

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
Sep 30, 2019
2. SEC Identification Number
31171
3. BIR Tax Identification No.
000-168-801
4. Exact name of issuer as specified in its charter
PETRON CORPORATION
5. Province, country or other jurisdiction of incorporation or organization
Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office
San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City
Postal Code
1550
8. Issuer's telephone number, including area code
(63 2) 8-884-9200
9. Former name or former address, and former fiscal year, if changed since last report
N/A
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 |
|--|---|
| COMMON (PCOR) | 9,375,104,497 |
| PREFERRED SERIES 2A (PRF2A) | 7,122,320 |
| PREFERRED SERIES 2B (PRF2B) | 2,877,680 |
| PREFERRED SERIES 3A (PRF3A) | 13,403,000 |
| PREFERRED SERIES 3B (PRF3B) | 6,597,000 |
| PCOR SERIES A BONDS DUE 2021 (IN MIL PESO) | 13,000 |
| PCOR SERIES B BONDS DUE 2023 (IN MIL PESO) | 7,000 |

| | |
|--|---------|
| PCOR SERIES C BONDS DUE 2024 (IN MIL PESO) | 13,200 |
| PCOR SERIES D BONDS DUE 2025 (IN MIL PESO) | 6,800 |
| TOTAL DEBT AS OF SEPT 30, 2019 (IN MIL PESO-CONSO) | 291,110 |

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes No

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

Philippine Stock Exchange - Common and Preferred Series 2 and Series 3 Shares;
Philippine Dealing & Exchange Corp. - Series A, B, C and D Bonds

12. Indicate by check mark whether the registrant:

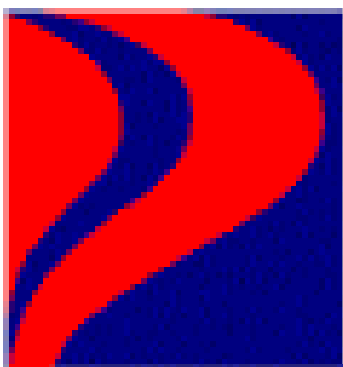
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the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

Yes No

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

Yes No

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



PETRON

Petron Corporation
PCOR

| | |
|--|--------------------|
| For the period ended | Sep 30, 2019 |
| Currency (indicate units, if applicable) | Peso (In Millions) |

Balance Sheet

| | Period Ended | Fiscal Year Ended (Audited) |
|-------------------------------|--------------|-----------------------------|
| | Sep 30, 2019 | Dec 31, 2018 |
| Current Assets | 179,070 | 162,022 |
| Total Assets | 395,223 | 358,154 |
| Current Liabilities | 133,897 | 156,018 |
| Total Liabilities | 291,110 | 271,968 |
| Retained Earnings/(Deficit) | 48,372 | 49,491 |
| Stockholders' Equity | 104,113 | 86,186 |
| Stockholders' Equity - Parent | 97,234 | 79,479 |
| Book Value per Share | 7.12 | 7.37 |

Income Statement

| | Current Year (3 Months) | Previous Year (3 Months) | Current Year-To-Date | Previous Year-To-Date |
|---|----------------------------|-----------------------------|----------------------|-----------------------|
| Gross Revenue | 126,849 | 146,363 | 381,656 | 419,861 |
| Gross Expense | 122,765 | 139,673 | 367,785 | 397,609 |
| Non-Operating Income | 418 | 170 | 861 | 518 |
| Non-Operating Expense | 3,045 | 3,016 | 10,014 | 6,356 |
| Income/(Loss) Before Tax | 1,457 | 3,844 | 4,718 | 16,414 |
| Income Tax Expense | 454 | 1,289 | 1,095 | 3,793 |
| Net Income/(Loss) After Tax | 1,003 | 2,555 | 3,623 | 12,621 |
| Net Income Attributable to Parent Equity Holder | 885 | 2,238 | 3,112 | 11,132 |
| Earnings/(Loss) Per Share (Basic) | 0.01 | 0.15 | 0.11 | 0.86 |
| Earnings/(Loss) Per Share (Diluted) | - | - | - | - |

| | Current Year (Trailing 12 months) | Previous Year (Trailing 12 months) |
|-------------------------------------|-----------------------------------|------------------------------------|
| Earnings/(Loss) Per Share (Basic) | -0.5 | 1.01 |
| Earnings/(Loss) Per Share (Diluted) | - | - |

Other Relevant Information

Please see attached Quarterly Report (SEC Form 17-Q) for the 3rd Quarter 2019 of the Company as filed with the Securities and Exchange Commission today, November 14, 2019.

The Series 2A Preferred Shares of the Company were redeemed on November 4, 2019.

Filed on behalf by:

| | |
|--------------------|---|
| Name | Jhoanna Jasmine Javier-Elacio |
| Designation | Legal Manager and Assistant Corporate Secretary |



111142019001962



SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No. 0000031171

Company Name PETRON CORP.

Industry Classification Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains

Company Type Stock Corporation

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Department CFD

Remarks

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

| | <i>Note</i> | Unaudited September 30 2019 | Audited December 31 2018 |
|--|-------------|-----------------------------------|--------------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 9, 10 | P52,329 | P17,405 |
| Financial assets at fair value | 9, 10 | 681 | 1,126 |
| Investments in debt instruments | 9, 10 | 111 | 40 |
| Trade and other receivables - net | 7, 9, 10 | 41,030 | 42,497 |
| Inventories | | 59,043 | 63,873 |
| Other current assets | 7 | 25,876 | 37,081 |
| Total Current Assets | | 179,070 | 162,022 |
| Noncurrent Assets | | | |
| Investments in debt instruments | 9, 10 | 308 | 338 |
| Property, plant and equipment - net | 5, 6 | 167,158 | 163,984 |
| Investment property - net | | 30,347 | 16,536 |
| Right-of-use assets - net | | 5,893 | - |
| Deferred tax assets - net | | 213 | 257 |
| Goodwill - net | | 8,343 | 8,532 |
| Other noncurrent assets - net | 9, 10 | 3,891 | 6,485 |
| Total Noncurrent Assets | | 216,153 | 196,132 |
| | | P395,223 | P358,154 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Short-term loans | 8, 9, 10 | P73,266 | P82,997 |
| Liabilities for crude oil and petroleum products | 9, 10 | 28,423 | 25,991 |
| Trade and other payables | 7, 9, 10 | 17,588 | 28,471 |
| Derivative liabilities | 9, 10 | 675 | 614 |
| Income tax payable | | 388 | 146 |
| Current portion of long-term debt - net | 9, 10 | 12,238 | 17,799 |
| Current portion of lease liabilities | 9, 10 | 1,319 | - |
| Total Current Liabilities | | 133,897 | 156,018 |

Forward



| | <i>Note</i> | Unaudited September 30 2019 | Audited December 31 2018 |
|--|-------------|-----------------------------------|--------------------------------|
| Noncurrent Liabilities | | | |
| Long-term debt - net of current portion and debt issue costs | 9, 10, 11 | P129,034 | P100,201 |
| Retirement benefits liability | | 1,813 | 2,433 |
| Deferred tax liabilities - net | | 7,262 | 8,450 |
| Lease liabilities - net of current portion | 9, 10 | 14,154 | - |
| Asset retirement obligation | | 3,156 | 3,592 |
| Other noncurrent liabilities | 9, 10 | 1,794 | 1,274 |
| Total Noncurrent Liabilities | | 157,213 | 115,950 |
| Total Liabilities | | 291,110 | 271,968 |
| Equity Attributable to Equity Holders of the Parent Company | | | |
| Capital stock | | 9,485 | 9,485 |
| Additional paid-in capital | 11 | 37,500 | 19,653 |
| Capital securities | | 24,881 | 24,881 |
| Retained earnings | | 48,372 | 49,491 |
| Equity reserves | | (15,004) | (14,031) |
| Treasury stock | | (8,000) | (10,000) |
| Total Equity Attributable to Equity Holders of the Parent Company | | 97,234 | 79,479 |
| Non-controlling Interests | | 6,879 | 6,707 |
| Total Equity | | 104,113 | 86,186 |
| | | P395,223 | P358,154 |

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

Certified by:


MYRNA C. GERONIMO
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 | |
|---|------|-------------------|----------|----------------------|----------|
| | Note | 2019 | 2018 | 2019 | 2018 |
| SALES | 5 | P126,849 | P146,363 | P381,656 | P419,861 |
| COST OF GOODS SOLD | | 119,166 | 135,616 | 356,672 | 385,938 |
| GROSS PROFIT | | 7,683 | 10,747 | 24,984 | 33,923 |
| SELLING AND ADMINISTRATIVE EXPENSES | | (3,599) | (4,057) | (11,113) | (11,671) |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES | 5 | (3,045) | (2,573) | (9,674) | (6,638) |
| INTEREST INCOME | 5 | 347 | 170 | 861 | 518 |
| OTHER INCOME (EXPENSES) - Net | | 71 | (443) | (340) | (282) |
| | | (6,226) | (6,903) | (20,266) | (18,073) |
| INCOME BEFORE INCOME TAX | | 1,457 | 3,844 | 4,718 | 15,850 |
| INCOME TAX EXPENSE | 5 | 454 | 1,289 | 1,095 | 3,793 |
| NET INCOME | | P1,003 | P2,555 | P3,623 | P12,057 |
| Attributable to: | | | | | |
| Equity holders of the Parent Company | | P885 | P2,238 | P3,112 | P11,132 |
| Non-controlling interests | | 118 | 317 | 511 | 925 |
| | | P1,003 | P2,555 | P3,623 | P12,057 |
| BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | 12 | P0.01 | P0.15 | P0.11 | P0.86 |

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

Certified by:


MYRNA C. GERONIMO
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 | |
|---|-------------------|--------|----------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| NET INCOME | P1,003 | P2,555 | P3,623 | P12,057 |
| OTHER COMPREHENSIVE INCOME | | | | |
| ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS | | | | |
| Net loss on cash flow hedges | (23) | (61) | (211) | (61) |
| Exchange differences on translation of foreign operations | 65 | (369) | (985) | 2,669 |
| Unrealized fair value gain (loss) on investments in debt instruments at fair value through other comprehensive income (FVOCI) | 4 | (10) | 14 | (17) |
| Share in other comprehensive loss of a joint venture | - | - | - | (1) |
| Income tax benefit | 6 | 21 | 59 | 23 |
| OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax | 52 | (419) | (1,123) | 2,613 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - Net of tax | P1,055 | P2,136 | P2,500 | P14,670 |
| Attributable to: | | | | |
| Equity holders of the Parent Company | P938 | P1,888 | P2,139 | P13,414 |
| Non-controlling interests | 117 | 248 | 361 | 1,256 |
| | P1,055 | P2,136 | P2,500 | P14,670 |

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

Certified by:


MYRNA C. GERONIMO
Assistant Vice President - Controllers 

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

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | Non-controlling Interests | Total Equity |
|---|---|---------------|----------------------------|--------------------|-------------------|----------------|-----------------------------|----------------|----------------|---------|---------------------------|--------------|
| | Note | Capital Stock | Additional Paid-in Capital | Capital Securities | Retained Earnings | | Equity Reserves | | | Total | | |
| | | | | | Appropriated | Unappropriated | Reserve for Retirement Plan | Other Reserves | Treasury Stock | | | |
| As of January 1, 2019 (Audited) | | P9,485 | P19,653 | P24,881 | P15,160 | P34,331 | (P2,940) | (P11,091) | (P10,000) | P79,479 | P6,707 | P86,186 |
| Adjustment due to adoption of Philippine Financial Reporting Standard (PFRS) 16 | | - | - | - | - | (764) | - | - | - | (764) | (15) | (779) |
| As of January 1, 2019 (As adjusted) | | 9,485 | 19,653 | 24,881 | 15,160 | 33,567 | (2,940) | (11,091) | (10,000) | 78,715 | 6,692 | 85,407 |
| Net loss on cash flow hedges - net of tax | | - | - | - | - | - | - | (148) | - | (148) | - | (148) |
| Unrealized fair value gain on investments in debt instruments at FVOCI - net of tax | | - | - | - | - | - | - | 10 | - | 10 | - | 10 |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | (835) | - | (835) | (150) | (985) |
| Other comprehensive loss for the period | | - | - | - | - | - | - | (973) | - | (973) | (150) | (1,123) |
| Net income for the period | | - | - | - | - | 3,112 | - | - | - | 3,112 | 511 | 3,623 |
| Total comprehensive income (loss) for the period | | - | - | - | - | 3,112 | - | (973) | - | 2,139 | 361 | 2,500 |
| Cash dividends | 13 | - | - | - | - | (1,770) | - | - | - | (1,770) | (174) | (1,944) |
| Distributions paid | 13 | - | - | - | - | (1,697) | - | - | - | (1,697) | - | (1,697) |
| Issuance of preferred shares | 11 | - | 17,847 | - | - | - | - | - | 2,000 | 19,847 | - | 19,847 |
| Transactions with owners | | - | 17,847 | - | - | (3,467) | - | - | 2,000 | 16,380 | (174) | 16,206 |
| As of September 30, 2019 (Unaudited) | | P9,485 | P37,500 | P24,881 | P15,160 | P33,212 | (P2,940) | (P12,064) | (P8,000) | P97,234 | P6,879 | P104,113 |

Forward


| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | Non-controlling Interests | Total Equity |
|---|---|---------------|----------------------------|--------------------|--------------|-----------------|-----------------------------|----------------|----------------|----------|---------------------------|--------------|
| | Note | Capital Stock | Additional Paid-in Capital | Retained Earnings | | Equity Reserves | | | Treasury Stock | Total | | |
| | | | | Capital Securities | Appropriated | Unappropriated | Reserve for Retirement Plan | Other Reserves | | | | |
| As of January 1, 2018 (Audited) | | P9,485 | P19,653 | P30,546 | P15,160 | P33,982 | (P2,146) | (P3,025) | (P10,000) | P93,655 | P5,964 | P99,619 |
| Adjustment due to adoption of PFRS 9 | | - | - | - | - | 42 | - | - | - | 42 | (2) | 40 |
| As of January 1, 2018 (As adjusted) | | 9,485 | 19,653 | 30,546 | 15,160 | 34,024 | (2,146) | (3,025) | (10,000) | 93,697 | 5,962 | 99,659 |
| Net loss on cash flow hedges – net of tax | | - | - | - | - | - | - | (43) | - | (43) | - | (43) |
| Unrealized fair value loss on investments in debt instruments at FVOCI - 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 | 13 | - | - | - | - | (3,840) | - | - | - | (3,840) | - | (3,840) |
| Redemption of undated subordinated capital securities | | - | - | (30,546) | - | - | - | (9,223) | - | (39,769) | - | (39,769) |
| Issuance of senior perpetual capital securities | | - | - | 24,881 | - | - | - | - | - | 24,881 | - | 24,881 |
| Transactions with owners | | - | - | (5,665) | - | (5,892) | - | (9,223) | - | (20,780) | (237) | (21,017) |
| As of September 30, 2018 (Unaudited) | | P9,485 | P19,653 | P24,881 | P15,160 | P39,264 | (P2,146) | (P9,966) | (P10,000) | P86,331 | P6,981 | P93,312 |

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

Certified by:



MYRNA C. GERONIMO

Assistant Vice President - Controllers 

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

For the Nine Months Ended
September 30

| | <i>Note</i> | 2019 | 2018 |
|--|-------------|----------|----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before income tax | | P4,718 | P15,850 |
| Adjustments for: | | | |
| Depreciation and amortization | 5 | 9,638 | 8,636 |
| Interest expense and other financing charges | 5 | 9,674 | 6,638 |
| Retirement benefits costs | | 83 | 453 |
| Unrealized foreign exchange (gains) losses - net | | (1,347) | 4,309 |
| Interest income | 5 | (861) | (518) |
| Other gains | | (666) | (879) |
| Operating income before working capital changes | | 21,239 | 34,489 |
| Changes in noncash assets, certain current liabilities and others | | 8,806 | (19,169) |
| Cash generated from operations | | 30,045 | 15,320 |
| Contributions to retirement fund | | (100) | (818) |
| Interest paid | | (8,911) | (5,958) |
| Income taxes paid | | (651) | (1,682) |
| Interest received | | 874 | 366 |
| Net cash flows provided by operating activities | | 21,257 | 7,228 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | 6 | (14,785) | (7,495) |
| Proceeds from sale of property and equipment | | 58 | 54 |
| Additions to investment property | | (143) | - |
| Proceeds from sale of investment property | | 114 | - |
| Reductions from (additions to) financial assets at FVOCI | | (31) | 178 |
| Increase in other noncurrent assets | | (542) | - |
| Net cash flows used in investing activities | | (15,329) | (7,263) |

Forward

| For the Nine Months Ended September 30 | | | |
|--|-------|-----------|-----------|
| | | 2019 | 2018 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from availment of loans | 8 | P313,079 | P244,525 |
| Payments of: | | | |
| Loans | 8, 11 | (299,076) | (218,501) |
| Cash dividends and distributions | 13 | (3,617) | (5,860) |
| Lease liabilities | | (920) | - |
| Issuance of preferred shares | 11 | 19,848 | - |
| Issuance of senior perpetual capital securities | | - | 24,881 |
| Redemption of undated subordinated capital securities | | - | (39,769) |
| Net cash flows provided by financing activities | | 29,314 | 5,276 |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | |
| | | (318) | 983 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 34,924 | 6,224 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | | 17,405 | 17,014 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | P52,329 | P23,238 |

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

Certified by:


MYRNA C. GERONIMO
Assistant Vice President - Controllers 

PETRON CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. Reporting Entity

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

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

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

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

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

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

2. Statement of Compliance

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

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

3. Significant Accounting Policies

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

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

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

Adopted in 2019

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

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

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

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate ranging from 4.43% to 8.68% as of January 1, 2019.

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

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

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

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

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

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

| | |
|-------------------------------------|----------------|
| ASSETS | |
| Other current assets | (P971) |
| Property, plant and equipment - net | (2,465) |
| Investment property - net | 12,686 |
| Right-of-use assets - net | 6,588 |
| Other noncurrent assets - net | (2,547) |
| | P13,291 |
| LIABILITIES AND EQUITY | |
| Trade and other payables | (P983) |
| Lease liabilities | 15,651 |
| Deferred tax liabilities | (598) |
| Total Liabilities | 14,070 |
| Retained earnings | (764) |
| Non-controlling interests | (15) |
| Total Equity | (779) |
| | P13,291 |

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

| | |
|---|----------------|
| Operating lease commitments as of December 31, 2018 | P25,401 |
| Effect from discounting at the incremental borrowing rate as of January 1, 2019 | (9,750) |
| Lease liabilities recognized based on the initial application of PFRS 16 as of January 1, 2019 | P15,651 |

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

Under the interpretation, whether the amounts recorded in the consolidated interim financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the

measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

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

- *Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12 Income Taxes)*. The amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, OCI or equity.
- *Borrowing Costs Eligible for Capitalization (Amendments to PAS 23 Borrowing Costs)*. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

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

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

To be Adopted 2020

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

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

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

- *Definition of a Business (Amendments to PFRS 3 Business Combinations)*. The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:
 - confirmed that a business must include inputs and a process, and clarified that:
 - the process must be substantive; and
 - the inputs and process must together significantly contribute to creating outputs;
 - narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing

dividends or other economic benefits directly to investors or lowering costs; and

- added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

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

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements, and PAS 8)* refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term ‘could influence’ with ‘could reasonably be expected to influence’; (b) including the concept of ‘obscuring information’ alongside the concept of ‘omitting’ and ‘misstating’ information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general-purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS Standards and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

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

To be Adopted 2021

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

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

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

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

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

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

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

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

4. Use of Judgments and Estimates

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

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

5. Segment Information

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

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

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

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

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

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, and property, plant and equipment, net of allowances, depreciation and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

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

Major Customer

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the periods ended September 30, 2019, December 31, 2018 and September 30, 2018:

| | Petroleum | Insurance | Leasing** | Marketing | Elimination/ Others** | Total |
|-------------------------------------|-----------|-----------|-----------|-----------|--------------------------|----------|
| September 30, 2019 | | | | | | |
| Revenue: | | | | | | |
| External sales | P379,869 | P - | P791 | P710 | P286 | P381,656 |
| Inter-segment sales | 157,965 | 35 | 526 | - | (158,526) | - |
| Operating income | 13,562 | 18 | 344 | 99 | (152) | 13,871 |
| Net income | 3,920 | 58 | 87 | 106 | (548) | 3,623 |
| Assets and liabilities: | | | | | | |
| Segment assets* | 425,732 | 5,438 | 9,453 | 606 | (46,219) | 395,010 |
| Segment liabilities* | 288,270 | 4,159 | 5,100 | 98 | (13,779) | 283,848 |
| Other segment information: | | | | | | |
| Property, plant and equipment - net | 166,580 | - | - | 126 | 452 | 167,158 |
| Depreciation and amortization | 9,704 | - | 95 | 12 | (173) | 9,638 |
| Interest expense | 9,794 | - | 239 | 1 | (360) | 9,674 |
| Interest income | 894 | 33 | 9 | 13 | (88) | 861 |
| Income tax expense | 1,038 | 17 | 27 | 11 | 2 | 1,095 |

*excluding deferred tax assets and liabilities

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

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

*excluding deferred tax assets and liabilities

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

| | Petroleum | Insurance | Leasing** | Marketing | Elimination/ Others** | Total |
|--|-----------|-----------|-----------|-----------|--------------------------|----------|
| September 30, 2018 | | | | | | |
| Sales: | | | | | | |
| External sales | P418,235 | P - | P685 | P643 | P298 | P419,861 |
| Inter-segment sales | 222,356 | 90 | 444 | - | (222,890) | - |
| Operating income | 21,769 | 83 | 218 | 52 | 130 | 22,252 |
| Net income | 15,696 | 120 | 82 | 74 | (3,915) | 12,057 |
| Assets and liabilities: | | | | | | |
| Segment assets* | 453,773 | 1,616 | 6,910 | 579 | (78,832) | 384,046 |
| Segment liabilities* | 325,461 | 451 | 5,396 | 92 | (48,319) | 283,081 |
| Other segment information: | | | | | | |
| Property, plant and equipment | 172,725 | - | - | 120 | 6,173 | 179,018 |
| Depreciation and amortization | 8,616 | - | 6 | 14 | - | 8,636 |
| Interest expense and other financing charges | 6,637 | - | 118 | - | (117) | 6,638 |
| Interest income | 605 | 21 | 2 | 7 | (117) | 518 |
| Income tax expense | 3,770 | 20 | 19 | 9 | (25) | 3,793 |

*excluding deferred tax assets and liabilities

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

Inter-segment sales transactions amounted to P158,526, P284,934 and P222,890 for the periods ended September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended September 30, 2019, December 31, 2018 and September 30, 2018:

| | Retail | Lube | Gasul | Industrial | Others | Total |
|-------------------------------|-----------------|---------------|----------------|----------------|----------------|-----------------|
| September 30, 2019 | | | | | | |
| Revenue | P185,451 | P3,497 | P19,530 | P94,608 | P76,783 | P379,869 |
| Property, plant and equipment | 11,330 | 46 | 316 | 111 | 154,777 | 166,580 |
| Capital expenditures | 3,640 | 6 | 20 | - | 18,097 | 21,763 |
| December 31, 2018 | | | | | | |
| Revenue | P269,255 | P4,883 | P27,810 | P132,397 | P120,613 | P554,958 |
| Property, plant and equipment | 12,192 | 70 | 499 | 90 | 150,567 | 163,418 |
| Capital expenditures | 3,326 | 6 | 14 | 9 | 8,989 | 12,344 |
| September 30, 2018 | | | | | | |
| Revenue | P203,763 | P3,850 | P20,549 | P99,796 | P90,277 | P418,235 |
| Property, plant and equipment | 22,970 | 80 | 488 | 110 | 149,077 | 172,725 |
| Capital expenditures | 3,681 | 11 | 23 | 7 | 7,736 | 11,458 |

Geographical Segments

The following table presents segment assets of the Group as of September 30, 2019, December 31, 2018 and September 30, 2018:

| | September 30, 2019 | December 31, 2018 | September 30, 2018 |
|---------------|--------------------|-------------------|--------------------|
| Local | P315,367 | P284,469 | P306,794 |
| International | 79,643 | 73,428 | 77,252 |
| | P395,010 | P357,897 | P384,046 |

Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the periods ended September 30, 2019, December 31, 2018 and September 30, 2018:

| | Petroleum | Insurance | Leasing** | Marketing | Elimination/ Others** | Total |
|---------------------------|-----------------|------------|---------------|-------------|--------------------------|-----------------|
| September 30, 2019 | | | | | | |
| Local | P223,813 | P42 | P1,317 | P710 | (P768) | P225,114 |
| Export/international | 314,021 | (7) | - | - | (157,472) | 156,542 |
| December 31, 2018 | | | | | | |
| Local | P311,951 | P44 | P1,803 | P923 | (P979) | P313,742 |
| Export/international | 527,139 | 72 | - | - | (283,567) | 243,644 |
| September 30, 2018 | | | | | | |
| Local | P233,771 | P38 | P1,129 | P643 | (P653) | P234,928 |
| Export/international | 406,820 | 52 | - | - | (221,939) | 184,933 |

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

6. Property, Plant and Equipment

The movements and balances as of and for the periods ended September 30, 2019 and December 31, 2018 follow:

| | Buildings and Improvements and Related Facilities | Refinery and Plant Equipment | Service Stations and Other Equipment | Computers, Office and Motor Equipment | Land and Leasehold Improvements | Construction In-progress | Total |
|---|--|------------------------------------|---|--|---------------------------------------|-----------------------------|-----------------|
| Cost: | | | | | | | |
| January 1, 2018 (Audited) | P32,504 | P185,304 | P17,436 | P4,951 | P14,631 | P7,429 | P262,255 |
| Additions | 694 | 446 | 424 | 209 | 45 | 8,598 | 10,416 |
| Disposals/reclassifications | 1,661 | 2,117 | (299) | 31 | 131 | (3,738) | (97) |
| Reclassification to investment property | (15,244) | - | - | - | (10,207) | - | (25,451) |
| Currency translation adjustment | 517 | 370 | 247 | 48 | 218 | 39 | 1,439 |
| December 31, 2018 (Audited) | 20,132 | 188,237 | 17,808 | 5,239 | 4,818 | 12,328 | 248,562 |
| Adjustment due to adoption of PFRS 16 | (918) | (1,816) | (176) | - | (370) | - | (3,280) |
| December 31, 2018 (as adjusted) | 19,214 | 186,421 | 17,632 | 5,239 | 4,448 | 12,328 | 245,282 |
| Additions | 768 | 3,791 | 1,671 | 41 | 7 | 8,507 | 14,785 |
| Disposals/reclassifications | 2,997 | 130 | (75) | 189 | 420 | (4,906) | (1,245) |
| Currency translation adjustment | (268) | (112) | (190) | (38) | (373) | (62) | (1,043) |
| September 30, 2019 (Unaudited) | 22,711 | 190,230 | 19,038 | 5,431 | 4,502 | 15,867 | 257,779 |
| Accumulated Depreciation and Amortization: | | | | | | | |
| January 1, 2018 (Audited) | 20,205 | 46,296 | 12,207 | 3,797 | 2,060 | - | 84,565 |
| Additions | 861 | 7,539 | 948 | 481 | 89 | - | 9,918 |
| Disposals/reclassifications | (396) | (16) | (903) | (101) | (10) | - | (1,426) |
| Reclassification to investment property | (8,083) | - | - | - | (1,060) | - | (9,143) |
| Currency translation adjustment | 240 | 258 | 127 | 27 | 12 | - | 664 |
| December 31, 2018 (Audited) | 12,827 | 54,077 | 12,379 | 4,204 | 1,091 | - | 84,578 |
| Adjustment due to adoption of PFRS 16 | (451) | (193) | (63) | - | (108) | - | (815) |
| December 31, 2018 (as adjusted) | 12,376 | 53,884 | 12,316 | 4,204 | 983 | - | 83,763 |
| Additions | 638 | 5,730 | 785 | 379 | 53 | - | 7,585 |
| Disposals/reclassifications | 68 | - | (423) | (7) | 90 | - | (272) |
| Currency translation adjustment | (50) | (207) | (110) | (32) | (56) | - | (455) |
| September 30, 2019 (Unaudited) | 13,032 | 59,407 | 12,568 | 4,544 | 1,070 | - | 90,621 |
| Carrying Amount: | | | | | | | |
| December 31, 2018 (Audited) | P7,305 | P134,160 | P5,429 | P1,035 | P3,727 | P12,328 | P163,984 |
| September 30, 2019 (Unaudited) | P9,679 | P130,823 | P6,470 | P887 | P3,432 | P15,867 | P167,158 |

Capital Commitments

As of September 30, 2019 and December 31, 2018, the Group has outstanding commitments to acquire property, plant and equipment amounting to P17,385 and P17,818, respectively.

7. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint ventures and SMC and its subsidiaries, in the normal course of business, purchase products and services from one another. Transactions with related

parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/to be settled in cash.

The balances and transactions with related parties as of and for the periods ended September 30, 2019 and December 31, 2018 follow:

| | <i>Note</i> | Year | Revenues from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|----------------------|----------------|---------------------|--|---|--|--|--|-----------------------------|
| Retirement Plan | <i>a</i> | 2019 2018 | P88 211 | P - - | P1,948 2,399 | P - - | On demand; long-term; interest bearing | Unsecured; no impairment |
| Intermediate Parent | <i>b,e</i> | 2019 2018 | 9 12 | 170 1,026 | 7 7 | 81 25 | On demand; non-interest bearing | Unsecured; no impairment |
| Under Common Control | <i>b,c,d,g</i> | 2019 2018 | 4,774 6,523 | 3,565 4,904 | 1,055 2,097 | 1,894 889 | On demand; non-interest bearing | Unsecured; no impairment |
| Joint Ventures | <i>c,f</i> | 2019 2018 | - 7 | 37 59 | 1 1 | - - | On demand; non-interest bearing | Unsecured no impairment |
| | | 2019 | P4,871 | P3,772 | P3,011 | P1,975 | | |
| | | 2018 | P6,753 | P5,989 | P4,504 | P914 | | |

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

8. Loans and Borrowings

Short-term Loans

The movements of short-term loans for nine months ended September 30, 2019 follow:

| | |
|---|----------------|
| Balance as of January 1, 2019 | P82,997 |
| Loan availments | 272,151 |
| Loan repayments | (281,812) |
| Currency translation adjustment | (70) |
| Balance as of September 30, 2019 | P73,266 |

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 1 to 181 days and annual interest ranging from 2.55% to 8.50% and 2.65% to 7.00% as of and for the periods ended September 30, 2019 and December 31, 2018, respectively. These loans are intended to fund the importation of crude oil and petroleum products and working capital requirements.

Long-term Loans

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

The Group is required to comply with two financial covenants, net leverage ratio and consolidated gross debt to consolidated net worth. As of September 30, 2019 and December 31, 2018, the Group has complied with the covenants of its debt agreements.

9. Financial Risk Management Objectives and Policies

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

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

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

Risk Management Structure

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

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

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

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

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

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

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

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

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

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

Foreign Currency Risk

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

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

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

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

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

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

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

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

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

| | September 30, 2019 | | December 31, 2018 | |
|---|------------------------------------|---------------------------------------|----------------------------|-------------------------------|
| | US dollar (in millions) | Philippine peso Equivalent | US dollar (in millions) | Philippine peso Equivalent |
| Assets | | | | |
| Cash and cash equivalents | 545 | 28,258 | 217 | 11,397 |
| Trade and other receivables | 346 | 17,956 | 316 | 16,635 |
| Other assets | 4 | 195 | 27 | 1,426 |
| | 895 | 46,409 | 560 | 29,458 |
| Liabilities | | | | |
| Short-term loans | 80 | 4,146 | 285 | 14,977 |
| Liabilities for crude oil and petroleum products | 1,681 | 87,127 | 480 | 25,243 |
| Long-term debt (including current maturities) | 1,514 | 78,485 | 950 | 49,951 |
| Other liabilities | 220 | 11,380 | 346 | 18,202 |
| | 3,495 | 181,138 | 2,061 | 108,373 |
| Net foreign currency -denominated monetary liabilities | (2,600) | (134,729) | (1,501) | (78,915) |

The Group incurred net foreign currency exchange gains (losses) amounting to P839 and (P5,057) for the periods ended September 30, 2019 and 2018, respectively, which were mainly countered by marked-to-market and hedging gains or losses (Note 10). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of reporting dates are shown in the following table:

| | PhP to US\$ |
|---------------------------|--------------------|
| September 30, 2019 | 51.830 |
| December 31, 2018 | 52.580 |
| September 30, 2018 | 54.020 |

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of September 30, 2019 and December 31, 2018:

| | P1 Decrease in the US dollar Exchange Rate | | P1 Increase in the US dollar Exchange Rate | |
|--|---|---------------------|---|---------------------|
| | Effect on Income Before Income Tax | Effect on Equity | Effect on Income Before Income Tax | Effect on Equity |
| September 30, 2019 | | | | |
| Cash and cash equivalents | (P368) | (P435) | P368 | P435 |
| Trade and other receivables | (121) | (310) | 121 | 310 |
| Other assets | (4) | (3) | 4 | 3 |
| | (493) | (748) | 493 | 748 |
| Short-term loans | 80 | 56 | (80) | (56) |
| Liabilities for crude oil and petroleum products | 98 | 1,749 | (98) | (1,749) |
| Long-term debts (including current maturities) | 1,514 | 1,060 | (1,514) | (1,060) |
| Other liabilities | 60 | 104 | (60) | (104) |
| | 1,752 | 2,969 | (1,752) | (2,969) |
| | P1,259 | P2,221 | (P1,259) | (P2,221) |

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

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P589 and P500 for the period ended September 30, 2019 and for the year ended December 31, 2018, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

As of September 30, 2019 and December 31, 2018, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

| September 30, 2019 | <1 Year | 1-<2 Years | 2-<3 Years | 3-<4 Years | 4-<5 Years | >5 Years | Total |
|-------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|----------|----------|
| Fixed Rate | | | | | | | |
| Philippine peso denominated | P5,047 | P5,672 | P21,291 | P3,018 | P22,343 | P6,800 | P64,171 |
| Interest rate | 5.5% - 7.2% | 5.5% - 7.2% | 4.0% - 7.2% | 5.5% - 5.8% | 4.5% - 7.8% | 8.1% | |
| Floating Rate | | | | | | | |
| US\$ denominated (expressed in PhP) | 7,404 | 20,732 | 26,655 | 11,847 | 11,847 | - | 78,485 |
| 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 | 1, 3, 6 mos. Libor + margin | - | |
| | P12,451 | P26,404 | P47,946 | P14,865 | P34,190 | P6,800 | P142,656 |

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

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

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

Credit Risk

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

President and the Chairman.

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

| | September 30, 2019 | December 31, 2018 |
|------------------------------------|--------------------|-------------------|
| Cash in banks and cash equivalents | P47,811 | P14,143 |
| Proprietary membership shares | 288 | 254 |
| Derivative assets | 740 | 1,079 |
| Investments in debt instruments | 419 | 378 |
| Trade and other receivables - net | 41,030 | 42,497 |
| Long-term receivables - net | 265 | 253 |
| Noncurrent deposits | 109 | 94 |
| | P90,662 | P58,698 |

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

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

Investments in Debt Instruments and Proprietary Membership Shares

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

Trade and Other Receivables and Long-Term Receivables

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

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

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

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

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

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P17,051 and P9,204 as of September 30, 2019 and December 31, 2018, respectively. These securities may only be called on or applied upon default of customers.

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

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

| September 30, 2019 | | | | | | |
|---|--|---------------------------------|---------------|---|---------------------------------|----------------|
| Financial Assets at Amortized Cost | | | | Financial Assets at Fair Value Through Profit or Loss (FVPL) | Financial Assets at FVOCI | Total |
| 12-month ECL | Lifetime ECL not credit impaired | Lifetime ECL credit impaired | | | | |
| Cash in banks and cash equivalents | P47,811 | P - | P - | P - | P - | P47,811 |
| Trade and other receivables | - | 41,030 | 952 | - | - | 41,982 |
| Derivative assets not designated as cash flow hedge | - | - | - | 358 | - | 358 |
| Derivative assets designated as cash flow hedge | - | - | - | - | 382 | 382 |
| Proprietary membership shares | - | - | - | 288 | - | 288 |
| Investments in debt instruments | 257 | - | - | - | 162 | 419 |
| Long-term receivables | - | 265 | 53 | - | - | 318 |
| Noncurrent deposits | 109 | - | - | - | - | 109 |
| | P48,177 | P41,295 | P1,005 | P646 | P544 | P91,667 |

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of September 30, 2019 and December 31, 2018.

| September 30, 2019 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | >1 Year - 2 Years | >2 Years - 5 Years | Over 5 Years |
|---|------------------------|------------------------------|-----------------------|-----------------------------|------------------------------|---------------------|
| Financial Assets | | | | | | |
| Cash and cash equivalents | P52,329 | P52,329 | P52,329 | P - | P - | P - |
| Trade and other receivables - net | 41,030 | 41,030 | 41,030 | - | - | - |
| Derivative assets (including noncurrent portion) | 740 | 740 | 393 | 112 | 235 | - |
| Proprietary membership shares | 288 | 288 | 288 | - | - | - |
| Investments in debt instruments | 419 | 450 | 125 | 151 | 174 | - |
| Long-term receivables - net | 265 | 265 | - | 265 | - | - |
| Noncurrent deposits | 109 | 109 | - | - | 3 | 106 |
| Financial Liabilities | | | | | | |
| Short-term loans | 73,266 | 73,457 | 73,457 | - | - | - |
| Liabilities for crude oil and petroleum products | 28,423 | 28,423 | 28,423 | - | - | - |
| Trade and other payables* | 13,644 | 13,644 | 13,644 | - | - | - |
| Derivative liabilities (including noncurrent portion) | 1,068 | 1,068 | 675 | 259 | 134 | - |
| Long-term debts (including current maturities) | 141,272 | 162,968 | 18,799 | 31,888 | 104,795 | 7,486 |
| Lease liability (including current portion) | 15,473 | 28,119 | 2,104 | 1,935 | 5,092 | 18,988 |
| Cash bonds | 748 | 748 | - | 731 | 2 | 15 |
| Cylinder deposits | 593 | 593 | - | - | - | 593 |
| Other noncurrent liabilities** | 60 | 60 | - | 26 | 16 | 18 |

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

**excluding cash bonds, cylinder deposits and derivative liabilities

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

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

**excluding cash bonds, cylinder deposits and derivative liabilities

Commodity Price Risk

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

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

Other Market Price Risk

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

Capital Management

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

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

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

| | September 30, 2019 | December 31, 2018 |
|------------------------|---------------------------|-------------------|
| Total assets | P395,223 | P358,154 |
| Total liabilities | 291,110 | 271,968 |
| Total equity | 104,113 | 86,186 |
| Debt to equity ratio | 2.8:1 | 3.2:1 |
| Assets to equity ratio | 3.8:1 | 4.2:1 |

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

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

10. Financial Assets and Financial Liabilities

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

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

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

Classification and Subsequent Measurement of Financial Instruments

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Debt Issue Costs

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

Offsetting Financial Instruments

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of September 30, 2019 and December 31, 2018:

| | September 30, 2019 | | December 31, 2018 | |
|---|---------------------------|-------------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets (FA): | | | | |
| Cash and cash equivalents | P52,329 | P52,329 | P17,405 | P17,405 |
| Trade and other receivables - net | 41,030 | 41,030 | 42,497 | 42,497 |
| Investments in debt instruments | 257 | 257 | 226 | 226 |
| Long-term receivables - net | 265 | 265 | 253 | 253 |
| Noncurrent deposits | 109 | 109 | 94 | 94 |
| FA at amortized cost | 93,990 | 93,990 | 60,475 | 60,475 |
| Investments in debt instruments | 162 | 162 | 152 | 152 |
| Derivative assets designated as cash flow hedge | 382 | 382 | 222 | 222 |
| FA at FVOCI | 544 | 544 | 374 | 374 |
| Proprietary membership shares | 288 | 288 | 254 | 254 |
| Derivative assets not designated as cash flow hedge | 358 | 358 | 857 | 857 |
| FA at FVPL | 646 | 646 | 1,111 | 1,111 |
| Total financial assets | P95,180 | P95,180 | P61,960 | P61,960 |

| | September 30, 2019 | | December 31, 2018 | |
|--|--------------------|-----------------|-------------------|-----------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial liabilities (FL): | | | | |
| Short-term loans | P73,266 | P73,266 | P82,997 | P82,997 |
| Liabilities for crude oil and petroleum products | 28,423 | 28,423 | 25,991 | 25,991 |
| Trade and other payables* | 13,644 | 13,644 | 23,189 | 23,189 |
| Long-term debts including current portion | 141,272 | 141,272 | 118,000 | 118,000 |
| Derivative liabilities designated as cash flow hedge | 760 | 760 | 332 | 332 |
| Lease liability including current portion | 15,473 | 15,473 | - | - |
| Cash bonds | 748 | 748 | 434 | 434 |
| Cylinder deposits | 593 | 593 | 573 | 573 |
| Other noncurrent liabilities** | 60 | 60 | 77 | 77 |
| Other FL | 274,239 | 274,239 | 251,593 | 251,593 |
| Derivative liabilities not designated as cash flow hedge | 308 | 308 | 470 | 470 |
| Total financial liabilities | P274,547 | P274,547 | P252,063 | P252,063 |

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

**excluding cash bonds, cylinder deposits and derivative liabilities

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

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

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

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

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

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

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

Derivative Financial Instruments and Hedge Accounting

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

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

Freestanding Derivatives

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

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

Cash Flow Hedges

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

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

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

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

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

Embedded Derivatives

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

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

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

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

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

| September 30, 2019 | Maturity | | | Total |
|--|------------------|--------------------|---------------------|---------|
| | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | |
| Foreign currency risk | | | | |
| Call spread swaps | | | | |
| Notional amount (in million) | US\$61 | US\$141 | US\$146 | US\$348 |
| Average strike rate | P52.87 to P55.58 | P52.58 to P55.55 | P52.59 to P55.70 | |
| Foreign currency and interest rate risk | | | | |
| Cross currency swap | | | | |
| Notional amount (in million) | US\$10 | US\$30 | US\$80 | US\$120 |
| Strike rate | P47.00 to P57.50 | P47.00 to P57.17 | P47.00 to P56.75 | |
| Fixed interest rate | 4.19% to 5.75% | 4.19% to 5.75% | 4.19% to 5.75% | |
| <hr/> | | | | |
| December 31, 2018 | Maturity | | | Total |
| | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | |
| Foreign currency risk | | | | |
| Call spread swaps | | | | |
| Notional amount (in million) | US\$22 | US\$65 | US\$120 | US\$207 |
| Average strike rate | P53.87 to P57.37 | P53.94 to P57.05 | P53.95 to P57.16 | |

The following are the amounts relating to hedged items:

| September 30, 2019 | Change in Fair Value Used for Measuring Hedge Ineffectiveness | Hedging Reserve | Cost of Hedging Reserve |
|---|--|----------------------------|--|
| Foreign currency risk | | | |
| US dollar-denominated loan | P127 | P - | (P92) |
| Foreign currency and interest rate risks | | | |
| US dollar-denominated loan | P251 | (P235) | P102 |
| <hr/> | | | |
| December 31, 2018 | Change in Fair Value Used for Measuring Hedge Ineffectiveness | Hedging Reserve | Cost of Hedging Reserve |
| Foreign currency risk | | | |
| US dollar-denominated loan | P110 | P - | (P77) |

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

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

| September 30, 2019 | Notional amount (in million) | Carrying Amount | | Line item in the consolidated statement of financial position where the hedging instrument is included | Changes in the fair value of the hedging instrument recognized in OCI | Cost of hedging recognized in OCI | Amount reclassified from hedging reserve to profit or loss | Amount reclassified from cost of hedging reserve to profit or loss | Line item in the consolidated statement of income affected by the reclassification |
|--|---------------------------------|-----------------|-------------|--|---|-----------------------------------|--|--|--|
| | | Assets | Liabilities | | | | | | |
| Foreign currency risk: | | | | | | | | | |
| Call spread swaps | US\$348 | P290 | P417 | Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities | (P127) | (P214) | (P5) | P192 | Other income (expenses) - net |
| Foreign currency and interest rate risks: | | | | | | | | | |
| Cross currency swap | US\$120 | P92 | P343 | Other noncurrent assets, Derivative liabilities, and Other noncurrent liabilities | (P251) | P113 | P62 | P33 | Interest expense and other financing charges, and Other income (expenses) - net |
| <hr/> | | | | | | | | | |
| December 31, 2018 | Notional amount (in million) | Carrying Amount | | Line item in the consolidated statement of financial position where the hedging instrument is included | Changes in the fair value of the hedging instrument recognized in OCI | Cost of hedging recognized in OCI | Amount reclassified from hedging reserve to profit or loss | Amount reclassified from cost of hedging reserve to profit or loss | Line item in the consolidated statement of income affected by the reclassification |
| | | Assets | Liabilities | | | | | | |
| Foreign currency risk: | | | | | | | | | |
| Call spread swaps | US\$207 | P222 | P332 | Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities | (P110) | (P157) | P - | P47 | Other income (expenses) - net |

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

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

| | September 30, 2019 | | December 31, 2018 | |
|--|--------------------|-------------------------|-------------------|-------------------------|
| | Hedging Reserve | Cost of Hedging Reserve | Hedging Reserve | Cost of Hedging Reserve |
| Balance at beginning of period | P - | (P77) | P - | P - |
| Changes in fair value: | | | | |
| Foreign currency risk | 5 | (214) | - | (157) |
| Foreign currency risk and interest rate risk | (398) | 113 | - | - |
| Amount reclassified to profit or loss: | | | | |
| Foreign currency risk | (5) | 192 | - | 47 |
| Foreign currency risk and interest rate risk | 62 | 33 | - | - |
| Income tax effect | 101 | (37) | - | 33 |
| Balance at end of period | (P235) | P10 | P - | (P77) |

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

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

Currency Forwards. As of September 30, 2019 and December 31, 2018, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$783 million and US\$907 million, respectively, and with various maturities. As of September 30, 2019 and December 31, 2018, the net negative fair value of these currency forwards amounted to P176 and P296, respectively.

Call Spread Swaps. As of September 30, 2019, the Group has outstanding call spread swaps with a notional amount of US\$15 million maturing on December 2019. The net negative fair value of these call spread swaps amounted to P2.

Commodity Swaps. The Group has outstanding swap agreements covering its oil requirements, with various maturities. 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 11.8 million barrels and 17.0 million barrels as of September 30, 2019 and December 31, 2018, respectively. The estimated net receipt/(payout) for these transactions amounted to (P60) and P546 as of September 30, 2019 and December 31, 2018, respectively.

Commodity Options. As of September 30, 2019 and December 31, 2018, the Group has outstanding 3-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 1.0 million barrels and 150 thousand barrels, respectively. The call and put options can be exercised at various calculation dates with specified quantities on each calculation date. The estimated net receipts for these call and put options amounted to P288 and P137 as of September 30, 2019 and December 31, 2018, 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 purchases 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, 2019 and December 31, 2018, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of September 30, 2019 and December 31, 2018, the net positive fair value of these embedded currency forwards is minimal.

For the periods ended September 30, 2019 and 2018, the Group recognized marked-to-market gains/(losses) from freestanding and embedded derivatives amounting to (P896) and P4,086, respectively.

Fair Value Measurements

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method, as of September 30, 2019 and December 31, 2018.

| | Level 2 | |
|---------------------------------|---------------------------|--------------------------|
| | September 30, 2019 | December 31, 2018 |
| Financial Assets: | | |
| Proprietary membership shares | P288 | P254 |
| Derivative assets | 740 | 1,079 |
| Investments in debt instruments | 162 | 152 |
| Financial Liabilities: | | |
| Derivative liabilities | (1,068) | (802) |

The Group has no financial instruments valued based on Level 1 and Level 3 as of September 30, 2019 and December 31, 2018. During the period, there were no transfers between, into and out of Level 1 and Level 2 fair value measurements.

11. Significant Transactions During the Period

- a. On May 10, 2019, the Parent Company signed and executed a US\$800 million term loan facility. Initial drawdown of US\$300 million was made on May 15, 2019, the proceeds of which were used to refinance the Parent Company's existing dollar-denominated bilateral short-term loans. On May 31, 2019, the Parent Company drew an additional US\$236 million from the facility to partially prepay its US\$1 billion term loan facility. Finally, the remaining balance of US\$264 million was drawn on July 10, 2019 to refinance various peso-denominated short-term loans and for general corporate purposes.

The facility is amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning May 15, 2021. The facility is subject to a floating interest rate based on LIBOR plus a spread, repriced every 1, 3 or 6 months.

- b. On May 31, 2019, the SEC issued a permit for the Parent Company's public offering and sale of 15,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 5,000,000 preferred shares (collectively, the "Series 3 Preferred Shares") at an issue price of P1,000.00 per share.

On June 25, 2019, the Parent Company issued and listed on the PSE 20,000,000 Series 3 Preferred Shares. The net proceeds from the issuance were used for the repayment of the Parent Company's outstanding short-term loans and for general corporate purposes while the remaining balance was allocated for the redemption of the Series 2A Preferred Shares in November 2019.

The Series 3 Preferred Shares were issued in two (2) sub-series: (i) 13,403,000 Series 3A Preferred Shares with dividend rate of 6.8713% per annum and first optional redemption date on its 5.5th anniversary from the issuance date; and (ii) 6,597,000 Series 3B Preferred Shares with dividend rate of 7.1383% per annum and first optional redemption date on its 7th anniversary from the issuance date. Cash dividends are payable quarterly on March 25, June 25, September 25 and December 25 of each year, as and if declared by the Company's BOD.

12. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts for the nine months ended September 30, 2019 and 2018 are computed as follows:

| | 2019 | 2018 |
|--|----------------|---------|
| Net income attributable to equity holders of the Parent Company | P3,112 | P11,132 |
| Dividends on preferred shares for the period | (833) | (484) |
| Distributions to the holders of capital securities for the period | (1,260) | (2,543) |
| Net income attributable to common shareholders of the Parent Company (a) | P1,019 | P8,105 |
| Weighted average number of common shares outstanding (in millions) (b) | 9,375 | 9,375 |
| Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b) | P0.11 | P0.86 |

As of September 30, 2019 and 2018, the Parent Company has no potential dilutive debt or equity instruments.

13. Cash Dividends and Distributions

Dividends

The BOD of the Parent Company approved the declaration of cash dividends for common and series 2 and 3 preferred shareholders with the following details:

| Type | Per Share | Date of Declaration | Date of Record | Date of Payment |
|-------------|-----------|---------------------|-------------------|--------------------|
| 2019 | | | | |
| Common | P0.10000 | March 12, 2019 | March 27, 2019 | April 11, 2019 |
| Series 2A | 15.75000 | March 12, 2019 | April 4, 2019 | May 3, 2019 |
| Series 2B | 17.14575 | March 12, 2019 | April 4, 2019 | May 3, 2019 |
| Series 2A | 15.75000 | March 12, 2019 | July 12, 2019 | August 5, 2019 |
| Series 2B | 17.14575 | March 12, 2019 | July 12, 2019 | August 5, 2019 |
| Series 2A | 15.75000 | August 6, 2019 | October 11, 2019 | November 4, 2019 |
| Series 2B | 17.14575 | August 6, 2019 | October 11, 2019 | November 4, 2019 |
| Series 3A | 17.17825 | August 6, 2019 | September 2, 2019 | September 25, 2019 |
| Series 3B | 17.84575 | August 6, 2019 | September 2, 2019 | September 25, 2019 |
| 2018 | | | | |
| Common | P0.15000 | March 13, 2018 | March 27, 2018 | April 18, 2018 |
| Series 2A | 15.75000 | March 13, 2018 | April 12, 2018 | May 3, 2018 |
| Series 2B | 17.14575 | March 13, 2018 | April 12, 2018 | May 3, 2018 |
| Series 2A | 15.75000 | March 13, 2018 | July 16, 2018 | August 3, 2018 |
| Series 2B | 17.14575 | March 13, 2018 | July 16, 2018 | August 3, 2018 |
| Series 2A | 15.75000 | August 7, 2018 | October 10, 2018 | November 5, 2018 |
| Series 2B | 17.14575 | August 7, 2018 | October 10, 2018 | November 5, 2018 |
| Series 2A | 15.75000 | August 7, 2018 | January 11, 2019 | February 4, 2019 |
| Series 2B | 17.14575 | August 7, 2018 | January 11, 2019 | February 4, 2019 |

Distributions

For the period ended September 30, 2019, the Parent Company paid distributions to the holders of the US\$500 million SPCS amounting to US\$11.500 million (P859) and US\$11.500 million (P838) on January 18, 2019 and July 18, 2019, respectively.

In 2018, payments of distributions pertaining to USCS were made on the following dates: US\$13.901 million (P1,010) on January 22, 2018; and US\$13.052 million each on February 5, 2018 (P963) and August 6, 2018 (P988). Distributions on SPCS were settled on July 19, 2018 amounting to US\$11.500 million (P878).

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.

Petron Malaysia Refining & Marketing Bhd (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 80% of crude and condensate volume processed are from EMEPMI with balance of around 20% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the consolidated interim statements of financial position as of September 30, 2019 and December 31, 2018.

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

Unused Letters of Credit and Outstanding Standby Letters of Credit

The Group has unused letters of credit totaling approximately P25,767 and P33,193 as of September 30, 2019 and December 31, 2018, respectively.

Oil Spill Incident in Guimaras

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

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of September 30, 2019.

Other Proceedings

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

15. Events After the Reporting Period

- a. On November 4, 2019, the Parent Company redeemed its 7,122,320 Series 2A Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 10, 2019. The redemption was approved by the Parent Company's BOD on March 12, 2019.
- b. On November 5, 2019, the BOD of the Parent Company approved cash dividends for Series 2B and Series 3 Preferred Shareholders with the following details:

| Type | Per Share | Date of Record | Date of Payment |
|-----------|-----------|------------------|-------------------|
| Series 2B | 17.14575 | January 14, 2020 | February 3, 2020 |
| Series 3A | 17.17825 | December 2, 2019 | December 26, 2019 |
| Series 3B | 17.84575 | December 2, 2019 | December 26, 2019 |
| Series 3A | 17.17825 | March 2, 2020 | March 25, 2020 |
| Series 3B | 17.84575 | March 2, 2020 | March 25, 2020 |

16. Other Matters

a. Lease Agreements with PNOC

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

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

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

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

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. The Parent Company also filed a motion for summary judgment on May 17, 2019, which remains pending to date.

- 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, 2019.

- d. Known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity:

Gross Domestic Product (GDP)

GDP growth decelerated to 5.5% in 2Q 2019, the slowest in the last 17 quarters.

| Economic growth (in percentage) | 2Q 2018 | 1H 2018 | 2Q 2019 | 1H 2019 |
|------------------------------------|---------|---------|---------|---------|
| GDP | 6.2 | 6.3 | 5.5 | 5.5 |
| <i>By Industry</i> | | | | |
| Agriculture | 0.3 | 0.7 | 0.6 | 0.7 |
| Industry | 6.5 | 7.1 | 3.7 | 4.2 |
| Services | 6.7 | 6.7 | 7.1 | 7.0 |
| <i>By Expenditure</i> | | | | |
| Household Consumption | 6.0 | 5.8 | 5.6 | 5.8 |
| Government Consumption | 11.9 | 12.6 | 6.9 | 7.1 |
| Capital Formation | 20.0 | 14.9 | (8.5) | (0.1) |
| Exports | 14.7 | 12.6 | 4.4 | 5.0 |
| Imports | 21.0 | 16.1 | 0.04 | 4.2 |

Growth on the supply side was underpinned by strong Services sector (7.1% in 2Q 2019). The slump in Industry sector growth, however, was due to the slowdown in manufacturing and decline in private sector construction. Meanwhile, agriculture growth was almost flat at 0.6%.

Growth on the demand side was mainly driven by Household Consumption on the back of easing inflation. Meanwhile, Government Expenditure was dampened by the delay in budget approval (6.9% in 2Q 2019 vs. 11.9% in 2Q 2018). Capital Formation recorded a decline (-8.5% in 2Q 2019) and growth in Imports was flat due to the tepid "Build Build Build" infrastructure program. Growth in Exports was weighed down by weak global demand amid growing trade tensions (2Q 2019 of 4.4% vs. 2Q 2018 of 14.7%).

With weaker performance in the first two quarters of the year, 1H 2019 GDP is 5.5%, slower than the 6.3% recorded in 1H 2018.

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

91-day T-Bill rates averaged 3.42% in 3Q 2019, lower compared to 5.17% the previous quarter, but slightly higher compared to 3.30% in the same period last year.

Bangko Sentral ng Pilipinas (BSP) increased its policy interest rates in 2018, amid accelerated inflation, by a total of 175 bps from 3.0% to 4.75% by year-end. As inflation eases in 2019, BSP has started to reduce rates by 75 bps, bringing policy rates to current level of 4.0%. The policy rates set by BSP are used by financial institutions as benchmark in setting deposit and loan rates.

Peso-Dollar Exchange Rate

The peso averaged P52.1/\$ in YTD September 2019, almost flat with the P52.5/\$ average in the same period last year, but stronger than P53.2/\$ in 4Q 2018. Moderate inflation and improving trade balance have allowed the peso to recover from weakness in the latter part of 2018.

Inflation

The rate of increase in prices of commodities and services decelerated to 2.8% in YTD September 2019, from 5.0% in the same period last year. Government measures to address supply concerns on rice and other food has helped modulate food prices. Prices of non-alcoholic beverages and transportation also supported the slowdown in inflation.

Industry Oil Demand

Oil demand¹ grew by 5.1% to 80,681 MB in 1H 2019 from 76,745 MB in 1H 2018. Lower global oil prices, healthy household consumption and manageable level of inflation supported higher demand for gasoline, diesel and LPG. Automotive vehicle sales likewise have recovered, recording a slight growth of 1.6%.

Oil Market

Year-on-year prices of Dubai declined by 8.7% to \$64.0/bbl in YTD September 2019 vs. \$70.1/bbl in the same period last year, on the back of elevated US shale output and easing demand growth. Cracks are generally weaker across all products due to supply glut, and lackluster demand growth.

Existing or Probable Government Regulations

Tax Reform for Acceleration and Inclusion (the “TRAIN Law”). Republic Act No. 10963 or the TRAIN Law, which took effect on January 1, 2018, imposes a phased increase in excise taxes on petroleum products from 2018 to 2020. The schedule of increase for this three (3)-year period is P2.65-2.00-1.00 per liter (“/li”) per year for gasoline, P2.50-2.00-1.50/li for diesel and fuel oil, P1.00-1.00-1.00 per kilogram for LPG, and P0.33-0.00-0.00/li for jet fuel. The incremental excise tax is further subject to 12% VAT. Higher excise taxes can potentially constrain demand growth for these products.

The TRAIN law also mandates the implementation of a fuel marking program to help curb illicit trading of fuel products. This program prescribes the marking of all locally-produced and imported gasoline, diesel and kerosene intended for the domestic market. It will increase product cost which will translate to higher fuel prices. The government, through the Department of Finance, has commenced with the implementation of the program. Full implementation is expected by 2020.

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

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

¹ Based on DOE data. Includes only Gasoline, Kerosene, Avturbo, Diesel, IFO and LPG. Does not include Direct Imports by end-users of Naphtha, Condensate, Avturbo, LPG, Diesel, and Asphalt. 1H 2019 is the latest published data.

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

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

Department Circular 2019-05-008. The Department of Energy issued this circular to require oil companies to submit a detailed computation, with corresponding explanation and supporting documents, of the cost components of liquid fuel and LPG on a per liter and per product basis. The circular has not been implemented following the temporary restraining orders and writs of preliminary injunction issued by the Regional Trial Courts in Taguig and Mandaluyong.

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

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

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

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

Anti-Competition Law (the “Philippine Competition Act”). The Philippine Competition Act, approved in July 2015, prohibits anti-competitive agreements, abuses of dominant positions, and mergers and acquisitions that limit, prevent, and restrict competition. To implement the national competition policy and attain the objectives and purposes of the law, the Philippine Competition Commission (PCC) was created. Among the powers of the PCC is the review of mergers and acquisitions based on factors it may deem relevant. The PCC, after due notice and hearing, may impose administrative fines on any entity found to have violated the provisions of the law on prohibited arrangements or to have failed to

provide prior notification to the PCC of certain mergers and acquisitions. The PCC is empowered to impose criminal penalties on an entity that enters into any anti-competitive agreement and, when the entities involved are juridical persons, on its officers, directors, or employees holding managerial positions who are knowingly and willfully responsible for such violation.

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

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

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

PETRON CORPORATION AND SUBSIDIARIES

RECEIVABLES

As of September 30, 2019

(Amounts in Million Pesos)

Breakdown:

| | |
|--|----------------|
| Accounts Receivable – Trade | P30,719 |
| Accounts Receivable – Non-Trade | 10,311 |
| Total Accounts Receivable - Net | P41,030 |

AGING OF TRADE ACCOUNTS RECEIVABLES

| | | |
|------------------------------------|--------------|----------------|
| Receivables | 1 – 30 days | P30,088 |
| | 31 – 60 days | 138 |
| | 61 – 90 days | 180 |
| | Over 90 days | 1,034 |
| Total | | 31,440 |
| Allowance for doubtful accounts | | (721) |
| Accounts Receivable – Trade | | P30,719 |

Interim Financial Report as of and for the period ended September 30, 2019

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

Financial Performance

YTD September 2019 vs YTD September 2018

For the first three quarters of 2019, Petron Corporation reported a consolidated net income of **₱3.62 billion**, down by 70% from the same period last year (LY) brought about by the prevailing depressed refining margins in the region and the total plant shutdown (TPS) of its Bataan Refinery following the earthquake on April 22. The plant resumed operation in early August.

| (In Million Pesos) | 2019 | 2018 | Variance - Fav (Unfav) | |
|--|----------------|----------------|-----------------------------------|-------------|
| | | | Amt | % |
| Sales | 381,656 | 419,861 | (38,205) | (9) |
| Cost of Goods Sold | 356,672 | 385,938 | 29,266 | 8 |
| Gross Margin | 24,984 | 33,923 | (8,939) | (26) |
| Selling and Administrative Expenses | 11,113 | 11,671 | 558 | 5 |
| Non-operating Charges | 9,153 | 6,402 | 2,751 | 43 |
| Net Income | 3,623 | 12,057 | (8,434) | (70) |
| EBITDA | 23,868 | 30,999 | (7,131) | (23) |
| Sales Volume (MB) | 78,676 | 81,421 | (2,745) | (3) |
| Earnings per Share (₱) | 0.11 | 0.86 | (0.75) | (87) |
| Return on Sales (%) | 0.9 | 2.9 | (2.0) | (70) |

Consequently, **earnings before interest, taxes, depreciation and amortization (EBITDA)** declined 23% to **₱ 23.87 billion**. Further, **earnings per share** plunged from ₱ 0.86 to **₱ 0.11** while **return on sales** dropped from 2.9% to **0.9%**.

The key factors which contributed to the nine-month performance versus same period LY were the following:

- ◆ **Consolidated Sales volume** declined by 2.75 million barrels (MMB) to **78.68 MMB** from LY's 81.42 MMB as the TPS resulted in reduced exports. The Philippine domestic sales continued to be challenged by stiff competition with white stations. This, however, was partially cushioned by the 2% volume improvement by its Malaysian subsidiaries from the sustained growth in its Retail sector.
- ◆ **Net sales** dropped 9% or ₱ 38.21 billion to **₱ 381.66 billion** from the combined effect of lower average selling price and reduced volume sold. This year, prices of finished products in the region were generally lower while the Philippine peso gained strength by an average of ₱ 0.45 versus the US dollar. These were, however, partly offset by higher excise tax.
- ◆ **Cost of Goods Sold (CGS)** likewise dropped by 8% or ₱ 29.27 billion to **₱ 356.67 billion** from LY's ₱ 385.94 billion also from the combined effect of lower average cost per liter and lesser sales volume. Lower cost can be attributed to the 9% drop in benchmark crude Dubai averaging US\$64/bbl from US\$70/bbl LY, partly countered by the increase in excise tax in the Philippines. **Gross margin** contracted by 26% to **₱ 24.98 billion** as refining margin narrowed on account of weaker product cracks and reduced production volume.

- ◆ **Selling and Administrative Expenses (OPEX)** went down by 5% from ₱ 11.67 billion to **₱ 11.11 billion** mainly due to lower marketing expenses and employee costs, reduced LPG cylinder purchases and minimal provision for bad debts, partly offset by the increase in terminal operation expenses.
- ◆ **Net Financing Costs and Other Charges** rose by 43% to **₱ 9.15 billion** from ₱ 6.40 billion in 2018 brought about by the increase in borrowings and higher interest rate during the period as well as the unrealized commodity hedging loss by end-September.
- ◆ **Income tax expense** decreased to **₱ 1.10 billion** from ₱ 3.79 billion LY owing to lower pre-tax income.

YTD September 2018 vs YTD September 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 LY's ₱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 |
| Net Income | 12,057 | 11,761 | 296 | 3 |
| EBITDA | 30,999 | 30,008 | 991 | 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 **₱ 31.0 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 MMB to **81.42 MMB** from LY's 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.

Financial Position

September 30, 2019 vs December 31, 2018

As of end-September 2019, the **consolidated assets** of Petron Corporation and its Subsidiaries grew by 10% to **₱ 395.22 billion** from end-2018 balance of ₱ 358.15 billion coming mostly from higher cash and cash equivalents and recognition of relevant assets with the adoption of PFRS 16 (Leases), partly offset by the decline in other current assets and inventories.

Cash and cash equivalents ended at **₱ 52.33 billion** mainly from funds generated from operations, issuance of preferred shares as well as the timing difference in the settlement of outstanding liabilities, partly reduced by the additional investments in capital projects and the payment of loans, cash dividends and distributions.

Financial assets at fair value dropped to **₱ 681million** from ₱ 1.13 billion due to lower unrealized gain on outstanding commodity hedges.

Investment in debt instruments (current and non-current) of **₱ 419 million** increased by 11% compared to end 2018 level of ₱ 378 million traced to the additional government security acquired by the Insurance subsidiary.

Inventories at **₱ 59.04 billion** declined by 8% or ₱ 4.83 billion vis-a-vis ₱ 63.87 billion as of end 2018 due to lower crude volume partly offset by the effect of higher prices.

Other current assets dropped to **₱ 25.88 billion** from ₱ 37.08 billion attributed to PM's full collection of goods and service tax from the Malaysian government partly offset by the Parent's higher prepaid and creditable withholding taxes.

The adoption of PFRS 16 resulted in the recognition of **right-of-use assets** of **₱ 5.89 billion**, increase in re-classed **investment property** from ₱ 16.54 billion to **₱ 30.35 billion** with the corresponding reduction in the prepaid rent which largely comprised the 40% drop in **other noncurrent assets - net** from ₱ 6.49 billion to **₱ 3.89 billion**, as well as set-up of **lease liabilities - current and noncurrent** totaling **₱ 15.47 billion**.

Deferred tax assets - net declined to **₱ 213 million** from ₱ 257 million reflecting the availment of Net Operating Loss Carry-Over (NOLCO) of a Malaysian subsidiary.

Short-term loans decreased by 12% to **₱ 73.27 billion** owing to the Parent Company's net payments as well as PM's full settlement during the period.

Liabilities for crude oil and petroleum products rose 9% to **₱ 28.42 billion** largely due to higher cost of outstanding finished products importations.

Trade and other payables went down from ₱ 28.47 billion to **₱ 17.59 billion** principally due to lower liabilities to contractors and vendors.

Derivative liabilities increased by 10% from ₱ 614 million to **₱ 675 million** arising from the additional derivative instruments partly offset by lower MTM losses on outstanding currency and commodity hedges.

Income tax payable surged to **₱ 388 million** from ₱ 146 million from higher tax liabilities of Petron Malaysia.

Long-term debt (current and non-current portion) increased to **₱ 141.27 billion** from end 2018's balance of ₱ 118.0 billion with the Parent Company's availment of US\$800 million loan partly reduced by the payment of matured peso and dollar loans.

Retirement benefits liability dropped by 8% to **₱ 1.81 billion** owing to the contributions made to the retirement fund during the period.

Deferred tax liability – net decreased by 14% or ₱ 1.19 billion to **₱ 7.26 billion** brought about by the recognition of NOLCO and MCIT by the Parent Company.

Asset retirement obligation went down by 12% to **₱ 3.16 billion** from ₱ 3.59 billion essentially due to the change in discount rate partly offset by the accretion booked during the year.

Other noncurrent liabilities at **₱ 1.79 billion** rose 41% compared to year-end level due to higher cash bond, and the derivative liability from additional hedging instrument.

The issuance of ₱ 20 billion series 3 preferred shares resulted in the increase in **additional paid-in capital** from ₱ 19.65 billion to **₱ 37.50 billion** and reduction in negative balance of **treasury stock** from ₱ 10.0 billion to **₱ 8.0 billion**.

Equity reserves' negative balance increased to **₱ 15.00 billion** from ₱ 14.03 billion as of end 2018 due to the currency translation losses on investments in foreign subsidiaries with the peso appreciation versus the US dollar.

September 30, 2018 vs December 31, 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.

Cash Flows

YTD September 2019 vs YTD September 2018

Cash and cash equivalents reached ₱ 52.33 billion by the end of September 2019. Cash provided by operating activities of ₱ 30.05 billion coupled by the net proceeds from issuance of ₱ 20.0 billion preferred shares and from net availment of long-term loan were used to finance various capital spending at the refinery, terminals and service stations (₱ 14.79 billion), pay interest and taxes (₱ 8.69 billion), dividends and distributions (₱ 3.62 billion) as well as partially settle short-term loans (₱ 2.59 billion).

| In Million Pesos | Sept. 30, 2019 | Sept. 30, 2018 | Change |
|--------------------|----------------|----------------|---------|
| Operating inflows | 21,257 | 7,228 | 14,029 |
| Investing outflows | (15,329) | (7,263) | (8,066) |
| Financing inflows | 29,314 | 5,276 | 24,038 |

YTD September 2018 vs YTD September 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.

Discussion of the Company's key performance indicators:

| Ratio | September 30, 2019 | December 31, 2018 |
|------------------------------|---------------------------|--------------------------|
| Current Ratio | 1.3 | 1.0 |
| Debt to Equity Ratio | 2.1 | 2.3 |
| Return on Equity (%) | -1.4 | 7.6 |
| Interest Rate Coverage Ratio | 1.5 | 2.1 |
| Assets to Equity Ratio | 3.8 | 4.2 |

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

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

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

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

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

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

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

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

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

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

PART II – OTHER INFORMATION

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

NONE.

SIGNATURES

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

Registrant: **PETRON CORPORATION**

Signature and Title: 

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

Date: November 13, 2019

Principal Financial/Accounting Officer/Controller

Signature and Title: 

MYRNA C. GERONIMO
Assistant Vice President - Controllers

Date: November 13, 2019



PETRON CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

| Financial Ratios | Formula | September 30, 2019 | December 31, 2018 |
|---|---|-------------------------------|------------------------------|
| Liquidity | | | |
| a) Current Ratio | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | 1.34 | 1.04 |
| Solvency | | | |
| b) Debt to Equity Ratio | $\frac{\text{Total Interest-bearing Liabilities}}{\text{Total Equity}}$ | 2.06 | 2.33 |
| c) Asset to Equity Ratio | $\frac{\text{Total Assets}}{\text{Total Equity}}$ | 3.80 | 4.16 |
| Profitability | | | |
| d) Return on Average Equity ^a | $\frac{\text{Net Income}}{\text{Average Total Equity}}$ | -1.43% | 7.61% |
| e) Interest Rate Coverage Ratio | $\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other FinancingCharges}}$ | 1.49 | 2.08 |

^a *trailing 12 months net income*