



111142018002296



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

### Barcode Page

The following document has been received:

**Receiving Officer/Encoder** : Edmundo Guia

**Receiving Branch** : SEC Head Office

**Receipt Date and Time** : November 14, 2018 04:56:17 PM

**Received From** : Head Office

Company Representative

---

Doc Source

Company Information

---

SEC Registration No. 0000031171  
Company Name PETRON CORP.  
Industry Classification Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains  
Company Type Stock Corporation

Document Information

---

Document ID 111142018002296  
Document Type 17-Q (FORM 11-Q:QUARTERLY REPORT/FS)  
Document Code 17-Q  
Period Covered September 30, 2018  
No. of Days Late 0  
Department CFD  
Remarks



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2018.
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. Exact name of registrant as specified in its charter PETRON CORPORATION
5. Philippines  
Province, Country or other  
jurisdiction of incorporation or  
organization
6.  (SEC Use Only)  
Industry Classification Code:
7. Mandaluyong City, 40 San Miguel Avenue, 1550  
Address of principal office Postal Code
8. (0632) 884-9200  
Registrant's telephone number, including area code
9. N/A  
(Former name, former address, and former fiscal year, if changed since last report.)
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (As of September 30, 2018)
<u>Common Stock</u>	<u>9,375,104,497 Shares</u>
<u>Preferred Stock Series 2A</u>	<u>7,122,320 Shares</u>
<u>Preferred Stock Series 2B</u>	<u>2,877,680 Shares</u>
<u>Total Liabilities</u>	<u>P290,924 Million (as of September 30, 2018)</u>

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

Yes  No

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

Philippine Stock Exchange  
Philippine Dealing & Exchange Corp.

Common and Preferred Shares  
Series A and Series B 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  No

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

Yes  No

<b>PART I - FINANCIAL INFORMATION</b>		
Item 1	Financial Statements	
	Petron Corporation & Subsidiaries Consolidated Statements of Financial Position	5-6
	Petron Corporation & Subsidiaries Consolidated Statements of Income	7
	Petron Corporation & Subsidiaries Consolidated Statements of Comprehensive Income	8
	Petron Corporation & Subsidiaries Consolidated Statements of Changes in Equity	9-10
	Petron Corporation & Subsidiaries Consolidated Statements of Cash Flows	11-12
	Selected Notes to Consolidated Financial Statements	13-56
	Details of Accounts Receivables	57
Item 2	Management's Discussion and Analysis of Financial Conditions and Results of Operations	58-64
<b>PART II - OTHER INFORMATION</b>		
Other Information		65
<b>SIGNATURES</b>		66
	Financial Soundness Indicators	67



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

	<i>Note</i>	Unaudited September 30 2018	Audited December 31 2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	9, 10	P23,238	P17,014
Financial assets at fair value through profit or loss	9, 10	457	336
Financial assets at fair value through other comprehensive income	9, 10	-	199
Trade and other receivables - net	7, 9, 10	49,211	38,159
Inventories		80,981	56,604
Other current assets	7	35,682	33,178
<b>Total Current Assets</b>		<b>189,569</b>	<b>145,490</b>
<b>Noncurrent Assets</b>			
Financial assets at fair value through other comprehensive income	9, 10	340	332
Property, plant and equipment - net	5, 6	179,018	177,690
Investment property - net		74	75
Deferred tax assets - net		190	207
Goodwill - net		8,788	8,277
Other noncurrent assets - net	9, 10	6,257	5,959
<b>Total Noncurrent Assets</b>		<b>194,667</b>	<b>192,540</b>
		<b>P384,236</b>	<b>P338,030</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	8, 9, 10	P97,921	P69,583
Liabilities for crude oil and petroleum products	9, 10	50,574	36,920
Trade and other payables	7, 9, 10	20,992	11,604
Derivative liabilities	9, 10	1,012	1,791
Income tax payable		709	808
Current portion of long-term debt - net	9, 10	13,137	3,789
<b>Total Current Liabilities</b>		<b>184,345</b>	<b>124,495</b>

*Forward*

	<i>Note</i>	Unaudited September 30 2018	Audited December 31 2017
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	9, 10	P90,545	P97,916
Retirement benefits liability		4,478	4,885
Deferred tax liabilities - net		7,843	7,397
Asset retirement obligation		2,521	2,681
Other noncurrent liabilities	9, 10	1,192	1,037
<b>Total Noncurrent Liabilities</b>		<b>106,579</b>	<b>113,916</b>
<b>Total Liabilities</b>		<b>290,924</b>	<b>238,411</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock		9,485	9,485
Additional paid-in capital		19,653	19,653
Capital securities	11	24,881	30,546
Retained earnings		54,424	49,142
Equity reserves		(12,112)	(5,171)
Treasury stock		(10,000)	(10,000)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>86,331</b>	<b>93,655</b>
<b>Non-controlling Interests</b>		<b>6,981</b>	<b>5,964</b>
<b>Total Equity</b>		<b>93,312</b>	<b>99,619</b>
		<b>P384,236</b>	<b>P338,030</b>

*See accompanying Management 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)

		July to September		January to September	
	<i>Note</i>	2018	2017	2018	2017
<b>SALES</b>	5	<b>P146,363</b>	P106,547	<b>P419,861</b>	P313,505
<b>COST OF GOODS SOLD</b>		<b>135,616</b>	95,262	<b>385,938</b>	281,151
<b>GROSS PROFIT</b>		<b>10,747</b>	11,285	<b>33,923</b>	32,354
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>		<b>(4,057)</b>	(3,769)	<b>(11,671)</b>	(10,283)
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	5	<b>(2,573)</b>	(1,988)	<b>(6,638)</b>	(6,523)
<b>INTEREST INCOME</b>	5	<b>170</b>	124	<b>518</b>	359
<b>SHARE IN NET INCOME OF AN ASSOCIATE</b>		-	30	-	63
<b>OTHER EXPENSES - Net</b>		<b>(443)</b>	(1,091)	<b>(282)</b>	(400)
		<b>(6,903)</b>	(6,694)	<b>(18,073)</b>	(16,784)
<b>INCOME BEFORE INCOME TAX</b>		<b>3,844</b>	4,591	<b>15,850</b>	15,570
<b>INCOME TAX EXPENSE</b>	5	<b>1,289</b>	1,044	<b>3,793</b>	3,809
<b>NET INCOME</b>		<b>P2,555</b>	P3,547	<b>P12,057</b>	P11,761
<b>Attributable to:</b>					
Equity holders of the Parent Company		<b>P2,238</b>	P3,195	<b>P11,132</b>	P10,763
Non-controlling interests		<b>317</b>	352	<b>925</b>	998
		<b>P2,555</b>	P3,547	<b>P12,057</b>	P11,761
<b>BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	12	<b>P0.15</b>	P0.21	<b>P0.86</b>	P0.77

*See accompanying Management 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)

	July to September		January to September	
	2018	2017	2018	2017
<b>NET INCOME</b>	<b>P2,555</b>	P3,547	<b>P12,057</b>	P11,761
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>				
Equity reserve for retirement plan	-	4	-	4
Income tax expense	-	(1)	-	(1)
	-	3	-	3
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>				
Exchange differences on translation of foreign operations	(369)	729	2,669	2,590
Net loss on cash flow hedges	(61)	-	(61)	-
Unrealized fair value gain (loss) on financial assets at fair value through other comprehensive income	(10)	(2)	(17)	1
Share in other comprehensive loss of a joint venture - net of tax	-	-	(1)	-
Income tax (expense) benefit	21	1	23	(1)
	(419)	728	2,613	2,590
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>	<b>(419)</b>	731	<b>2,613</b>	2,593
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - Net of tax</b>	<b>P2,136</b>	P4,278	<b>P14,670</b>	P14,354
<b>Attributable to:</b>				
Equity holders of the Parent Company	<b>P1,888</b>	P3,828	<b>P13,414</b>	P13,004
Non-controlling interests	<b>248</b>	450	<b>1,256</b>	1,350
	<b>P2,136</b>	P4,278	<b>P14,670</b>	P14,354

*See accompanying Management 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											
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings		Equity Reserves		Treasury Stock	Total	Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves				
<b>As of January 1, 2018 (Audited)</b>		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 PFRS 9		-	-	-	-	42	-	-	-	42	(2)	40
<b>As of January 1, 2018 (Adjusted)</b>		9,485	19,653	30,546	15,160	34,024	(2,146)	(3,025)	(10,000)	93,697	5,962	99,659
Net loss on cash flow hedges		-	-	-	-	-	-	(43)	-	(43)	-	(43)
Unrealized fair value loss on financial assets at fair value through other comprehensive income – net of tax		-	-	-	-	-	-	(12)	-	(12)	-	(12)
Share in other comprehensive loss of a joint venture		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	2,338	-	2,338	331	2,669
Other comprehensive income for the period		-	-	-	-	-	-	2,282	-	2,282	331	2,613
Net income for the period		-	-	-	-	11,132	-	-	-	11,132	925	12,057
Total comprehensive income for the period		-	-	-	-	11,132	-	2,282	-	13,414	1,256	14,670
Cash dividends	13	-	-	-	-	(2,052)	-	-	-	(2,052)	(237)	(2,289)
Distributions paid	11, 13	-	-	-	-	(3,840)	-	-	-	(3,840)	-	(3,840)
Redemption of undated subordinated capital securities	11	-	-	(30,546)	-	-	-	(9,223)	-	(39,769)	-	(39,769)
Issuance of senior perpetual capital securities	11	-	-	24,881	-	-	-	-	-	24,881	-	24,881
Transactions with owners		-	-	(5,665)	-	(5,892)	-	(9,223)	-	(20,780)	(237)	(21,017)
<b>As of September 30, 2018 (Unaudited)</b>		P9,485	P19,653	P24,881	P15,160	P39,264	(P2,146)	(P9,966)	(P10,000)	P86,331	P6,981	P93,312

Forward

Equity Attributable to Equity Holders of the Parent Company												
Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings		Equity Reserves			Treasury Stock	Total	Non-controlling Interests	Total Equity
				Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves					
As of January 1, 2017 (Audited)	P9,485	P19,653	P30,546	P15,160	P26,851	(P1,345)	(P5,859)	(P10,000)	P84,491	P4,329	P88,820	
Equity reserve for retirement plan – net of tax	-	-	-	-	-	3	-	-	3	-	3	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	2,238	-	2,238	352	2,590	
Other comprehensive income for the period	-	-	-	-	-	3	2,238	-	2,241	352	2,593	
Net income for the period	-	-	-	-	10,763	-	-	-	10,763	998	11,761	
Total comprehensive income for the period	-	-	-	-	10,763	3	2,238	-	13,004	1,350	14,354	
Cash dividends	13	-	-	-	(1,584)	-	-	-	(1,584)	(186)	(1,770)	
Distributions paid	11,13	-	-	-	(4,024)	-	-	-	(4,024)	-	(4,024)	
Transactions with owners	-	-	-	-	(5,608)	-	-	-	(5,608)	(186)	(5,794)	
As of September 30, 2017 (Unaudited)	P9,485	P19,653	P30,546	P15,160	P32,006	(P1,342)	(P3,621)	(P10,000)	P91,887	P5,493	P97,380	

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

Certified by:

  
DENNIS S. JANSON  
Assistant Vice President - Controllers

*ndc*



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

For Nine Months Ended  
September 30

	<i>Note</i>	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P15,850	P15,570
Adjustments for:			
Depreciation and amortization	5	8,636	7,979
Interest expense and other financing charges	5	6,638	6,523
Retirement benefits costs		453	354
Unrealized foreign exchange losses - net		4,309	264
Share in net income of an associate		-	(63)
Interest income	5	(518)	(359)
Other (gains) losses		(879)	672
Operating income before working capital changes		34,489	30,940
Changes in noncash assets, certain current liabilities and others		(19,169)	(3,385)
Cash generated from operations		15,320	27,555
Contributions to retirement fund		(818)	(100)
Interest paid		(5,958)	(5,618)
Income taxes paid		(1,682)	(1,264)
Interest received		366	264
Net cash flows provided by operating activities		7,228	20,837
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	6	(7,495)	(6,972)
Proceeds from sale of property and equipment		54	944
Increase in other noncurrent assets		-	(299)
Reductions from financial assets at fair value through other comprehensive income		178	69
Net cash flows used in investing activities		(7,263)	(6,258)

*Forward*



				For Nine Months Ended September 30	
				2018	2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from availment of loans	8	P244,525		P186,488	
Payments of:					
Loans	8	(218,501)		(193,754)	
Cash dividends and distributions	13	(5,860)		(5,617)	
Issuance of senior perpetual capital securities	11	24,881		-	
Redemption of undated subordinated capital securities	11	(39,769)		-	
Increase in other noncurrent liabilities		-		512	
Net cash flows provided by (used in) financing activities				5,276	(12,371)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>					
				983	88
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>					
				6,224	2,296
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>					
				17,014	17,332
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>					
				P23,238	P19,628

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

Certified by:

  
DENNIS S. JANSON  
Assistant Vice President - Controllers

*ndw*

## **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 was registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the corporate term of Petron until 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 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 Investment 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 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, 2017. 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, 2017. 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 and all financial information are rounded off to the nearest million (P000,000), except when otherwise stated.

---

### 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, 2017. 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, 2018.

#### Adoption of New and Amended Standards and Interpretation

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

#### *New and Amended Standards and Interpretation Adopted in 2018*

The Group has adopted the following PFRS starting January 1, 2018 and accordingly, changed its accounting policies in the following areas:

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group has adopted PFRS 9 and has not restated the comparative information. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the expected credit loss model in estimating impairment which resulted to decrease in the allowance for impairment of receivables and non-controlling interest amounting to P60 and P2, respectively, and increase in retained earnings by P42.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group's financial assets as of January 1, 2018. The effect of adopting PFRS 9 on the carrying amounts of financial assets as of January 1, 2018 relates solely to the new impairment requirements.

	<b>Classification under PAS 39</b>	<b>Classification under PFRS 9</b>	<b>Carrying Amount under PAS 39</b>	<b>Carrying Amount under PFRS 9</b>
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	P17,014	P17,014
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	38,159	38,219
Derivative assets	Financial assets at fair value through profit or loss (FVPL)	Financial assets at FVPL	165	165
Investments in equity instruments	AFS financial assets	Financial assets at fair value through other comprehensive income (FVOCI)	170	170
Investments in debt instruments	AFS financial assets	Financial assets at FVOCI	531	531
Noncurrent receivables and deposits - net	Loans and receivables	Financial assets at amortized cost	318	318

- Applying PFRS 9, with PFRS 4, *Insurance Contracts (Amendments to PFRS 4)*. The amendments permit to defer application of PFRS 9 in 2018 and continue to apply PAS 39, if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 for designated financial assets where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39. A financial asset is eligible for designation if it is held for an activity that is connected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.



PFRS 15, *Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The adoption of the new standard has no significant impact on the consolidated interim financial statements of the Group.

The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

Revenue from sale of goods is recognized at the point in time when control of the goods is transferred to the customer, which is normally upon delivery of the goods. However, factors that affect the amount of revenue to be recognized include variable considerations such as right of return and discounts.

- Transfers of Investment Property (*Amendments to PAS 40, Investment Property*) amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

#### New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018. However, the Group has not applied the following new or revised standards, amended standards and interpretations 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.

*To be Adopted 2019*

- 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.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently performing detailed assessment of the potential effect of the new standard. The actual impact of applying PFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate of the Group as of January 1, 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation 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 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.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The interpretation was approved by the FRSC on July 12, 2017 but is still subject to the approval by the Board of Accountancy (BOA).

- Long-term Interests in Associates and Joint Ventures (*Amendments to PAS 28*). 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 long-term interests (LTIs) 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.

The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- 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 Philippine Financial Reporting Standards Council (PFRSC) decided to postpone the effective date of these amendments until the International Accounting Standards Board 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.

- 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 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. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; 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. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- 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).

The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which the amendments are first applied, with earlier application permitted.

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain 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.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

- 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.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

- 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.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.



#### *To be Adopted 2020*

- *Amendments to References to Conceptual Framework in IFRS Standards* introduces the following main improvements: (a) concept on measurement, including factors to be considered when selecting a measurement basis; (b) concept on presentation and disclosure, including when to classify income and expenses in OCI; (c) guidance on the recognition and derecognition of assets and liabilities in the financial statements; (d) improved definitions of an asset and a liability; and (e) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The revised framework is effective for annual periods beginning on or after January 1, 2020.

#### *To be Adopted 2021*

- *PFRS 17, Insurance Contracts*. PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model.

The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for entities that apply PFRS 9 and PFRS 15.

---

#### **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, 2017.

---

#### **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 for petroleum, refining, storage and distribution facilities, 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, Taiwan, Cambodia, Malaysia, South Korea, Singapore, USA, Vietnam, Thailand, Indonesia, Bangladesh and UAE.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.

#### 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 transactions 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 September 30, 2018, December 31, 2017 and September 30, 2017:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>September 30, 2018</b>						
Sales:						
External sales	<b>P419,218</b>	<b>P -</b>	<b>P -</b>	<b>P643</b>	<b>P -</b>	<b>P419,861</b>
Inter-segment sales	<b>222,356</b>	<b>90</b>	<b>444</b>	<b>-</b>	<b>(222,890)</b>	<b>-</b>
Operating income	<b>21,769</b>	<b>83</b>	<b>218</b>	<b>52</b>	<b>130</b>	<b>22,252</b>
Net income	<b>15,696</b>	<b>120</b>	<b>82</b>	<b>74</b>	<b>(3,915)</b>	<b>12,057</b>
Assets and liabilities:						
Segment assets*	<b>453,773</b>	<b>1,616</b>	<b>6,910</b>	<b>579</b>	<b>(78,832)</b>	<b>384,046</b>
Segment liabilities*	<b>325,461</b>	<b>451</b>	<b>5,396</b>	<b>92</b>	<b>(48,319)</b>	<b>283,081</b>
Other segment information:						
Property, plant and equipment	<b>172,725</b>	<b>-</b>	<b>-</b>	<b>120</b>	<b>6,173</b>	<b>179,018</b>
Depreciation and amortization	<b>8,616</b>	<b>-</b>	<b>6</b>	<b>14</b>	<b>-</b>	<b>8,636</b>
Interest expense and other financing charges	<b>6,637</b>	<b>-</b>	<b>118</b>	<b>-</b>	<b>(117)</b>	<b>6,638</b>
Interest income	<b>605</b>	<b>21</b>	<b>2</b>	<b>7</b>	<b>(117)</b>	<b>518</b>
Income tax expense	<b>3,770</b>	<b>20</b>	<b>19</b>	<b>9</b>	<b>(25)</b>	<b>3,793</b>

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
December 31, 2017						
Sales:						
External sales	P433,879	P -	P -	P745	P -	P434,624
Inter-segment sales	199,117	83	584	-	(199,784)	-
Operating income	26,895	59	295	16	373	27,638
Net income	16,263	118	141	44	(2,479)	14,087
Assets and liabilities:						
Segment assets*	382,313	1,319	5,871	636	(52,316)	337,823
Segment liabilities*	248,118	291	4,439	108	(21,942)	231,014
Other segment information:						
Property, plant and equipment	172,212	-	-	134	5,344	177,690
Depreciation and amortization	10,952	-	9	18	-	10,979
Interest expense and other financing charges	8,487	-	164	-	(164)	8,487
Interest income	666	26	2	5	(164)	535
Income tax expense	4,648	16	27	3	61	4,755

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
September 30, 2017						
Sales:						
External sales	P312,961	P -	P47	P544	(P47)	P313,505
Inter-segment sales	136,711	92	391	-	(137,194)	-
Operating income	21,530	85	230	-	226	22,071
Net income	12,481	97	98	6	(921)	11,761
Assets and liabilities:						
Segment assets	371,503	1,530	5,911	582	(55,654)	323,872
Segment liabilities	239,793	511	4,519	94	(25,519)	219,398
Other segment information:						
Property, plant and equipment	171,990	-	-	134	5,341	177,645
Depreciation and amortization	7,955	-	6	18	-	7,979
Interest expense and other financing charges	6,523	-	124	-	(124)	6,523
Interest income	460	19	1	3	(124)	359
Income tax expense	3,761	15	14	(3)	22	3,809

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended September 30, 2018, December 31, 2017 and September 30, 2017:

	Reseller	Lube	Gasul	Industrial	Others	Total
<b>September 30, 2018</b>						
Sales	<b>P204,644</b>	<b>P3,850</b>	<b>20,605</b>	<b>P99,842</b>	<b>P90,277</b>	<b>P419,218</b>
Property, plant and equipment	<b>22,970</b>	<b>80</b>	<b>488</b>	<b>110</b>	<b>149,077</b>	<b>172,725</b>
Capital expenditures	<b>3,681</b>	<b>11</b>	<b>23</b>	<b>7</b>	<b>7,736</b>	<b>11,458</b>
<b>December 31, 2017</b>						
Sales	P212,840	P5,307	P22,850	P101,333	P91,549	P433,879
Property, plant and equipment	20,648	86	435	153	150,890	172,212
Capital expenditures	2,473	1	100	49	4,821	7,444
<b>September 30, 2017</b>						
Sales	P152,803	P4,039	P16,414	P75,071	P64,634	P312,961
Property, plant and equipment	19,950	90	392	222	151,336	171,990
Capital expenditures	2,722	2	90	88	5,129	8,031

#### Geographical Segments

The following table presents segment assets of the Group as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Local	<b>P306,794</b>	P271,883
International	<b>77,252</b>	65,940
	<b>P384,046</b>	P337,823

The following table presents revenue information regarding the geographical segments of the Group for the periods ended September 30, 2018, December 31, 2017 and September 30, 2017:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>September 30, 2018</b>						
Local	<b>P234,754</b>	<b>P38</b>	<b>P444</b>	<b>P643</b>	<b>(P951)</b>	<b>P234,928</b>
Export/international	<b>406,820</b>	<b>52</b>	-	-	<b>(221,939)</b>	<b>184,933</b>
<b>December 31, 2017</b>						
Local	P271,117	P29	P584	P745	(P1,156)	P271,319
Export/international	361,879	54	-	-	(198,628)	163,305
<b>September 30, 2017</b>						
Local	P178,013	P54	P438	P544	(P892)	P178,157
Export/international	271,659	38	-	-	(136,349)	135,348



## 6. Property, Plant and Equipment

This account consists of:

	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
<b>Cost:</b>							
January 1, 2017 (Audited)	P28,903	P162,263	P16,172	P4,652	P14,004	P25,319	P251,313
Additions	563	1,307	405	232	237	6,954	9,698
Disposals/reclassifications	2,162	20,628	159	(68)	(315)	(24,983)	(2,417)
Currency translation adjustments	876	1,106	700	135	705	139	3,661
December 31, 2017 (Audited)	32,504	185,304	17,436	4,951	14,631	7,429	262,255
Additions	214	285	231	142	852	5,771	7,495
Disposals/reclassifications	679	389	(21)	(18)	129	(1,853)	(695)
Currency translation adjustments	937	750	494	99	439	111	2,830
<b>September 30, 2018 (Unaudited)</b>	<b>34,334</b>	<b>186,728</b>	<b>18,140</b>	<b>5,174</b>	<b>16,051</b>	<b>11,458</b>	<b>271,885</b>
<b>Accumulated Depreciation and Amortization:</b>							
January 1, 2017 (Audited)	18,738	38,251	11,987	3,529	2,204	-	74,709
Additions	1,315	7,200	868	416	162	-	9,961
Disposals/reclassifications	(380)	25	(1,064)	(241)	(342)	-	(2,002)
Currency translation adjustments	532	820	416	93	36	-	1,897
December 31, 2017 (Audited)	20,205	46,296	12,207	3,797	2,060	-	84,565
Additions	1,095	5,603	746	334	116	-	7,894
Disposals/reclassifications	(352)	(16)	(588)	(38)	(7)	-	(1,001)
Currency translation adjustments	510	532	271	66	30	-	1,409
<b>September 30, 2018 (Unaudited)</b>	<b>21,458</b>	<b>52,415</b>	<b>12,636</b>	<b>4,159</b>	<b>2,199</b>	<b>-</b>	<b>92,867</b>
<b>Carrying Amount:</b>							
December 31, 2017 (Audited)	P12,299	P139,008	P5,229	P1,154	P12,571	P7,429	P177,690
<b>September 30, 2018 (Unaudited)</b>	<b>P12,876</b>	<b>P134,313</b>	<b>P5,504</b>	<b>P1,015</b>	<b>P13,852</b>	<b>P11,458</b>	<b>P179,018</b>

### Capital Commitments

As of September 30, 2018 and December 31, 2017, the Group has outstanding commitments to acquire property, plant and equipment amounting to P12,759 and P10,615, respectively.

## 7. Related Party Disclosures

The Parent Company, certain subsidiaries, associate and 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 September 30, 2018 and December 31, 2017 follow:

	<i>Note</i>	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	<i>a</i>	<b>2018</b> 2017	<b>P158</b> 211	<b>P -</b> -	<b>P5,346</b> 5,188	<b>P -</b> -	On demand; interest bearing	Unsecured; no impairment
Intermediate Parent	<i>b,e</i>	<b>2018</b> 2017	<b>9</b> 10	<b>462</b> 650	<b>4</b> 4	<b>11</b> 27	On demand; non-interest bearing	Unsecured; no impairment
Under Common Control	<i>b,c,d</i>	<b>2018</b> 2017	<b>3,702</b> 3,233	<b>3,572</b> 10,670	<b>1,021</b> 870	<b>771</b> 768	On demand; non-interest bearing	Unsecured; no impairment
Associate	<i>b</i>	<b>2018</b> 2017	- 153	- -	- -	- -	On demand; non-interest bearing	Unsecured; no impairment
Joint Ventures	<i>c, f</i>	<b>2018</b> 2017	- 1	<b>42</b> 43	<b>1</b> -	- 4	On demand; non-interest bearing	Unsecured no impairment
		<b>2018</b>	<b>P3,869</b>	<b>P4,076</b>	<b>P6,372</b>	<b>P782</b>		
		2017	P3,608	P11,363	P6,062	P799		

- a. The Parent Company has interest bearing advances to Petron Corporation Employee Retirement Plan (PCERP), included as part of “Trade and other receivables” 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 and an associate. 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. Petron 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, 2017, 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 for Petron Fuel International Sdn Bhd (PFISB) and another venturer.
- g. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.
- h. 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 nine months ended September 30, 2018 follow:

Balance as of January 1, 2018	<b>P69,583</b>
Loan availments	<b>244,525</b>
Loan repayments	<b>(216,144)</b>
Translation adjustment	<b>(43)</b>
Balance as of September 30, 2018	<b>P97,921</b>

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 3 to 113 days and 4 to 120 days with annual interest ranging from 2.50% to 4.95% and 2.35% to 6.02% as of and for the periods ended September 30, 2018 and December 31, 2017, 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, and restrictions on guarantees. The Parent Company is required to comply with two financial covenants, net leverage ratio and consolidated gross debt to consolidated net worth. As of September 30, 2018 and December 31, 2017, 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 is likewise provided by corporate units 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 (CRMD), develops and recommends to the Commodity Risk Management Committee 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, purchases principally of crude oil and petroleum products, as well as other foreign currency denominated obligations. 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.

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

	<b>September 30, 2018</b>		December 31, 2017	
	<b>US dollar (in millions)</b>	<b>Philippine peso Equivalent</b>	US dollar (in millions)	Philippine peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	<b>345</b>	<b>18,629</b>	19	952
Trade and other receivables	<b>422</b>	<b>22,794</b>	118	5,891
Other assets	<b>10</b>	<b>562</b>	3	126
	<b>777</b>	<b>41,985</b>	140	6,969
<b>Liabilities</b>				
Short-term loans	<b>240</b>	<b>12,986</b>	1	30
Liabilities for crude oil and petroleum products	<b>898</b>	<b>48,485</b>	515	25,747
Long-term debt (including current maturities)	<b>1,000</b>	<b>54,020</b>	1,000	49,930
Other liabilities	<b>263</b>	<b>14,241</b>	35	1,733
	<b>2,401</b>	<b>129,732</b>	1,551	77,440
<b>Net foreign currency - denominated monetary liabilities</b>	<b>(1,624)</b>	<b>(87,747)</b>	(1,411)	(70,471)

The Group incurred net foreign currency losses amounting to P5,057 and P274 for the periods ended September 30, 2018 and 2017, respectively, which were mainly countered by marked-to-market and hedging gains (Note 10). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of reporting dates are shown in the following table:

	<b>PhP to US\$</b>
<b>September 30, 2018</b>	<b>54.020</b>
December 31, 2017	49.930
September 30, 2017	50.815

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\$ exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the fair value of monetary assets and liabilities and Group's equity due to translation of results and financial position of foreign operations as of September 30, 2018 and December 31, 2017:

	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
<b>September 30, 2018</b>				
Cash and cash equivalents	(P237)	(P274)	P237	P274
Trade and other receivables	(145)	(397)	145	397
Other assets	(3)	(10)	3	10
	(385)	(681)	385	681
Short-term loans	-	240	-	(240)
Liabilities for crude oil and petroleum products	724	898	(724)	(898)
Long-term debts (including current maturities)	1,000	700	(1,000)	(700)
Other liabilities	212	199	(212)	(199)
	1,936	2,037	(1,936)	(2,037)
	P1,551	P1,356	(P1,551)	(P1,356)
	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
<b>December 31, 2017</b>				
Cash and cash equivalents	(P10)	(P144)	P10	P144
Trade and other receivables	(81)	(263)	81	263
Other assets	(3)	(12)	3	12
	(94)	(419)	94	419
Short-term loans	1	-	(1)	-
Liabilities for crude oil and petroleum products	326	789	(326)	(789)
Long-term debts (including current maturities)	1,000	700	(1,000)	(700)
Other liabilities	33	193	(33)	(193)
	1,360	1,682	(1,360)	(1,682)
	P1,266	P1,263	(P1,266)	(P1,263)

Exposures to foreign currency rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's 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 primarily to the Group's 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 the 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) by P540 and P499 for the period ended September 30, 2018 and for the year ended December 31, 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

### Interest Rate Risk Table

As of September 30, 2018 and December 31, 2017, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

September 30, 2018	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P5,696	P5,672	P5,672	P21,291	P3,018	P9,143	P50,492
Interest rate	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	5.5% - 5.8%	4.5% - 5.5%	
<b>Floating Rate</b>							
US\$ denominated (expressed in PHP)	7,717	15,434	15,434	15,435	-	-	54,020
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			
	P13,413	P21,106	P21,106	P36,726	P3,018	P9,143	P104,512

\*The Parent Company reprices every month but has the option to reprice every 3 or 6 months.

December 31, 2017	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P3,820	P5,672	P5,672	P21,291	P5,643	P10,750	P52,848
Interest rate	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	5.5% - 5.8%	4.5% - 5.5%	
Floating Rate							
US\$ denominated (expressed in Php)	-	14,266	14,266	14,266	7,132	-	49,930
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		
	P3,820	P19,938	P19,938	P35,557	P12,775	P10,750	P102,778

\*The Parent Company reprices every month but has the 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 National 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 Chief Financial Officer and Chief Executive Officer.

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:

	September 30, 2018	December 31, 2017
Cash in bank and cash equivalents (net of cash on hand)	<b>P20,970</b>	P14,313
Derivative assets	<b>227</b>	165
Financial assets at FVOCI	<b>340</b>	531
Trade and other receivables - net	<b>49,211</b>	38,159
Long-term receivables - net	<b>260</b>	228
Noncurrent deposits	<b>83</b>	90
	<b>P71,091</b>	P53,486

The credit risk for cash and cash equivalents and derivative financial instruments is considered negligible, since the counterparties are reputable entities with high external credit ratings. The credit quality of these financial assets is considered to be high grade.

In monitoring trade receivables and credit lines, the Group maintains up-to-date records where daily sales and collection transactions of all customers are recorded in real-time and month-end statements of accounts are forwarded to customers as collection medium. Finance Division's Credit Department regularly reports to management trade receivables balances (monthly), past due accounts (weekly) and credit utilization efficiency (semi-annually).

*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 P8,297 and P4,927 as of September 30, 2018 and December 31, 2017, 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 guarantee in favor of any counterparty.

*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 including 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.

#### *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 September 30, 2018 and December 31, 2017:

<b>September 30, 2018</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt;1 Year - 2 Years</b>	<b>&gt;2 Years - 5 Years</b>	<b>Over 5 Years</b>
<b>Financial Assets</b>						
Cash and cash equivalents	<b>P23,238</b>	<b>P23,238</b>	<b>P23,238</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
Trade and other receivables	<b>49,211</b>	<b>49,211</b>	<b>49,211</b>	-	-	-
Derivative assets	<b>227</b>	<b>227</b>	<b>227</b>	-	-	-
Financial assets at FVPL	<b>230</b>	<b>230</b>	<b>230</b>	-	-	-
Financial assets at FVOCI	<b>340</b>	<b>394</b>	-	<b>136</b>	<b>258</b>	-
Long-term receivables – net	<b>260</b>	<b>260</b>	-	-	<b>260</b>	-
Noncurrent deposits	<b>83</b>	<b>83</b>	-	<b>8</b>	-	<b>75</b>
<b>Financial Liabilities</b>						
Short-term loans	<b>97,921</b>	<b>98,326</b>	<b>98,326</b>	-	-	-
Liabilities for crude oil and petroleum products	<b>50,574</b>	<b>50,574</b>	<b>50,574</b>	-	-	-
Trade and other payables*	<b>16,442</b>	<b>16,442</b>	<b>16,442</b>	-	-	-
Derivative liabilities	<b>1,012</b>	<b>1,012</b>	<b>1,012</b>	-	-	-
Long-term debt (including current maturities)	<b>103,682</b>	<b>116,503</b>	<b>17,638</b>	<b>24,577</b>	<b>65,066</b>	<b>9,222</b>
Cash bonds	<b>419</b>	<b>423</b>	-	<b>403</b>	<b>3</b>	<b>17</b>
Cylinder deposits	<b>674</b>	<b>674</b>	-	-	-	<b>674</b>
Other noncurrent liabilities	<b>99</b>	<b>99</b>	-	<b>34</b>	<b>45</b>	<b>20</b>

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

<b>December 31, 2017</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt;1 Year - 2 Years</b>	<b>&gt;2 Years - 5 Years</b>	<b>Over 5 Years</b>
<b>Financial Assets</b>						
Cash and cash equivalents	<b>P17,014</b>	<b>P17,014</b>	<b>P17,014</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
Trade and other receivables	<b>38,159</b>	<b>38,159</b>	<b>38,159</b>	-	-	-
Derivative assets	<b>165</b>	<b>165</b>	<b>165</b>	-	-	-
Financial assets at FVPL	<b>171</b>	<b>171</b>	<b>171</b>	-	-	-
Financial assets at FVOCI	<b>531</b>	<b>577</b>	<b>204</b>	<b>64</b>	<b>309</b>	-
Long-term receivables - net	<b>228</b>	<b>228</b>	-	-	-	<b>228</b>
Noncurrent deposits	<b>90</b>	<b>90</b>	-	-	<b>9</b>	<b>81</b>
<b>Financial Liabilities</b>						
Short-term loans	<b>69,583</b>	<b>69,879</b>	<b>69,879</b>	-	-	-
Liabilities for crude oil and petroleum products	<b>36,920</b>	<b>36,920</b>	<b>36,920</b>	-	-	-
Trade and other payables*	<b>7,917</b>	<b>7,917</b>	<b>7,917</b>	-	-	-
Derivative liabilities	<b>1,791</b>	<b>1,791</b>	<b>1,791</b>	-	-	-
Long-term debt (including current maturities)	<b>101,705</b>	<b>117,024</b>	<b>7,812</b>	<b>23,619</b>	<b>74,308</b>	<b>11,285</b>
Cash bonds	<b>400</b>	<b>404</b>	-	<b>385</b>	<b>2</b>	<b>17</b>
Cylinder deposits	<b>577</b>	<b>577</b>	-	-	-	<b>577</b>
Other noncurrent liabilities	<b>57</b>	<b>57</b>	-	<b>14</b>	<b>20</b>	<b>23</b>

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

### *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 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 Commodity Risk Management Committee 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 (financial assets at FVPL and financial assets 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:

	<b>September 30, 2018</b>	December 31, 2017
Total assets	<b>P384,236</b>	P338,030
Total liabilities	<b>290,924</b>	238,411
Total equity	<b>93,312</b>	99,619
Debt to equity ratio	<b>3.1:1</b>	2.4:1
Assets to equity ratio	<b>4.1:1</b>	3.4:1

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 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' Profit.* 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' profit) 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' profit amount.

*Accounting Policies for the Classification and Measurement of Financial Assets Applicable from January 1, 2018*

### 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.

**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 reclassified to FVPL, impaired or derecognized, as well as through the amortization process.

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and deposits, and restricted cash 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 FVOCI. 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 statement 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 when the right to receive the payment has been established. When investment in equity instruments at FVOCI is derecognized the related accumulated gains or losses previously reported in the statement of changes in equity are never reclassified to profit or loss.

The Group's investments in debt instruments and investments in equity instruments at FVOCI 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 all derivative financial assets. 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. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in OCI. Any interest earned from investment in debt instrument is recognized in profit or loss. Any dividend income from investment in equity instrument is recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets and investments in equity instruments at FVPL are classified under this category.

### 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 Hedge.* 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.

### *Accounting Policies for the Classification and Measurement of Financial Assets Applicable before January 1, 2018*

#### Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and HTM investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

*Financial Assets at FVPL.* A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group uses commodity price swaps to protect its margin on petroleum products from potential price volatility of international crude and product prices. It also enters into short-term forward currency contracts to hedge its currency exposure on crude oil importations. In addition, the Parent Company has identified and bifurcated embedded foreign currency derivatives from certain non-financial contracts.

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the consolidated interim statements of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Unrealized gains and losses from changes in fair value of forward currency contracts, commodity price swaps and embedded derivatives are recognized under “Other expenses - Net” in the consolidated interim statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized as part of “Cost of goods sold” in the consolidated interim statements of income.

The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current exchange rates for contracts with similar maturity profiles. The fair values of commodity swaps are determined based on quotes obtained from counterparty banks.

The Group’s derivative assets and proprietary membership shares are classified under this category.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of “Interest income” account in the consolidated interim statements of income on an accrual basis. 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. The periodic amortization is also included as part of “Interest income” account in the consolidated interim statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in OCI and presented in the consolidated interim statements of changes in equity. The effective yield component of AFS debt securities is reported as part of “Interest income” account in the consolidated interim statements of income. Dividends earned on holding AFS equity securities are recognized as “Dividend income” when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

#### Financial Liabilities

*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 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, long-term debt, cash bonds, cylinder deposits and other noncurrent liabilities are included under this category.

#### 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 as part of "Interest expense and other financing charges account" in the consolidated interim statements of income.

#### Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

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 documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

### Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from 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 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 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.

### 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 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.

### *Accounting Policies for the Impairment of Financial Assets Applicable from January 1, 2018*

#### 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.

The Group recognizes an allowance for impairment based on either 12-month or lifetime expected credit losses, 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 expected credit losses, 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 expected credit losses 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.

#### *Accounting Policies for the Impairment of Financial Assets Applicable before January 1, 2018*

##### Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.



The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

*AFS Financial Assets.* For equity instruments carried at fair value, the Group assesses at each reporting date whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

#### Classification of Financial Instruments between Debt 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 Senior Perpetual Capital Securities (SPCS) are classified as an equity instrument in the consolidated interim financial statements since the SPCS are perpetual securities in respect of which there is no fixed redemption date and the redemption is at the option of the Parent Company. Also, the Parent Company has the sole and absolute discretion to defer payment of any or all of the distribution (Note 11).

#### 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 September 30, 2018 and December 31, 2017:

	<b>September 30, 2018</b>		December 31, 2017	
	<b>Carrying Value</b>	<b>Fair Value</b>	Carrying Value	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	<b>P23,238</b>	<b>P23,238</b>	P17,014	P17,014
Trade and other receivables - net	<b>49,211</b>	<b>49,211</b>	38,159	38,159
Long-term receivables - net	<b>260</b>	<b>260</b>	228	228
Noncurrent deposits	<b>83</b>	<b>83</b>	90	90
Financial assets at amortized cost	<b>72,792</b>	<b>72,792</b>	55,491	55,491
Financial assets at FVOCI	<b>340</b>	<b>340</b>	531	531
Financial assets at FVPL	<b>230</b>	<b>230</b>	171	171
Derivative assets	<b>227</b>	<b>227</b>	165	165
Total financial assets at FVPL	<b>457</b>	<b>457</b>	336	336
Total financial assets	<b>P73,589</b>	<b>P73,589</b>	P56,358	P56,358
<b>Financial liabilities:</b>				
Short-term loans	<b>P97,921</b>	<b>P97,921</b>	P69,583	P69,583
Liabilities for crude oil and petroleum products	<b>50,574</b>	<b>50,574</b>	36,920	36,920
Trade and other payables*	<b>16,442</b>	<b>16,442</b>	7,917	7,917
Long-term debt including current portion	<b>103,682</b>	<b>103,682</b>	101,705	101,705
Cash bonds	<b>419</b>	<b>419</b>	400	400
Cylinder deposits	<b>674</b>	<b>674</b>	577	577
Other noncurrent liabilities**	<b>99</b>	<b>99</b>	57	57
Financial liabilities at amortized cost	<b>269,811</b>	<b>269,811</b>	217,159	217,159
Derivative liabilities	<b>1,012</b>	<b>1,012</b>	1,791	1,791
Total financial liabilities	<b>P270,823</b>	<b>P270,823</b>	P218,950	P218,950

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

\*\*Excluding cash bonds and cylinder deposits

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 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.

*Financial Assets at FVPL and Financial Assets 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. Unquoted equity securities are carried at cost less impairment.

*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 Instruments Accounted for as Cash Flow Hedges

##### *Currency Options*

As of September 30, 2018, the Group has outstanding currency options with notional amount of US\$157 million designated to hedge foreign currency exposure on US dollar-denominated obligations maturing up to June 2022. As of September 30, 2018, the negative fair value of the currency options amounted to P31 million.

The hedges were assessed to be highly effective as the critical terms of the hedged items match the hedging instruments. As of September 30, 2018, the effective fair value changes on the cash flow hedges that were recognized in OCI and deferred in equity under “Other reserves” account amounted to P43 million, net of tax. No ineffectiveness was recognized in the consolidated interim statement of income for the period ended September 30, 2018.

##### Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated interim statements of income. Details are as follows:

### Freestanding Derivatives

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

*Currency Forwards.* As of September 30, 2018 and December 31, 2017, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,004 million and US\$1,283 million, respectively, and with various maturities in 2018. As of September 30, 2018 and December 31, 2017, the net fair value of these currency forwards amounted to P57 and (P445), respectively.

*Commodity Swaps.* The Group has outstanding swap agreements covering its oil requirements with various maturities in 2018. 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 10.4 million barrels and 42.6 million barrels as of September 30, 2018 and December 31, 2017, respectively. The estimated net payout for these transactions amounted to P812 and P1,181 as of September 30, 2018 and December 31, 2017, respectively.

### 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 purchase contracts, the peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of September 30, 2018 and December 31, 2017, the total outstanding notional amount of currency forwards embedded in nonfinancial 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 September 30, 2018 and December 31, 2017, the net fair value of these embedded currency forwards is minimal.

For the periods ended September 30, 2018 and December 31, 2017, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P4,086 and (P1,692), 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 the 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 September 30, 2018 and December 31, 2017. The different levels have been defined as follows:

<b>September 30, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
Financial assets at FVPL	<b>P -</b>	<b>P230</b>	<b>P230</b>
Derivative assets	-	<b>227</b>	<b>227</b>
Financial assets at FVOCI	<b>188</b>	<b>152</b>	<b>340</b>
Financial Liabilities:			
Derivative liabilities	-	<b>(1,012)</b>	<b>(1,012)</b>
<hr/>			
December 31, 2017	Level 1	Level 2	Total
Financial Assets:			
Financial assets at FVPL	P -	P171	P171
Derivative assets	-	165	165
Financial assets at FVOCI	201	330	531
Financial Liabilities:			
Derivative liabilities	-	(1,791)	(1,791)

The Group has no financial instruments valued based on Level 3 as of September 30, 2018 and December 31, 2017. 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

- a. On January 8, 2018, the Parent Company announced a tender offer to holders of its US\$750 million USCS with expiration deadline on January 16, 2018. Tenders amounting to US\$402 million were accepted by the Parent Company and settled on January 22, 2018. The USCS purchased pursuant to the tender offer were cancelled. Accrued distributions and premiums paid related to the redemption amounted to US\$13.901 million (P1,010) and US\$12.059 million (P876), respectively.

On August 6, 2018, the Parent Company redeemed the remaining US\$348 million (P18.497) of the US\$750 million USCS.

- b. On January 19, 2018, the Parent Company issued US\$500 million SPCS with an issue price of 100% to partially repurchase and redeem the Parent Company's existing US\$750 million USCS, for the repayment of indebtedness and for general corporate purposes, including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018.

---

## 12. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts for the nine months ended September 30, 2018 and 2017 are computed as follows:

	2018	2017
Net income attributable to equity holders of the Parent Company	<b>P11,132</b>	P10,763
Dividends on preferred shares for the period	<b>(484)</b>	(484)
Distributions to the holders of capital securities for the period	<b>(2,543)</b>	(3,018)
Net income attributable to common shareholders of the Parent Company (a)	<b>P8,105</b>	P7,261
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375
Basic and diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	<b>P0.86</b>	P0.77

As of September 30, 2018 and 2017, the Group has no 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:

#### 2018

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

#### 2017

Type	Declaration Date	Per Share	Record Date	Payment Date
Common	March 14, 2017	P0.15000	March 28, 2017	April 12, 2017
Series 2A	March 14, 2017	15.75000	April 12, 2017	May 3, 2017
Series 2B	March 14, 2017	17.14575	April 12, 2017	May 3, 2017
Series 2A	March 14, 2017	15.75000	July 18, 2017	August 3, 2017
Series 2B	March 14, 2017	17.14575	July 18, 2017	August 3, 2017
Series 2A	August 8, 2017	15.75000	October 16, 2017	November 3, 2017
Series 2B	August 8, 2017	17.14575	October 16, 2017	November 3, 2017
Series 2A	August 8, 2017	15.75000	January 16, 2018	February 5, 2018
Series 2B	August 8, 2017	17.14575	January 16, 2018	February 5, 2018

#### Distributions

Payments of distributions pertaining to USCS were made on the following dates: US\$13.901 million (P1,010) on January 22, 2018; US\$13.051 million (P963) on February 5, 2018; US\$13.051 million (P988) on August 6, 2018; and US\$28.125 million (P2,000) on February 3, 2017 and (P2,024) August 4, 2017.

Distributions on SPCS were made on July 19, 2018 amounting to US\$11.500 million (P879).

---

### 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.

On September 30, 2009, the Parent Company through New Ventures Realty Corporation (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 September 30, 2018, 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 P25,602 and P19,515 as of September 30, 2018 and December 31, 2017, respectively.

#### Tax Credit Certificates-Related Matters

In 1998, the Bureau of Internal Revenue (BIR) issued a deficiency excise tax assessment against the Parent Company relating to its use of P659 worth of Tax Credit Certificate (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Parent Company by suppliers as payment for fuel purchases. The Parent Company contested the BIR’s assessment before the Court of Tax Appeals (CTA). In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, the Parent Company was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals (CA) promulgated a decision in favor of the Parent Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to the Parent Company. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, the Parent Company filed its comment on the petition for review filed by the BIR. On July 9, 2018, the Supreme Court rendered a decision in favor of the Parent Company denying the petition for review filed by the BIR and affirming the decision of the CA.

#### 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 September 30, 2018.

#### 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 October 19, 2018, the Parent Company issued P20 billion retail bonds divided into Series C due 2024 (P13.2 billion) and Series D due 2025 (P6.8 billion) with interest rate of 7.8183% p.a. and 8.0551% p.a., respectively, which were listed with the Philippine Dealing & Exchange Corp.

---

### **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 conference held on February 5, 2018 was terminated without any agreement between the parties. As of September 30, 2018, the case was under judicial dispute resolution proceedings before the court.

- 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 September 30, 2018.
- 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 6.3% in 1H 2018, slightly slower than 6.6% in 1H 2017. Growth was below government target for the year of 7-8%, mainly due to accelerated inflation.

Economic growth, in percentage	1H 2016	1H 2017	1H 2018
GDP	6.9	6.6	6.3
<i>By Industry</i>			
Agriculture	(3.2)	5.6	0.7
Industry	8.0	6.9	7.0
Services	7.9	6.5	6.7
<i>By Expenditure</i>			
Household Consumption	7.4	5.9	5.7
Government Consumption	13.3	4.3	12.6
Capital Formation	31.0	9.5	16.4
Exports	11.4	19.5	9.8
Imports	24.4	18.6	14.6

Capital Formation was the main driver of demand growth at 16.4%, on the back of the “Build Build Build” infrastructure program. This was supported by double-digit increase in Government Consumption at 12.6%. While tempered by inflation, Household Consumption was still robust at 5.7%. 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 6.7%, supported by Trade. Industry growth showed strength at 7.0%, underpinned by healthy Manufacturing and Construction subsectors. Meanwhile, Agriculture growth was flat at 0.7%.

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

91-day T-Bill rates averaged 3.12% in YTD-September 2018, higher compared to 2.14% in the same period last year. The gradual 0.25%-point increases in the US Federal Rate starting December 2015 have been affecting inflow of foreign funds, and liquidity of developing countries. The Bangko Sentral ng Pilipinas (BSP) implemented its first rate hike in 3 years last May 2018, amid high inflation. Overnight reverse repurchase rates were raised by 25 bps in May and in June, and 50 bps in August and in September to reach 4.5%.

PDST-R2 averaged 3.21% in YTD-Sep 2018.

#### Peso-Dollar Exchange Rate

The peso depreciated by 4.4% year-on-year to an average of Php52.54/\$ in YTD-September 2018. The weakness in peso is due in large part to the country's negative trade balance, and the US Fed interest rate hikes.

#### Inflation

The rate of increase in prices of commodities and services accelerated to 5.0% in YTD-September 2018, from 2.8% in the same period last year. Higher inflation is attributed to the implementation of TRAIN law, elevated oil prices in the global market, more expensive food, and weaker peso.

#### Industry Oil Demand

Oil demand<sup>1</sup> grew by 2.1% to 76,606 in 1H 2018 from 75,029 MB in 1H 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 12.5%. 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 increased by 32.4% to average \$68.0/bbl in YTD-September 2018, from \$51.4/bbl in the same period last year. High compliance to the OPEC/Non-OPEC production cut agreement, geo-political tensions in the Middle East when US pulled out from the Iran Deal, as well as continued tensions in Libya supported increase in prices. Product cracks moved in different directions with middle distillate cracks improving on the back of tighter balances and strong demand from the aviation sector. Meanwhile, Gasoline cracks took a dip due to supply glut from high crude run, and dampened gasoline demand amid high price level.

#### Existing or Probable Government Regulation

*Tax Reform Bill.* Republic Act 10963 imposes phased increase in excise taxes on petroleum products from 2018-2020. Schedule of increase is P2.65-2-1/li per year for gasoline, P2.50-2-1.50/li for diesel and fuel oil, P1-1-1/kg for LPG, and P0.33-0-0/li for jet fuel. The incremental excise tax will further be subject to 12% VAT.

---

<sup>1</sup> 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. 1H 2018 is latest published data.

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.

*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.

*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/cocomethyl 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 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) through various tax incentives. Renewable energy developers will be given a seven-year income tax holiday. The power generated from these sources will be VAT-exempt and facilities to be used or imported will also have tax incentives.

*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 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 had been producing Euro 4-compliant fuels ahead of the 2016 mandate.

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

*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.

*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.

*Anti-Competition Law (the “Philippine Competition Act”).* 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

*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.

**PETRON CORPORATION AND SUBSIDIARIES**

---

**RECEIVABLES**

**As of September 30, 2018**

**(Amounts in Million Pesos)**

Breakdown:

Accounts Receivable – Trade	<b>P30,671</b>
Accounts Receivable – Non-Trade	18,540
<b>Total Accounts Receivable</b>	<b>P49,211</b>

---

**AGING OF TRADE ACCOUNTS RECEIVABLES**

Receivables	1 – 30 days	P30,252
	31 – 60 days	65
	61 – 90 days	142
	Over 90 days	1,310
<b>Total</b>		<b>31,769</b>
Allowance for doubtful accounts		1,098
<b>Accounts Receivable – Trade</b>		<b>P30,671</b>

---



## Interim Financial Report as of September 30, 2018

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

#### Financial Performance

##### 2018 vs 2017

Despite the rising global oil prices, Petron Corporation reported a consolidated net income of **₱12.06 billion** for the nine-month period of 2018, slightly above last year's (LY) **₱11.76 billion** earnings. The 3% increase in income was driven primarily by the strong performance of Petron Malaysia (PM), sustained volume growth and the refinery's stable operations.

(In Million Pesos)	2018	2017	Variance- Fav (Unfav)	
			Amt	%
Sales	419,861	313,505	106,356	34
Cost of Goods Sold	385,938	281,151	(104,787)	(37)
Gross Margin	33,923	32,354	1,569	5
Selling and Administrative Expenses	11,671	10,283	(1,388)	(13)
Non-operating Charges	6,402	6,501	99	2
<b>Net Income</b>	<b>12,057</b>	<b>11,761</b>	<b>296</b>	<b>3</b>
EBITDA	31,020	30,008	1,012	3
Sales Volume (MB)	81,421	80,251	1,170	1
Earnings per Share (₱)	0.86	0.77	0.09	12
Return on Sales (%)	2.9	3.8	(0.9)	(24)

Similarly, **Earnings before interest, taxes, depreciation and amortization** went up by 3% to **₱ 31.02 billion**, while **earnings per share** increased from **₱ 0.77** to **₱ 0.86**. However, **return on sales** declined from 3.8% to **2.9%**.

Factors that influenced the Company's performance vis-à-vis same period last year were as follows:

- ◆ **Consolidated Sales volume** grew by 1.17 million barrels (MMB) to **81.42 MMB** from last year's (LY) 80.25 MMB. Philippine operations' sales volume was almost flat as the increases in gasoline, kero/jet A-1, polypropylene, LPG and petrochemicals were offset by lower sales of fuel oil and diesel. Meanwhile, the 7% incremental volume of PM mainly came from Retail sales of gasoline and diesel as the company gain more market share through new service stations, innovative products and aggressive marketing programs.
- ◆ **Net sales** rose by 34% or **₱ 106.36 billion** to **₱ 419.86 billion** due to the significant increase in average selling prices brought about by the combined effect of the escalation in regional market prices of finished products, higher excise tax with the implementation of the TRAIN law and the **₱ 2.27** average depreciation of Philippine peso versus the US dollar. Additional volume sold also contributed to the increase in revenue.
- ◆ **Cost of Goods Sold (CGS)** climbed by 37% or **₱ 104.79 billion** to **₱ 385.94 billion** primarily due to the surge in global crude prices. The year-to-date average of reference crude Dubai reached US\$70/bbl, 37% higher than the US\$51/bbl average during same period last year. **Gross margin** grew by 5% to **₱ 33.92 billion** from LY's **₱ 32.35 billion** on account of higher volume, net inventory gain, partly offset by lower product cracks. However, as the increase in costs outpaced the improvement in revenues, gross margin rate slid from 10.32% to **8.08%**.

- ◆ **Selling and Administrative Expenses (OPEX)** went up by 13% from ₱ 10.28 billion to **₱ 11.67 billion** mainly due to the increase in terminalling fees, LPG cylinder purchases, depreciation and rental of service stations (SS) as well as repairs and maintenance of tanks and SS.
- ◆ **Net Financing Costs and Other Charges** declined by 2% to **₱ 6.40 billion** from ₱ 6.50 billion last year due to the absence of debt issue costs written-off LY associated with the long term USD loan pre-terminated in 2017 and higher interest income, partly offset by the increase in interest expense and bank charges.

## 2017 vs 2016

In the first nine months of 2017, Petron Corporation sustained its performance momentum as consolidated net income reached **₱ 11.76 billion**. This was a 58% improvement from last year's ₱ 7.43 billion profit driven by the company's continued focus to more profitable market segments and sale of higher margin fuels and petrochemicals coming from production coupled by the strong performance of Malaysian operations.

(In Million Pesos)	2017	2016	Variance- Fav (Unfav)	
			Amt	%
<b>Sales</b>	<b>313,505</b>	<b>247,770</b>	<b>65,735</b>	<b>27</b>
<b>Cost of Goods Sold</b>	<b>281,151</b>	<b>221,164</b>	<b>(59,987)</b>	<b>(27)</b>
<b>Gross Margin</b>	<b>32,354</b>	<b>26,606</b>	<b>5,748</b>	<b>22</b>
<b>Selling and Administrative Expenses</b>	<b>10,283</b>	<b>9,765</b>	<b>(518)</b>	<b>(5)</b>
<b>Non-operating Charges</b>	<b>6,501</b>	<b>6,284</b>	<b>(217)</b>	<b>(3)</b>
<b>Net Income</b>	<b>11,761</b>	<b>7,427</b>	<b>4,334</b>	<b>58</b>
<b>EBITDA</b>	<b>30,008</b>	<b>23,701</b>	<b>6,307</b>	<b>27</b>
<b>Sales Volume (MB)</b>	<b>80,251</b>	<b>79,331</b>	<b>920</b>	<b>1</b>
<b>Earnings per Share ( ₱ )</b>	<b>0.77</b>	<b>0.40</b>	<b>0.38</b>	<b>95</b>
<b>Return on Sales (%)</b>	<b>3.8</b>	<b>3.0</b>	<b>0.8</b>	<b>25</b>

**Earnings before interest, taxes, depreciation and amortization** likewise went up by 27% to **₱ 30.01 billion** owing to higher operating income.

Also, **Earnings per share** of **₱ 0.77** almost doubled last year's ₱ 0.40 level, while **return on sales** improved from 3.0% to **3.8%**.

The main contributors of the first three quarters performance versus same period last year were as follows:

- ◆ **Consolidated Sales volume** slightly improved to **80.25 million barrels (MMB)** from previous year's 79.33 MMB due to strong sales in Malaysian operations. For Philippine operations, the continued focus on higher value market segments resulted in volume reduction of Diesel, Naphtha and LPG tempered by the increases in Gasoline, Petrochemicals and Kero/Jet A-1. For Malaysian operations, all products exhibited growth due to its aggressive network expansion and marketing initiatives.

- ◆ **Net sales** increased by 27% or ₱ 65.74 billion to **₱ 313.51 billion** due to the increase in average selling prices traced to the escalation of regional market prices of finished products, further boosted by the ₱ 3.28 average depreciation of Philippine peso versus the US dollar. Incremental volume sold during the period also contributed to higher revenues.
- ◆ **Cost of Goods Sold (CGS)** also grew by 27% or ₱ 59.99 billion to **₱ 281.15 billion** from last year's ₱ 221.16 billion driven by higher prices of crude and imported products. During the period, benchmark crude Dubai averaged US\$51/bbl, 31% higher than the US\$39/bbl last year. Gross margin also improved to ₱ 32.35 billion from last year's ₱ 26.61 billion due to lower cost of power, better product cracks coupled with peso depreciation as against the US dollar and higher volume sold. These were partly negated by the net inventory losses realized this year versus net gain last year.
- ◆ **Selling and Administrative Expenses (OPEX)** escalated by 5% from ₱ 9.77 billion to **₱ 10.28 billion** owing to the increases in LPG cylinder purchases and rent expenses of storage tanks and service stations.
- ◆ **Net Financing Costs and Other Charges** went up by ₱ 217 million to **₱ 6.50 billion** from ₱ 6.28 billion in previous year due to higher interest expense brought about by higher borrowing level and rate, further increased by the full recognition of debt issue cost of pre-terminated long-term dollar loans. These were partially offset by the net gains recognized on forex/hedging transactions (as against net loss last year) and from the one-time gain on disposal of service stations in Malaysia due to the compulsory acquisition of Mass Rapid Transit Corp S/B (MRT).
- ◆ **Income tax expense** amounted to **₱ 3.81 billion** from ₱ 3.13 billion in the same period last year due to higher pre-tax income.

## Financial Position

### 2018 vs 2017

Petron's **consolidated assets** as of September 30, 2018 grew by 14% or ₱ 46.21 billion to **₱ 384.24 billion**, from end-December 2017 balance of **₱ 338.03 billion** mainly due to the increases in inventories, trade and other receivables as well as cash and cash equivalents.

**Cash and cash equivalents** increased by ₱ 6.22 billion to **₱ 23.24 billion** mainly from funds generated by operations, net proceeds from loans and the issuance of the Senior Perpetual Capital Securities (SPCS), reduced by the redemption of the existing Undated Subordinated Capital Securities (USCS).

**Financial assets at fair value through profit or loss** went up to **₱ 457 million** from ₱ 336 million on account of higher marked-to-market (MTM) gains on outstanding currency hedges.

**Financial assets at fair value through other comprehensive income** (current and noncurrent) decreased to **₱ 340 million** from ₱ 531 million with the maturity of corporate bonds and government securities.

**Trade and other receivables – net** surged to **₱ 49.21 billion**, 29% or ₱ 11.05 billion higher than end-2017 level of ₱ 38.16 billion reflecting the increase in fuel prices, excise taxes and receivable from PM's government subsidy.

**Inventories – net** significantly rose to **₱ 80.98 billion** from ₱ 56.60 billion as of end-December 2017 traced to higher volume and costs of crude oil and finished products and the incremental excise taxes imposed starting January 2018.

**Other current assets** increased by 8% to **₱ 35.68 billion** from ₱ 33.18 billion on account of higher input VAT and prepaid taxes.

**Deferred tax assets – net** dropped from ₱ 207 million to **₱ 190 million** mainly due to the utilization of PM's capital allowance.

**Goodwill – net** climbed to **₱ 8.79 billion** from ₱ 8.28 billion traced to currency translation gain of PM's goodwill with the appreciation of the US dollar against the Philippine peso.

**Other noncurrent assets** went up by 5% to **₱ 6.26 billion** reflecting the increase in prepaid rent and catalysts.

**Short-term loans** increased to **₱ 97.92 billion** from end-December 2017 level of ₱ 69.58 billion as the company increased its working capital requirement with higher cost of crude and finished products and increase in receivables.

**Liabilities for crude oil and petroleum products** surged by 37% from ₱ 36.92 billion to **₱ 50.57 billion** essentially due to higher volume and price of crude oil and petroleum products.

**Trade and other payables** moved up by 81% from ₱ 11.60 billion to **₱ 20.99 billion** with the increase in liabilities to contractors and vendors.

**Derivative liabilities** dropped from ₱ 1.79 billion to **₱ 1.01 billion** attributed to lower MTM losses on outstanding commodity and currency hedges.

**Income tax payable** decreased from ₱ 808 million to **₱ 709 million** arising from PM's lower tax liabilities.

**Retirement benefits liability** dropped by 8% to **₱ 4.48 billion** from ₱ 4.89 billion in December 2017 with the contributions made to the retirement fund during the period partly tempered by the accrual of employee retirement expenses.

**Deferred tax liabilities - net** rose by 6% from ₱ 7.40 billion to **₱ 7.84 billion** brought about by the temporary differences arising from the accelerated method of depreciation for tax reporting.

**Asset retirement obligation** slipped to **₱ 2.52 billion** from ₱ 2.68 billion. The 6% decrease arose from the reassessment of the existing provision with the renewal of a major lease contract.

**Other noncurrent liabilities** amounted to **₱ 1.19 billion**, up by 15% from end-2017 level due to higher LPG cylinder deposit.

**Capital Securities** declined by 19% to **₱ 24.88 billion** traced to the redemption of the US\$750 million USCS partly offset by the issuance of the US\$500 million SPCS.

**Retained earnings (attributable to the Parent Company)** grew by 11% or ₱ 5.28 billion to **₱ 54.42 billion** emanating from the ₱ 11.13 billion share in net profit recorded during the period, partly reduced by the cash dividends declared and distributions paid of ₱ 5.89 billion.

The negative balance of **Equity reserves** increased from ₱ 5.17 billion to **₱ 12.11 billion** due to currency translation loss on the 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** recorded a 17% jump to **₱ 6.98 billion** from the ₱ 5.96 billion as of December 31, 2017 due to the share in net income and currency translation adjustment, reduced by cash dividends declared to minority shareholders.

## **2017 vs 2016**

**Consolidated assets** of Petron Corporation and Subsidiaries reached **₱ 324.07 billion**, 2% or ₱ 5.18 billion more than end-2016 balance of ₱ 318.89 billion due primarily to higher cash and cash equivalents and inventories.

**Cash and cash equivalents** increased by 13% from ₱ 17.33 billion to **₱ 19.63 billion** with cash generated from operations was more than adequate to cover interest and income tax obligations, fund capital programs, pay dividends and distributions and settle loans.

**Financial assets at fair value through profit or loss** surged to **₱ 465 million** from ₱ 221 million on account of Petron Malaysia's marked-to-market gains on outstanding commodity hedges.

On September 21, 2017, the Parent Company signed a share purchase agreement with ICTSI for the sale of the Parent Company's share in Manila North Harbor Port Inc. This resulted in the reclassification of the **Investments in shares of stock of an associate** amounting to ₱ 1.88 billion as of end-2016 and gave rise to the recognition of **Assets held for sale** for **₱ 1.76 billion**.

**Goodwill - net** went up to **₱ 8.09 billion** from ₱ 7.48 billion owing to currency translation gain of Petron Malaysia's goodwill.

**Other noncurrent assets - net** was reduced to **₱ 5.89 billion** from end-2016 level of ₱ 6.42 billion due to the amortization of catalysts and Petron Malaysia's prepaid expenses.

**Short-term loans** declined to **₱ 71.75 billion** from ₱ 90.37 billion as the Parent Company's payment exceeded the availment coupled by PM's full settlement of its short-term loans.

**Liabilities for crude and petroleum products** grew by 10% (₱ 3.00 billion) to **₱ 32.97 billion** fueled by higher volume of outstanding crude and product purchases.

**Trade and other payables** dropped by 26% from ₱ 16.16 billion to **₱ 11.97 billion** mainly due to the settlement of various payable to contractors and suppliers.

**Derivative liabilities** nearly doubled to **₱ 1.36 billion** from December 2016 balance of ₱ 778 million attributed to the increase in marked-to-market losses on outstanding commodity hedges of the Parent Company.

**Long-term debt** (including current portion) increased to **₱ 92.81 billion** from end-2016's balance of ₱ 79.85 billion owing to the Parent Company's availment of a ₱ 15.00 billion term loan facility partly offset by the prepayment of PM's loan.

**Income tax payable** increased from ₱ 0.63 billion to **₱ 1.03 billion** brought about by the improvement in taxable income of PM.

**Retirement benefits liability** went up by 8% or ₱ 278 million to **₱ 3.59 billion** with the accrual of employee retirement expenses.

**Deferred tax liabilities - net** rose by 27% from ₱ 5.73 billion to **₱ 7.30 billion** due to the increase in temporary differences arising from foreign exchange losses realized in pre-terminating certain dollar loans and from the accelerated depreciation method on the refinery and power plant assets.

**Asset retirement obligation** accumulated to **₱ 2.45 billion** from ₱ 2.32 billion on account of the recorded accretion expense during the period.

**Other noncurrent liabilities** amounted to **₱ 1.46 billion**, up by 53% from end-2016 level due to additional customers' LPG cylinder deposit.

**Retained earnings (attributable to the Parent Company)** grew by 12% to **₱ 47.17 billion** driven by the ₱ 10.76 billion share in net profit recorded during the three quarters of 2017, partly reduced by the cash dividends declared and distributions paid of ₱ 5.61 billion.

The negative balance of **Equity reserves** was reduced by 31% or ₱ 2.24 billion to **₱ 4.96 billion** due to the currency translation gains on investments in foreign operations brought about by the continued depreciation of the Philippine peso versus the US dollar.

**Non-controlling interests** increased by 27% to **₱ 5.49 billion**, from the ₱ 4.33 billion balance as of December 31, 2016 due to the share in net income and currency translation adjustment for the current period, reduced by cash dividends paid to minority shareholders.

## Cash Flows

### 2018 vs 2017

As of September 30, 2018, cash and cash equivalents grew by 37% to ₱ 23.24 billion. Cash generated from operations during the nine-month period (₱ 34.49 billion) and the proceeds from net availment of loans were used to fund the increase in working capital requirements (₱ 19.17 billion), settlement of interest and taxes (₱ 7.27 billion) and investments in various capital projects in the refinery, terminals and service stations (₱ 7.44 billion) as well as for payment of cash dividends and distributions of ₱ 5.86 billion.

In Million Pesos	September 30, 2018	September 30, 2017	Change
Operating inflows	7,228	20,837	(13,609)
Investing outflows	(7,263)	(6,258)	(1,005)
Financing inflows (outflows)	5,276	(12,371)	17,647

### 2017 vs 2016

Cash and cash equivalents stood at **₱ 19.63 billion** as of September 30, 2017. Cash generated from company operations, net of working capital requirements and payments of interest and taxes, reached **₱ 20.84 billion**. The excess cash from operations was used to fund the company's capital programs at the refinery and terminals and network expansion, payments of dividends and distributions and in settlement of loans. Net increase in cash for the three quarters of 2017 amounted to ₱ 2.30 billion.

**Discussion of the company's key performance indicators:**

<b>Ratio</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Current Ratio	1.0	1.2
Debt to Equity Ratio	3.1	2.4
Return on Equity (%)	14.9	15.0
Interest Rate Coverage Ratio	3.4	3.2
Assets to Equity Ratio	4.1	3.4

**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 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: November 13, 2018

Principal Financial/Accounting Officer/Controller

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

Date: November 13, 2018

**PETRON CORPORATION AND SUBSIDIARIES**  
**FINANCIAL SOUNDNESS INDICATORS**

<b>Financial Ratios</b>	<b>Formula</b>	<b>September 30, 2018</b>	December 31, 2017
<b>Liquidity</b>			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>1.03</b>	1.17
<b>Solvency</b>			
b) Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	<b>3.12</b>	2.39
c) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>4.12</b>	3.39
<b>Profitability</b>			
d) Return on Average Equity <sup>a</sup>	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	<b>14.91%</b>	14.95%
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$	<b>3.39</b>	3.22

<sup>a</sup> *trailing 12 months net income*