	December 31, 2018
Total assets	P382,420	P358,154
Total liabilities	297,482	271,968
Total equity	84,938	86,186
Debt to equity ratio	3.5:1	3.2:1
Assets to equity ratio	4.5:1	4.2:1

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

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

10. Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated interim statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

'Day 1' Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification and Subsequent Measurement of Financial Instruments

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at FVOCI and financial assets at FVPL. The classification depends on the business model of the Group for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, certain investments in debt instruments, and noncurrent receivables and deposits are included under this category.

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in OCI. This election is made on an instrument-by-instrument basis.

After initial measurement, financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in OCI.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in profit or loss. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated interim statements of changes in equity are transferred to and recognized in profit or loss.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in profit or loss when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated interim statements of changes in equity are never reclassified to profit or loss.

The Group's derivative assets designated as cash flow hedge and certain investments in debt instruments are classified under this category.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative assets not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, a financial asset may be irrevocably designated as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Changes in fair value and realized gains or losses are recognized in profit or loss. Any interest earned from investment in debt instrument accounted as at FVPL is recognized in profit or loss. Any dividend income from investment in equity instrument classified as at FVPL is recognized in profit or loss when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of investment.

The Group's derivative assets not designated as cash flow hedge and investments in proprietary membership shares are classified under this category.

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss.

The Group's derivative liabilities not designated as cash flow hedge are classified under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the

effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Group's liabilities arising from its short-term loans, liabilities for crude oil and petroleum products, trade and other payables, derivative liabilities designated as cash flow hedge, long-term debt, cash bonds, cylinder deposits and other noncurrent liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the right to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either:
(a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group recognizes allowance for impairment losses on receivables, other financial assets at amortized cost and investments in debt instruments at FVOCI.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime ECL for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Financial assets are written off when identified to be worthless after exhausting all collection efforts.

Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated interim statements of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated interim statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated interim statements of financial position.

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of March 31, 2019 and December 31, 2018:

	March 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	P30,143	P30,143	P17,405	P17,405
Trade and other receivables - net	43,716	43,716	42,497	42,497
Investments in debt instruments	226	226	226	226
Long-term receivables - net	276	276	253	253
Noncurrent deposits	111	111	94	94
FA at amortized cost	74,472	74,472	60,475	60,475
Investments in debt instruments	157	157	152	152
Derivative assets designated as cash flow hedge	553	553	222	222
FA at FVOCI	710	710	374	374
Proprietary membership shares	251	251	254	254
Derivative assets not designated as cash flow hedge	755	755	857	857
FA at FVPL	1,006	1,006	1,111	1,111
Total financial assets	P76,188	P76,188	P61,960	P61,960

	March 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities (FL):				
Short-term loans	P84,124	P84,124	P82,997	P82,997
Liabilities for crude oil and petroleum products	34,869	34,869	25,991	25,991
Trade and other payables*	24,957	24,957	23,189	23,189
Long-term debts including current portion	116,597	116,597	118,000	118,000
Derivative liabilities designated as cash flow hedge	666	666	332	332
Lease liability including current portion	14,743	14,743	-	-
Cash bonds	447	447	434	434
Cylinder deposits	579	579	573	573
Other noncurrent liabilities**	78	78	77	77
Other FL	277,060	277,060	251,593	251,593
Derivative liabilities not designated as cash flow hedge	197	197	470	470
Total financial liabilities	P277,257	P277,257	P252,063	P252,063

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

**excluding cash bonds, cylinder deposits and derivative liabilities

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

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

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

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

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

Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities. Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date.

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

Derivative Financial Instruments and Hedge Accounting

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

The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Changes in fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated interim statements of income.

Freestanding Derivatives

The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

Cash Flow Hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in OCI is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated interim statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and deferred in OCI. The cost of hedging is removed from OCI and recognized in the consolidated interim statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects profit or loss if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is retained until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the cost of non-financial item on initial recognition or, for other cash flow hedges, it is reclassified to profit or loss as a reclassification adjustment in the same period or periods as the

hedged cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated interim statements of income.

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if the host contract is not a financial asset and all of the following conditions are met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges:

March 31, 2019	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps				
Notional amount (in million)	US\$22	US\$144	US\$264	US\$430
Average strike rate	P53.87 to P57.37	P52.85 to P55.72	P52.83 to P55.91	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount (in million)	US\$ -	US\$20	US\$30	US\$50
Strike rate	-	P47.00 to P57.50	P47.00 to P57.50	
Fixed interest rate	-	5.75%	5.75%	

December 31, 2018	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps				
Notional amount (in million)	US\$22	US\$65	US\$120	US\$207
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P53.95 to P57.16	

The following are the amounts relating to hedged items:

March 31, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated loan	P37	P -	(P78)
Foreign currency and interest rate risks			
US dollar-denominated loan	P76	(P96)	P55
<hr/>			
December 31, 2018	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated loan	P110	P -	(P77)

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments:

March 31, 2019	Notional amount (in million)	Carrying Amount		Line item in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
Foreign currency risk:									
Call spread swaps	US\$430	P553	P590	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(P37)	(P49)	(P74)	P48	Other income (expenses) - net
Foreign currency and interest rate risks:									
Cross currency swap	US\$50	P -	P76	Other noncurrent liabilities	(P76)	P77	P16	P1	Interest expense and Other income (expenses) - net
<hr/>									
December 31, 2018	Notional amount (in million)	Carrying Amount		Line item in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
Foreign currency risk:									
Call spread swaps	US\$207	P222	P332	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(P110)	(P157)	P -	47	Other income (expenses) - net

No ineffectiveness was recognized in the 2019 and 2018 consolidated statements of income.

The table below provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting.

	March 31, 2019		December 31, 2018	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of period	P -	(P77)	P -	P -
Changes in fair value:				
Foreign currency risk	74	(49)	-	(157)
Foreign currency risk and interest rate risk	(153)	77	-	-
Amount reclassified to profit or loss:				
Foreign currency risk	(74)	48	-	47
Foreign currency risk and interest rate risk	16	1	-	-
Income tax effect	41	(23)	-	33
Balance at end of period	(P96)	(P23)	P -	(P77)

Derivative Instruments Not Designated as Hedges

The Group enters into various currency and commodity derivative contracts, which are not designated as accounting hedges, to manage its exposure on foreign currency and commodity price risks. The portfolio is a mixture of instruments including forwards, swaps and options. These include freestanding and embedded derivatives found in host contracts. Changes in fair value of these instruments are recognized directly in profit or loss.

Freestanding Derivatives

Freestanding derivatives consist of currency and commodity derivative contracts entered into by the Group.

Currency Forwards. As of March 31, 2019 and December 31, 2018, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$347 million and US\$907 million, respectively, and with various maturities in 2019. As of March 31, 2019 and December 31, 2018, the net negative fair value of these currency forwards amounted to P56 and P296, respectively.

Commodity Swaps. The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2019. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 13.7 million barrels and 17.0 million barrels as of March 31, 2019 and December 31, 2018, respectively. The estimated net receipts for these transactions amounted to P614 and P546 as of March 31, 2019 and December 31, 2018, respectively.

Commodity Options. As of March 31, 2019, the Group has no outstanding commodity options. As of December 31, 2018, the Group has outstanding 3-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 150 thousand barrels. The call and put options can be exercised at various calculation dates in 2019 with specified quantities on each calculation date. The estimated net receipt for these call and put options as of December 31, 2018 amounted to P137.

Embedded Derivatives

Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of the Parent Company. Under the sales and purchases contracts, the peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of March 31, 2019 and December 31, 2018, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2019 and December 31, 2018, the net positive fair value of these embedded currency forwards is minimal.

For the periods ended March 31, 2019 and 2018, the Group recognized marked-to-market losses (gains) from freestanding and embedded derivatives amounting to P372 and (P2,280), respectively.

Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated interim financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated interim financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Group has determined classes of assets and liabilities on the basis of nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair Value Hierarchy

Financial assets and liabilities measured at fair value in the consolidated interim statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method, as of March 31, 2019 and December 31, 2018.

	Level 2	
	March 31, 2019	December 31, 2018
Financial Assets:		
Proprietary membership shares	P251	P254
Derivative assets	1,308	1,079
Investments in debt instruments	157	152
Financial Liabilities:		
Derivative liabilities	(863)	(802)

The Group has no financial instruments valued based on Level 1 and Level 3 as of March 31, 2019 and December 31, 2018. During the period, there were no transfers between, into and out of Level 1 and Level 2 fair value measurements.

11. Significant Transactions During the Period

The Parent Company made payments of P250 on January 13, 2019, P536 on January 25, 2019 and P625 on March 25, 2019 to partially settle its P5,000, P15,000 and P10,000 term loan facilities, respectively.

12. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts for the three months ended March 31, 2019 and 2018 are computed as follows:

	2019	2018
Net income attributable to equity holders of the Parent Company	P1,105	P5,523
Dividends on preferred shares for the period	(162)	(162)
Distributions to the holders of capital securities for the period	(431)	(986)
Net income attributable to common shareholders of the Parent Company (a)	P512	P4,375
Weighted average number of common shares outstanding (in millions) (b)	9,375	9,375
Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	P0.05	P0.47

As of March 31, 2019 and 2018, the Parent Company has no potential dilutive debt or equity instruments.

13. Cash Dividends and Distributions

Dividends

The BOD of the Parent Company approved the declaration of cash dividends for common and series 2 preferred shareholders with the following details:

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

Distributions

On January 18, 2019, the Parent Company paid distributions amounting to US\$11.500 million (P859) to the holders of the US\$500 million SPCS.

Payments of distributions pertaining to USCS were made on the following dates: US\$13.901 million (P1,010) on January 22, 2018; and US\$13.052 million (P963) on February 5, 2018.

14. Commitments and Contingencies

Supply and Lease Agreements

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

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

Outstanding liabilities of the Group for such purchases are shown as part of “Liabilities for crude oil and petroleum products” account in the consolidated interim statements of financial position as of March 31, 2019 and December 31, 2018.

On September 30, 2009, the Parent Company through NVRC entered into a 30-year lease with Philippine National Oil Company (PNOC) without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises were reappraised in 2017 (Note 16) and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of March 31, 2019, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

Unused Letters of Credit and Outstanding Standby Letters of Credit

The Group has unused letters of credit totaling approximately P21,817 and P33,193 as of March 31, 2019 and December 31, 2018, respectively.

Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third-party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil (IFO), sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent Company not criminally liable, but the SBMI found the Parent Company to have overloaded the vessel. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of March 31, 2019.

Other Proceedings

The Group is also a party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, Management believes that the final outcome of these other proceedings will not have a material adverse effect on the Group’s business, financial condition or results of operations.

15. Events After the Reporting Period

- a. On March 12, 2019, the BOD of the Parent Company approved the following matters which are scheduled after the reporting period:
 - i. Public offer and issuance of up to P20,000 of preferred shares; and

- ii. Redemption of the 7,122,320 Series 2A Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 10, 2019 and redemption pay-out date of November 4, 2019 (with November 3, 2019 falling on a Sunday).
- b. On May 10, 2019, the Parent Company signed and executed a US\$800 million term facility. Proceeds will be used to refinance existing USD short-term loans, pay amortizations on the Company's existing US\$1,000 million term facility, and for general corporate purposes.

The first drawdown of US\$300 million is scheduled on May 15, 2019. The US\$800 million term facility is amortized over five years with a two-year grace period and is subject to a floating interest rate based on LIBOR plus a spread.

16. Other Matters

- a. Lease Agreements with PNOC

On October 20, 2017, the Parent Company filed with the Regional Trial Court (RTC) of Mandaluyong City a complaint against PNOC for the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Parent Company.

The subject landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by the Parent Company of the conveyed lots for its business operation. Thus, PNOC and the Parent Company executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years to expire in August 2018, with a provision for automatic renewal for another 25 years. In 2009, the Parent Company, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint alleges that PNOC committed a fundamental breach of the lease agreements when it refused to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

On December 11, 2017, the trial court granted the Parent Company's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting the Parent Company from possession of the subject properties until the case is decided.

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case would be remanded to the trial court for trial proper.

- b. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.

- c. There were no material off-statements of financial position items, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the notional values of outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2019.
- d. Known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity:

Gross Domestic Product (GDP)

GDP expanded year-on-year by 6.2% in 2018, slower than 6.7% in 2017.

Economic growth (in percentage)	2016	2017	2018
GDP	6.9	6.7	6.2
<i>By Industry</i>			
Agriculture	(1.2)	4.0	0.8
Industry	8.0	7.2	6.8
Services	7.5	6.8	6.6
<i>By Expenditure</i>			
Household Consumption	7.1	5.9	5.6
Government Consumption	9.0	7.0	12.8
Capital Formation	24.5	9.4	13.9
Exports	11.6	19.5	11.5
Imports	20.2	18.1	14.5

Capital Formation was the main driver of demand growth at 13.9%, on the back of the the government's aggressive "Build Build Build" program. This was supported by double-digit increase in Government Consumption at 12.8%. Household consumption was tempered by high inflation but remained robust at 5.6%. On the other hand, growth in Exports was more than offset by strong Imports due to increased requirement for construction materials and robust domestic demand.

Growth on the supply side was driven by Services which expanded by 6.6%, supported by Trade. Industry was also strong at 6.8%, underpinned by healthy Manufacturing and Construction subsectors. Meanwhile, Agriculture growth was almost flat at 0.8%.

91-Day Treasury-Bill (T-bill) Rate

91-day T-Bill rates averaged 5.59% in 1Q 2019, higher compared to 2.65% in the same period last year. Bangko Sentral ng Pilipinas (BSP) implemented its first rate hike in 3 years in May 2018, due to accelerated inflation. Overnight reverse repurchase rates were raised by a total of 175 bps in 2018 to reach 4.75%.

Quoting of PDST rates has been discontinued as of October 29, 2018, following the adoption of Bloomberg Valuation (BVAL) methodology. BVAL averaged 5.61% in 1Q 2019.

Peso-Dollar Exchange Rate

The peso depreciated by 1.7% year-on-year to an average of Php52.36/\$ in 1Q 2019. The weakness in peso is due in large part to the country's negative trade balance, and the US Fed and BSP interest rate hikes.

Inflation

The rate of increase in prices of commodities and services decelerated to 3.8% in 1Q 2019, from 5.2% in the same period last year. Government measures to address supply concerns on rice and other food has helped modulate food prices. Prices of beverages, tobacco and transportation also supported the slowdown in inflation.

Industry Oil Demand

Oil demand¹ grew by 1.9% to 155,177 MB in 2018 from 152,260 MB in 2017. The slow growth was mainly due to higher prices from additional excise taxes, elevated global crude prices and peso depreciation. Moreover, year-on-year automotive vehicle sales contracted by 16%. Fuel consumption for power generation declined with shift to cheaper sources of energy like coal, geothermal, hydro, solar and wind.

Oil Market

Year-on-year prices of Dubai was almost flat at \$63.5/bbl in 1Q 2019 with \$63.9/bbl in the same period last year. Extension of OPEC+ production cut agreement, geopolitical tensions in the Middle East and modest US shale growth helped maintain prices at above \$60/bbl level. Cracks are generally weaker across all products due to supply glut, and lackluster demand amid high price level.

Existing or Probable Government Regulations

Tax Reform for Acceleration and Inclusion (the "TRAIN Law"). Republic Act 10963 or the TRAIN Law, which took effect on January 1, 2018, imposes a phased increase in excise taxes on petroleum products from 2018 to 2020. The schedule of increase for this three (3)-year period is P2.65-2.00-1.00 per liter ("li") per year for gasoline, P2.50-2.00-1.50/li for diesel and fuel oil, P1.00-1.00-1.00 per kilogram for LPG, and P0.33-0.00-0.00/li for jet fuel. The incremental excise tax is further subject to 12% VAT. Higher excise taxes can potentially constrain demand growth, especially for LPG given there are substitutes such as charcoal, kerosene and electric, and gasoline with public transportation as alternative.

The TRAIN law also mandates the implementation of a fuel marking program to help curb illicit trading of fuel products. While the program is yet to be implemented, the cost of the program may also lead to possible increase in fuel prices.

Biofuels Act of 2006 (the "Biofuels Act"). The Biofuels Act and its implementing circulars mandate that gasoline and diesel volumes contain 10% bioethanol and 2% biodiesel/coco methyl ester (CME) components, respectively. To produce compliant fuels, the Company invested in CME injection systems at the Petron Bataan Refinery and the depots. On the bioethanol component, the Department of Energy (DOE) issued in June 2015 its Circular No. 2015-06-0005 entitled "Amending Department Circular No. 2011-02-0001 entitled Mandatory Use of Biofuel Blend" which currently exempts premium plus gasoline from the 10% blending requirement.

Renewable Energy Act of 2008 (the "Renewable Energy Act"). The Renewable Energy Act aims to promote development and commercialization of renewable and environment-friendly energy resources (e.g., biomass, solar, wind, hydro, geothermal) through various tax incentives such as seven (7)-year income tax holiday and duty-free importation of renewable energy equipment and machinery. The sale of power generated from these sources is also exempt from value-added tax under the TRAIN Law. The growth in renewable energy may displace or reduce use of oil-based power plants affecting the Company's sales to the power sector.

¹ Based on DOE data. Includes only Gasoline, Kerosene, Avturbo, Diesel, IFO and LPG. Does not include Direct Imports by end-users of Naphtha, Condensate, Avturbo, LPG, Diesel, and Asphalt. FY 2018 is latest published data.

Clean Air Act of 1999 (the “Clean Air Act”). The Clean Air Act established air quality guidelines and emission standards for stationary and mobile equipment. It also included the required specifications for gasoline, diesel and IFO to allow attainment of emission standards. Petron invested in a gasoil hydrotreater plant and an isomerization plant to enable it to produce diesel and gasoline compliant with the standards set by law.

Laws on Controlled Chemicals (Presidential Decree No. 1866 as amended by Republic Act No. 9516). The implementing rules and regulations for this amended law were approved on June 9, 2016 and listed the chemicals under the control of the Philippine National Police. These rules reduced the controlled list from 101 to 32 chemicals and further classified 15 chemicals as high-risk and 17 as low-risk substances. The rules also outline the procedures for regulating, storing, handling and transporting chemicals.

Compliance with Euro 4 standards. In September 2010, the Department of Environment and Natural Resources issued Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. In June 2015, the DOE issued Circular 2015-06-0004 entitled “Implementing the Corresponding Philippine National Standard Specifications for the Euro 4/IV PH Fuels Complying with the Euro 4/IV Emissions” directing all oil companies to adopt Euro 4-compliant fuels. With its Refinery Master Plan-2, Petron is now producing Euro 4-compliant fuels ahead of the 2016 mandate.

Department Circular 2014-01-0001. The DOE issued Department Circular 2014-01-0001 directed at ensuring safe and lawful practices by all LPG industry participants as evidenced by standards compliance certificates. The circular also mandates that all persons engaged or intending to engage as a refiller of LPG shall likewise strictly comply with the minimum standards requirements set by the Department of Trade and Industry and the DOE. The circular imposes penalties for, among others, underfilling, illegal refilling and adulteration.

Laws on Oil Pollution. To address issues on marine pollution and oil spillage, the Maritime Industry Authority mandated the use of double-hull vessels for transporting black products beginning end-2008 and white products by 2011. Petron has been using double-hull vessels in transporting all its products.

Oil Marine Pollution Circulars. The Philippine Coast Guard has memorandum circulars prescribing the rules and regulations on the prevention, containment, abatement and control of oil marine pollution by all marine vessels, coastal and offshore facilities and other facilities utilizing or storing petroleum products. The circulars identify the prohibited acts and provide the penalties.

Anti-Competition Law (the “Philippine Competition Act”). The Philippine Competition Act, approved in July 2015, prohibits anti-competitive agreements, abuses of dominant positions, and mergers and acquisitions that limit, prevent, and restrict competition. To implement the national competition policy and attain the objectives and purposes of the law, the Philippine Competition Commission (PCC) was created. Among the powers of the PCC is the review of mergers and acquisitions based on factors it may deem relevant. The PCC, after due notice and hearing, may impose administrative fines on any entity found to have violated the provisions of the law on prohibited arrangements or to have failed to provide prior notification to the PCC of certain mergers and acquisitions. The PCC is empowered to impose criminal penalties on an entity that enters into any anti-competitive agreement and, when the entities involved are juridical persons, on its officers, directors, or employees holding managerial positions who are knowingly and willfully responsible for such violation.

Amended Price Freeze Act of 2013. This law mandates the implementation of a 15-day price freeze of basic necessities, including LPG and kerosene, for areas declared under a state of emergency or calamity.

Executive Order 890: Removing Import Duties on All Crude and Refined Petroleum Products. After the ASEAN Trade in Goods Agreement was implemented in 2010, the tariff rate structure in the oil industry was distorted with crude and product imports from ASEAN countries enjoying zero tariff while crude and product imports from outside the ASEAN were levied 3% tariff. To level the playing field, Petron filed a petition with the Tariff Commission to apply the same tariff duty on crude and petroleum product imports, regardless of source. In June 2010, the government approved Petron's petition and issued Executive Order 890 which eliminated import duties on all crude and petroleum products regardless of source. The reduction of duties took effect on July 4, 2010.

Cabotage Law. Republic Act No. 10668, approved in July 2015, amended the decades-old Cabotage Law and now allows foreign ships carrying imported cargoes and cargoes to be exported out of the country to dock in multiple ports. Foreign vessels will be allowed to transport and co-load foreign cargoes for domestic trans-shipment. This seeks to lower the cost of shipping export cargoes from Philippine ports to international ports and import cargoes from international ports.

LPG Bill. The LPG Bill, currently pending in the Philippine Congress, will mandate stricter standards on industry practices.

PETRON CORPORATION AND SUBSIDIARIES

RECEIVABLES

As of March 31, 2019

(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	P32,010
Accounts Receivable – Non-Trade	11,706
<hr/>	
Total Accounts Receivable - Net	P43,716

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1 – 30 days	P31,430
	31 – 60 days	373
	61 – 90 days	79
	Over 90 days	855
<hr/>		
Total		32,737
Allowance for doubtful accounts		(727)
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Accounts Receivable – Trade		P32,010

Interim Financial Report as of March 31, 2019

Management's Discussion and Analysis of Financial Position and Financial Performance

Financial Performance

1Q 2019 vs 1Q 2018

For the first quarter (1Q) of 2019, Petron Corporation reported a consolidated net income of **₱ 1.30 billion**, lower than the **₱ 5.79 billion** posted in the same quarter of previous year. Philippine operations, in particular, was affected by the second phase implementation of the additional excise taxes on fuel based on the TRAIN law, lower sales volume due to stiff competition and weak refining margins prevailing in the region.

<i>(In Million Pesos)</i>	2019	2018	Variance - Fav (Unfav)	
			Amount	%
Sales	124,558	129,112	(4,554)	(4)
Cost of Goods Sold	116,083	116,938	855	1
Gross Profit	8,475	12,174	(3,699)	(30)
Selling and Administrative Expenses	3,610	3,378	(232)	(7)
Non-operating Charges	3,152	1,452	1,700	High
Net Income	1,303	5,786	(4,483)	(77)
EBITDA	8,000	11,944	(3,944)	(33)
Sales Volume (MB)	26,343	26,558	(215)	(1)
Earnings per Share	0.05	0.47	(0.42)	(89)
Return on Sales (%)	1.0	4.5	(3.5)	(78)

Likewise, **earnings before interest, taxes, depreciation and amortization (EBITDA)** declined by 33% to **₱ 8.00 billion**, while **earnings per share** was reduced to **₱ 0.05** from previous year's **₱ 0.47**.

The factors affecting this quarter's performance were the following:

- ◆ **Consolidated sales volume of 26.3 million barrels (MMB)** was slightly lower than previous year's 26.6 MMB mainly due to the drop in Exports sales. Retail volume also weakened with the implementation of the second tranche of the TRAIN law. This, however, was partly countered by the 7% volume growth of Malaysia's Retail as the company gained more market share with the opening of new service stations and aggressive marketing programs. On a per product basis, the drop in volume of gasoline and petrochemicals were tempered by the increases in kero/jet, diesel, LPG and polypropylene sales.
- ◆ **Net sales** declined by 4% to **₱ 124.56 billion** from last year's **₱ 129.11 billion** mainly as a result of the decline in sales volume in the Philippines and lower selling price in Malaysia. The dip in selling prices can be traced to lower MOPS prices in the region partly negated by higher excise taxes.
- ◆ **Cost of goods sold (CGS)** dropped by only 1% or **₱ 801 million** to **₱ 116.08 billion** as the effect of the decline in sales volume was negated by higher crude costs. Gross margin dropped by 31% to **₱ 8.48 billion** owing to lower product cracks.

- ◆ **Selling and administrative expenses (OPEX)** went up by 5% or ₱ 178 million to **₱ 3.61 billion** primarily due to higher LPG cylinder purchases, terminalling and storage fees, and service stations-related expenses such as rent, maintenance, real estate taxes and depreciation.
- ◆ **Net financing costs and other charges** at **₱ 3.15 billion** was considerably higher than the ₱ 1.45 billion level last year prompted by higher interest expense due to higher average borrowing rate and additional loans aggravated by the unrealized commodity hedging losses this quarter compared to gains in 2018.
- ◆ **Income tax expense** of **₱ 410 million** was significantly lower than last year's **₱ 1.56 billion** primarily due to lower pre-tax income.

1Q 2018 vs 1Q 2017

Petron Corporation registered consolidated net income of **₱ 5.79 billion** for the first three months of 2018, 4% higher than previous year's ₱ 5.56 billion profit as the company continued to focus on more profitable segments of the market and optimized production volume.

(In Million Pesos)	2018	2017	Variance- Fav (Unfav)	
			Amt	%
Sales	129,112	106,412	22,700	21
Cost of Goods Sold	116,938	94,485	(22,453)	(24)
Gross Margin	12,174	11,927	247	2
Selling and Administrative Expenses	3,378	3,069	309	10
Non-operating Charges	1,452	1,744	292	17
Net Income	5,786	5,555	231	4
EBITDA	11,944	11,734	210	2
Sales Volume (MB)	26,558	26,602	(44)	0
Earnings per Share (₱)	0.47	0.43	0.04	9
Return on Sales (%)	4.5	5.2	(0.7)	(14)

EBITDA also increased by 2% to **₱ 11.94 billion** while **earnings per share** for the first quarter grew to **₱ 0.47** from ₱ 0.43 in previous year.

Better 2018 results versus 2017 can be traced to the following:

- ◆ **Consolidated sales volume** of **26.6 MMB** was relatively flat vs. 2017. The 199 thousand barrels (MB) decline in Exports and lower volume of the trading company, PSTPL, by 871 MB were partly offset by the 5% (1 MMB) increase in consolidated domestic volume. On a per product basis, in the Philippines, increases were noted in gasoline, kero/jet and polypropylene partly offset by lower diesel and LPG sales. In Malaysia, all products registered volume growth.
- ◆ **Net sales** went up by 21% from ₱ 106.41 billion to **₱ 129.11 billion** owing to the rise in average selling prices as prices of finished products in the region climbed up along with the movement in global crude oil prices. Regional reference crude Dubai averaged US\$64/bbl during the first quarter of 2018, 20% higher

than the US\$53/bbl in 1Q 2017. The effect was further intensified by the higher excise tax with the implementation of the TRAIN law and ₱ 1.49 average depreciation of Philippine peso versus the US dollar.

- ◆ **CGS** rose by 24% or ₱ 22.45 billion to **₱ 116.94 billion** traced to the increase in cost of crude and imported products and incremental excise tax on petroleum products. Gross margin grew by 2% to ₱ 12.17 billion due to better product cracks and higher net inventory gain partly offset by the increase in hedging loss on cracks.
- ◆ **OPEX** increased by ₱ 309 million to **₱ 3.38 billion** primarily due to higher LPG cylinder purchases and rent expense.
- ◆ **Net financing costs and other charges** at ₱ 1.45 billion was reduced by 17% from last year's ₱ 1.74 billion driven by lower interest expense due to significant reduction in average borrowing level and rate vs. 1Q 2017 particularly by Petron Malaysia. This was further boosted by higher net forex/hedging gains and interest income.
- ◆ **Income tax expense** of **₱ 1.56 billion** was at par with last year's level as higher pre-tax income this quarter was offset by higher income tax holiday benefit.

Financial Position

1Q 2019 vs 2018

By the end of first quarter of 2019, the **consolidated assets** of Petron Corporation and its Subsidiaries reached **₱ 382.42 billion**, 7% or ₱ 24.27 billion higher than end of 2018 balance of ₱ 358.15 billion, mainly due to the adoption of PFRS 16 – Leases, which treated all major leases as capital lease and gave rise to the recognition of right-of-use asset and increase in investment properties, boosted by the increase in cash and cash equivalents.

Cash and cash equivalents increased by ₱ 12.74 billion to **₱ 30.14 billion** mainly from fund generated from operations and timing difference in the settlement of crude and trade liabilities, tempered by the spending for capital projects at the refinery and terminals and payment of cash dividends and distributions.

Financial assets at fair value went down to **₱ 1.02 billion** from ₱ 1.13 billion on account of lower marked-to-market (MTM) gain on outstanding commodity and currency hedging transactions.

Other current assets dropped by 17% to **₱ 30.94 billion** from ₱ 37.08 billion due to lower input tax and other prepaid taxes.

Deferred tax assets - net decreased from ₱ 257 million to **₱ 245 million** with the availment of the Net Operating Loss Carry-Over (NOLCO) of a subsidiary in Malaysia.

The adoption of PFRS 16 resulted to the recognition of **right-of-use assets** of **₱ 8.93 billion**, increased **investment property** from ₱ 16.54 billion to **₱ 26.80 billion**, reduced prepaid rent reflected in the 33% movement of **other noncurrent assets** from ₱ 6.49 billion to **₱ 4.35 billion** and set-up of lease liabilities - current and noncurrent totaling **₱ 14.74 billion**.

Liabilities for crude oil and petroleum products increased by 34% from ₱ 25.99 billion to **₱ 34.87 billion** largely due to higher volume and price of outstanding crude purchases.

Trade and other payables rose by 9% from ₱ 28.47 billion to **₱ 30.97 billion** mainly due to various liabilities to contractors and vendors.

Derivative liabilities declined from ₱ 614 million to **₱ 466 million** attributable to lower MTM losses on outstanding commodity and currency hedges.

Income tax payable increased from ₱ 146 million to **₱ 249 million** arising from higher tax liabilities of foreign subsidiaries.

Deferred tax liability – net decreased from ₱ 8.45 billion to **₱ 7.85 billion** largely due to recognition of NOLCO of Parent Company.

Other noncurrent liabilities amounted to **₱ 1.50 billion**, stood 18% higher from end-2018 level traced to premium costs of additional derivative instruments.

1Q 2018 vs 2017

The **consolidated assets** of Petron Corporation and Subsidiaries as of March 31, 2018 reached **₱ 356.04 billion, 6% or ₱ 18.01 billion higher** than end-December 2017 balance of **₱ 338.03 billion** mainly due to the increases in inventories, trade receivables and cash and cash equivalents.

Financial assets at fair value through profit or loss declined to **₱ 289 million** from ₱ 336 million on account of lower MTM gains on outstanding commodity hedges.

Trade and other receivables – net surged to **₱ 42.83 billion, 12% or ₱ 4.67 billion higher** than end-2017 level of ₱ 38.16 billion reflecting the increase in fuel prices attributable to higher excise taxes.

Inventories – net accumulated by **12% or ₱ 6.59 billion to ₱ 63.20 billion** from ₱ 56.60 million last end-December 2017 fueled by the escalation in volume and cost of crude, and finished products which also includes excise taxes.

Deferred tax assets – net which mainly pertains to PM, increased by 9% or ₱ 19 million to **₱ 226 million** mainly due to the appreciation of the Ringgit versus the US dollar coupled with the depreciation of the PHP against US dollar (*devaluation of the PHP against MYR*).

Goodwill – net expanded to **₱ 9.09 billion** from ₱ 8.28 billion resulting from currency translation gain of PM's goodwill with the appreciation of the Ringgit versus the US dollar coupled with the depreciation of the PHP against US dollar (*devaluation of the PHP against MYR*).

Liabilities for crude and petroleum products rose by 9% (₱ 3.48 billion) to **₱ 40.40 billion** driven by higher prices of outstanding crude and product purchases.

Trade and other payables increased by 17% from ₱ 11.60 billion to **₱ 13.54 billion** mainly due to various liabilities to contractors and vendors.

Derivative liabilities dropped from ₱ 1.79 billion to **₱ 0.84 billion** attributed to lower MTM losses on outstanding commodity and currency hedges.

Long-term debt (including current portion) almost unchanged at **₱ 103.23 billion** from end-2017's level of ₱ 101.71 billion as increase due to forex was partially offset by repayments.

Income tax payable increased from ₱ 808 million to **₱ 923 million** arising from PM and PSTPL's taxable income.

Deferred tax liabilities - net rose by 7% from ₱ 7.40 billion to **₱ 7.93 billion** brought about by higher taxes in ending inventory, temporary differences arising from the different method of depreciation for tax reporting and financial accounting and lower derivative liabilities, partially offset by unrealized forex loss.

Other noncurrent liabilities amounted to **₱ 1.17 billion**, up by 13% from end-2017 level due to higher LPG cylinder deposit.

Retained earnings (attributable to the Parent Company) grew by 4% or **₱ 1.86 billion** to **₱ 51.01 billion** emanating from the ₱ 5.52 billion share in net profit recorded during the period, partly reduced by the cash dividends declared and distributions paid of ₱ 3.70 billion.

The negative balance of **Equity reserves** increased by 31% or **₱ 1.61 billion** to **₱ 6.78 billion** due to recognition of loss on redemption of USCS tempered by the currency translation gains on investments in foreign operations brought about by the strengthening of the US dollar versus the Philippine peso.

Non-controlling interests increased by 13% to **₱ 6.77 billion** from the ₱ 5.96 billion as of December 31, 2017 due to the share in net income and currency translation adjustment.

Cash Flows

1Q 2019 vs 1Q 2018

As of March 31, 2019, cash and cash equivalents stood at ₱ 30.14 billion. During the first quarter, cash generated from internal operations amounted to ₱ 22.03 billion, which was partially used to settle interest and taxes (₱ 3.21 billion), finance various capital spending at the refinery, terminals and service stations (₱ 4.41 billion) and pay for dividends and distributions of ₱ 1.0 billion.

In Million Pesos	March 31, 2019	March 31, 2018	Change
Operating inflows	18,944	2,825	16,119
Investing outflows	(4,735)	(1,578)	(3,157)
Financing inflows (outflows)	(1,441)	2,346	(3,787)

1Q 2018 vs 1Q 2017

As of March 31, 2018, cash and cash equivalents stood at ₱ 20.79 billion. Cash generated from operations during the first three months of 2018 amounted to ₱ 15.97 billion, more than enough to cover for working capital requirements (₱ 10.88 billion), payment of interest and taxes (₱ 2.21 billion) and investments in various capital projects in the refinery, terminals and service stations (₱ 1.62 billion). Financing activities generated ₱ 2.35 billion after deducting the payment for cash dividends and distributions.

Discussion of the company's key performance indicators:

Ratio	March 31, 2019	December 31, 2018
Current Ratio	1.0	1.0
Debt to Equity Ratio	2.4	2.3
Return on Equity (%)	3.0	7.6
Interest Rate Coverage Ratio	1.5	2.1
Assets to Equity Ratio	4.5	4.2

Current Ratio - Total current assets divided by total current liabilities.

This ratio is a rough indication of a company's ability to service its current obligations. Generally, the higher the current ratio, the greater the "cushion" between current obligations and a company's ability to pay them as they fall due.

Debt to Equity Ratio - Total interest-bearing liabilities divided by total stockholders' equity.

This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. It expresses the degree of protection provided by the owners for the creditors. The higher the ratio, the greater the risk being assumed by creditors. A lower ratio generally indicates greater long-term financial safety.

Return on Equity – Trailing 12 months' net income divided by average total stockholders' equity.

This ratio reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the statements of financial position. For the most part, the higher a company's return on equity compared to its industry, the better.

Interest Rate Coverage Ratio – Earnings before interests and taxes divided by interest expense and other financing charges.

This ratio is used to assess the company's financial stability by examining whether it is profitable enough to pay off its interest expenses. A ratio greater than 1 indicates that the company has more than enough interest coverage to pay off its interest expense.

Assets to Equity Ratio – Total assets divided by total equity (including non-controlling interests).

This ratio is used as a measure of financial leverage and long-term solvency. In essence, the function of the ratio is to determine the value of the total assets of the company, less any portion of the assets that are owned by the shareholders of the corporation.

PART II – OTHER INFORMATION


The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

NONE.

SIGNATURES


Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PETRON CORPORATION**

Signature and Title: 
JOEL ANGELO C. CRUZ
Vice President - General Counsel
and Corporate Secretary

Date: May 14, 2019

Principal Financial/Accounting Officer/Controller

Signature and Title: 
DENNIS S. JANSON
Assistant Vice President - Controllers

Date: May 14, 2019

PETRON CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	March 31, 2019	December 31, 2018
Liquidity			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1.00	1.04
Solvency			
b) Debt to Equity Ratio	$\frac{\text{Total Interest-bearing Liabilities}}{\text{Total Equity}}$	2.36	2.33
c) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	4.50	4.16
Profitability			
d) Return on Average Equity ^a	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	3.02%	7.61%
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other FinancingCharges}}$	1.54	2.08

^a *trailing 12 months net income*