CR07732-2020

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, 2020
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) 8884-9200
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 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, 2020 (IN MIL PESO-CONSO)	265,000

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

PETRON

Petron Corporation
PCOR

PSE Disclosure Form 17-2 - Quarterly Report

References: SRC Rule 17 and
Sections 17.2 and 17.8 of the Revised Disclosure Rules

For the period ended	Sep 30, 2020
Currency (indicate units, if applicable)	Peso (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2020	Dec 31, 2019
Current Assets	135,126	179,488
Total Assets	350,093	394,835
Current Liabilities	126,218	158,374
Total Liabilities	265,000	302,405
Retained Earnings/(Deficit)	29,232	45,510
Stockholders' Equity	85,093	92,430
Stockholders' Equity - Parent	78,928	85,657
Book Value per Share	2.12	4.05

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	64,133	126,978	216,852	382,304
Gross Expense	59,954	122,894	227,216	368,433
Non-Operating Income	821	418	798	861
Non-Operating Expense	2,549	3,045	8,342	10,014
Income/(Loss) Before Tax	2,451	1,457	-17,908	4,718
Income Tax Expense	821	454	-5,302	1,095
Net Income/(Loss) After Tax	1,630	1,003	-12,606	3,623
Net Income Attributable to Parent Equity Holder	1,326	885	-12,436	3,112
Earnings/(Loss) Per Share (Basic)	0.01	-0	-1.64	0.11
Earnings/(Loss) Per Share (Diluted)	-	-	-	-

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	-1.84	-0.5
Earnings/(Loss) Per Share (Diluted)	-	-

Other Relevant Information
Please see attached Quarterly Report (SEC Form 17-Q) for the 3rd Quarter 2020 of the Company.

Filed on behalf by:

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

C O V E R S H E E T

3 1 1 7 1

S. E. C. Registration Number

P E T R O N   C O R P O R A T I O N

(Company's Full Name)

S M C   H E A D   O F F I C E   4 0   S A N   M I G U E L

A V E.   M A N D A L U Y O N G   C I T Y

(Business Address: No. Street City / Town / Province)

ATTY. JOEL ANGELO C. CRUZ

Contact Person

8-884-9200

Company Telephone Number

1 2 - 3 1

Month Day

Fiscal Year

SEC Form 17-Q 3rd Quarter 2020

FORM TYPE

0 6 0 2

Month Day

Annual Meeting

(For 2020)

Permit to offer securities

Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

Total Amount of Borrowings

145,096 (as of September 30, 2020)

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

Fiscal Number

LCU

Document I. D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2020.

2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801

4. Exact name of registrant as specified in its charter PETRON CORPORATION

5. Philippines
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. Mandaluyong City, 40 San Miguel Avenue, 1550
Address of principal office Postal Code

8. (0632) 8-884-9200
Registrant's telephone number, including area code

9. N/A
(Former name, former address, and former fiscal year, if changed since last report.)

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (As of September 30, 2020)
Common Stock	9,375,104,497 Shares
Preferred Stock Series 2B	2,877,680 Shares
Preferred Stock Series 3A	13,403,000 Shares
Preferred Stock Series 3B	6,597,000 Shares
Total Liabilities	P265,000 Million

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

Yes [X]   No [ ]

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

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

12. Indicate by check mark whether the Registrant:

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

Yes [X]   No [ ]

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

Yes [X]   No [ ]

Page No.

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

	Note	Unaudited September 30 2020	Audited December 31 2019
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 9*	**P34,748**	P34,218
Financial assets at fair value	*8, 9*	**1,726**	864
Investments in debt instruments	*8, 9*	**222**	109
Trade and other receivables - net	*6, 8, 9*	**26,182**	44,657
Inventories		**42,350**	72,210
Other current assets	*6*	**29,898**	27,430
Total Current Assets		**135,126**	179,488
Noncurrent Assets			
Investments in debt instruments	*8, 9*	**197**	311
Property, plant and equipment - net	*4, 5*	**167,474**	167,941
Right-of-use assets - net		**5,251**	5,509
Investment property - net		**29,534**	29,935
Deferred tax assets - net		**2,180**	262
Goodwill - net		**7,874**	8,319
Other noncurrent assets - net	*8, 9*	**2,457**	3,070
Total Noncurrent Assets		**214,967**	215,347
		P350,093	P394,835

	Note	Unaudited September 30 2020	Audited December 31 2019
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*7, 8, 9*	**P83,654**	P71,090
Liabilities for crude oil and petroleum products	*8, 9*	**20,724**	39,362
Trade and other payables	*6, 8, 9*	**13,400**	28,741
Lease liabilities – current portion		**1,220**	1,295
Derivative liabilities	*8, 9*	**1,113**	738
Income tax payable		**186**	267
Current portion of long-term debt - net	*8, 9*	**5,921**	16,881
Total Current Liabilities		**126,218**	158,374

Forward

	Note	Unaudited September 30 2020	Audited December 31 2019
Noncurrent Liabilities			
Long-term debt - net of current portion and debt issue costs	*8, 9, 10*	**P115,448**	P116,196
Retirement benefits liability		**2,830**	3,565
Deferred tax liabilities - net		**2,873**	6,348
Lease liabilities - net of current portion	*8, 9*	**13,973**	14,454
Asset retirement obligation		**1,784**	1,720
Other noncurrent liabilities	*8, 9*	**1,874**	1,748
Total Noncurrent Liabilities		**138,782**	144,031
Total Liabilities		**265,000**	302,405
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**9,485**	9,485
Additional paid-in capital		**37,500**	37,500
Capital securities	*10*	**36,530**	25,183
Retained earnings		**29,232**	45,510
Equity reserves		**(18,697)**	(16,899)
Treasury stock		**(15,122)**	(15,122)
Total Equity Attributable to Equity Holders of the Parent Company		**78,928**	85,657
Non-controlling Interests		**6,165**	6,773
Total Equity		**85,093**	92,430
		P350,093	P394,835

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

Certified by:

Myrna C. Geronimo

MYRNA C. GERONIMO
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	**2020**	2019	**2020**	2019
SALES	*4*	**P64,073**	P126,849	**P216,430**	P381,656
COST OF GOODS SOLD		**56,888**	119,166	**217,238**	356,672
GROSS PROFIT (LOSS)		**7,185**	7,683	**(808)**	24,984
SELLING AND ADMINISTRATIVE EXPENSES		**(3,066)**	(3,728)	**(9,978)**	(11,761)
OTHER OPERATING INCOME		**60**	129	**422**	648
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*4*	**(2,549)**	(3,045)	**(8,342)**	(9,674)
INTEREST INCOME	*4*	**128**	347	**537**	861
OTHER INCOME (EXPENSE) - Net		**693**	71	**261**	(340)
		(4,734)	(6,226)	**(17,100)**	(20,266)
INCOME (LOSS) BEFORE INCOME TAX		**2,451**	1,457	**(17,908)**	**4,718**
INCOME TAX EXPENSE (BENEFIT)	*4*	**821**	454	**(5,302)**	**1,095**
NET INCOME (LOSS)		**P1,630**	P1,003	**(P12,606)**	P3,623
Attributable to:					
Equity holders of the Parent Company		**P1,326**	P885	**(P12,436)**	P3,112
Non-controlling interests		**304**	118	**(170)**	511
		P1,630	P1,003	**(P12,606)**	P3,623
BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	*11*	**P0.01**	P0.01	**(P1.64)**	P0.11

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

Certified by:

Myrna C. Geronimo

MYRNA C. GERONIMO
Vice President - Controllers

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

	July to September		January to September	
	2020	2019	**2020**	2019
NET INCOME (LOSS)	**P1,630**	P1,003	**(P12,606)**	P3,623
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
Net income (loss) on cash flow hedges	**117**	(23)	**87**	(211)
Exchange differences on translation of foreign operations	**264**	65	**(2,199)**	(985)
Unrealized fair value gains (losses) on investments in debt instruments at fair value through other comprehensive income (FVOCI)	**(1)**	4	**2**	14
Share in other comprehensive income of a joint venture	**-**	-	**1**	-
Income tax benefit (expense)	**(35)**	6	**(27)**	59
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**345**	52	**(2,136)**	(1,123)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD - Net of tax	**P1,975**	P1,055	**(P14,742)**	P2,500
Attributable to:				
Equity holders of the Parent Company	**P1,647**	P938	**(P14,234)**	P2,139
Non-controlling interests	**328**	117	**(508)**	361
	P1,975	P1,055	**(P14,742)**	P2,500

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

Certified by:

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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										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of January 1, 2020 (Audited)		P9,485	P37,500	P25,183	P15,000	P30,510	(P4,704)	(P12,195)	(P15,122)	P85,657	P6,773	P92,430
Net loss on cash flow hedges - net of tax		-	-	-	-	-	-	60	-	60	-	60
Unrealized fair value gain on investments in debt instruments at FVOCI - net of tax		-	-	-	-	-	-	2	-	2	-	2
Share in other comprehensive income of a joint venture		-	-	-	-	-	-	1	-	1	-	1
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(1,861)	-	(1,861)	(338)	(2,199)
Other comprehensive loss for the period		-	-	-	-	-	-	(1,798)	-	(1,798)	(338)	(2,136)
Net loss for the period		-	-	-	-	(12,436)	-	-	-	(12,436)	(170)	(12,606)
Total comprehensive loss for the period		-	-	-	-	(12,436)	-	(1,798)	-	(14,234)	(508)	(14,742)
Cash dividends	*12*	-	-	-	-	(2,128)	-	-	-	(2,128)	(100)	(2,228)
Distributions paid	*12*	-	-	-	-	(1,714)	-	-	-	(1,714)	-	(1,714)
Issuance of capital securities	*10*	-	-	11,347	-	-	-	-	-	11,347	-	11,347
Transactions with owners		-	-	11,347	-	(3,842)	-	-	-	7,505	(100)	7,405
As of September 30, 2020 (Unaudited)		P9,485	P37,500	P36,530	P15,000	P14,232	(P4,704)	(P13,993)	(P15,122)	P78,928	P6,165	P85,093

Forward

		Equity Attributable to Equity Holders of the Parent Company										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
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	12	-	-	-	-	(1,770)	-	-	-	(1,770)	(174)	(1,944)
Distributions paid	12	-	-	-	-	(1,697)	-	-	-	(1,697)	-	(1,697)
Issuance of preferred shares		-	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

Certified by:

MYRNA C. GERONIMO
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	
	Note	**2020**	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax		**(P17,908)**	P4,718
Adjustments for:			
Depreciation and amortization	*4*	**6,678**	9,638
Interest expense and other financing charges	*4*	**8,342**	9,674
Retirement benefits costs		**92**	83
Unrealized foreign exchange gains - net		**(1,898)**	(1,347)
Interest income	*4*	**(536)**	(861)
Other gains		**(1,115)**	(666)
Operating income (loss) before working capital changes		**(6,345)**	21,239
Changes in noncash assets, certain current liabilities and others		**12,948**	8,806
Cash generated from operations		**6,603**	30,045
Contributions to retirement fund		**(255)**	(100)
Interest paid		**(8,568)**	(8,911)
Income taxes paid		**(93)**	(651)
Interest received		**635**	874
Net cash flows provided by (used in) operating activities		**(1,678)**	21,257
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	*5*	**(5,571)**	(14,785)
Proceeds from sale of property and equipment		**83**	58
Additions to investment property		**(943)**	(143)
Proceeds from sale of investment property		**-**	114
Reductions from (additions to) financial assets at FVOCI		**2**	(31)
Increase in other noncurrent assets		**(42)**	(542)
Net cash flows used in investing activities		**(6,471)**	(15,329)

Forward

	Note	For the Nine Months Ended September 30 2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans	*7*	**P123,314**	P313,079
Payments of:			
Loans	*7, 10*	**(119,794)**	(299,076)
Cash dividends and distributions	*12*	**(3,920)**	(3,617)
Lease liabilities		**(940)**	(920)
Issuance of preferred shares		**-**	19,848
Issuance of capital securities	*10*	**11,347**	-
Net cash flows provided by financing activities		**10,007**	29,314
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(1,328)**	(318)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**530**	34,924
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**34,218**	17,405
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**P34,748**	P52,329

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

Certified by:

Myrna C. Geronimo

MYRNA C. GERONIMO
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.

On February 20, 2019, the President of the Philippines signed into law the Republic Act No. 11232 or the Revised Corporation Code of the Philippines (Revised Code). The Revised Code expressly repeals Batas Pambansa Blg. 68 or the Corporation Code of the Philippines. Section 11 of the Revised Code states that a corporation shall have perpetual existence unless the articles of incorporation provides otherwise. Corporations with certificates of incorporation issued prior to the effectivity of this Revised Code, and which continue to exist, shall have perpetual existence, unless the corporation, upon vote of its stockholders representing a majority of its outstanding capital stock, notifies the SEC that it elects to retain its specific corporate term pursuant to its articles of incorporation: Provided, that any change in the corporate term under this section is without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of this Revised Code. The Revised Code took effect on February 23, 2019.

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. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended September 30, 2020 and comparative financial statements for the same period in 2019 following the presentation rules under Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on November 3, 2020.

The consolidated financial statements are presented in Philippine peso and all financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent annual audited consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of Amended Standards and Framework

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

Amended Standards and Framework Adopted in 2020

The Group has adopted the following PFRS effective January 1, 2020:

- Amendments to References to Conceptual Framework in PFRS set out amendments to PFRS, 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's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (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 make other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). The amendments narrowed and clarified the definition of a business. The amendments 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: (a) 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; (b) 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 (c) 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.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments 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 what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

- Interest Rate Benchmark Reform *(*Amendments to PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures)*. The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:

  - *The Highly Probable Requirement*. When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

  - *Prospective Assessments*. When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

  - *PAS 39 Retrospective Assessment*. An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.

  - *Separately Identifiable Risk Components*. For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

  An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows or the hedging relationship is discontinued. End of application does not apply to the test for separately identifiable risk components.

  Specific disclosure requirements apply to hedging relationships affected by the amendments including information about the significant interest rate benchmarks, extent of risk exposure directly affected by the reform, how the entity manages the process to transition to alternative benchmark rates, significant assumptions and judgements made in applying the exceptions, and the nominal amount of the hedging instruments in those hedging relationships.

The Group has adopted the below PFRS, effective June 1, 2020:

- Coronavirus Disease 2019 (COVID-19) Related Rent Concessions (Amendment to PFRS 16, *Leases*). The amendment introduces an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

  The practical expedient will only apply if all of the following conditions are met: (a) the revised consideration is substantially the same or less than the original consideration; (b) the reduction in lease payments relates to payments originally due on or before June 30, 2021; and (c) no other substantive changes have been made to the terms and conditions of the lease.

Except as otherwise indicated, the adoption of the amended standards and framework did not have a material effect on the interim consolidated financial statements.

<u>New and Amended Standards Not Yet Adopted</u>
A number of new and amended standards are effective for annual periods beginning after January 1, 2020 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

The Group will adopt the following new and amended standards on the respective effective dates:

- Property, Plant and Equipment - Proceeds Before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The sales proceeds, together with the costs of production associated with the sales are recognized in profit or loss.

  The amendments apply for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- Onerous Contracts: Costs of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the costs of fulfilling a contract comprise both the incremental costs (e.g., direct labor and materials); and an allocation of other direct costs (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

  The amendments apply for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- Annual Improvements to PFRS 2018 - 2020 Cycle contain changes to four standards, of which the following are applicable to the Group:

  - Fees Included in the 10 per cent Test for Derecognition of Financial Liabilities (Amendment to PFRS 9). The amendment clarifies that for the purpose of performing the 10 per cent test for derecognition of financial liabilities, in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

  - Illustrative Examples Accompanying PFRS 16 (Amendment to PFRS 16). The amendment removes the illustration of payments from the lessor relating to leasehold improvements.

  - Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement*.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- Reference to the Conceptual Framework (Amendments to PFRS 3). The amendments updated PFRS 3 to refer to the 2018 Conceptual Framework; added a requirement that, for transactions and other events within the scope of PAS 37 or Philippine Interpretation IFRIC 21, *Levies*, an entity applies PAS 37 or Philippine Interpretation IFRIC 21 instead of the 2018 Conceptual Framework to identify the liabilities it has assumed in a business combination; and added an explicit statement that an entity does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022, with early application permitted.

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, *Insurance Contracts*, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract, and considers 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; c) separately from insurance finance income or expenses; and (d) 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 other comprehensive income.

  PFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. 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.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). The amendments clarify that the classification of a liability as current or noncurrent is based on the rights that exist at the end of the reporting period; specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; add guidance about lending conditions and how these can impact the classification; and include requirements for liabilities that can be settled using an entity's own instruments.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023, with early application permitted.

  Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures*: 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 and PAS 28). The amendments address an inconsistency in the requirements in PFRS 10 and 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 reporting 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 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.

3. 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.

Except as described below, 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, 2019.

For financial reporting purposes starting January 1, 2020, the Parent Company adopted the usage method of accounting for depreciation of assets used in production based on capacity utilization. Previously, depreciation was computed using the straight-line method over the estimated useful lives of the assets.

4. Segment Information

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

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

a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.

b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

c. Lease of acquired real estate properties and equipment for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.

d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.

e. Export sales of various petroleum and non-fuel products to other countries such as China, Singapore, Taiwan, Vietnam, Hongkong, Indonesia, Malaysia, South Korea 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.

<u>Segment Assets and Liabilities</u>

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, 2020, December 31, 2019 and September 30, 2019:

	Petroleum	**Insurance**	**Leasing****	**Marketing**	**Elimination/ Others****	**Total**
September 30, 2020						
Revenue:						
External sales	**P214,918**	**P -**	**P861**	**P474**	**P177**	**P216,430**
Inter-segment sales	**64,205**	**78**	**312**	**-**	**(64,595)**	**-**
Operating income (loss)	**(10,860)**	**61**	**206**	**57**	**172**	**(10,364)**
Net income (loss)	**(11,836)**	**95**	**104**	**56**	**(1,025)**	**(12,606)**
Assets and liabilities:						
Segment assets*	**386,388**	**4,774**	**9,937**	**704**	**(53,890)**	**347,913**
Segment liabilities*	**274,553**	**3,324**	**4,969**	**111**	**(20,830)**	**262,127**
Other segment information:						
Property, plant and equipment - net	**166,928**	**-**	**-**	**111**	**435**	**167,474**
Depreciation and amortization	**6,730**	**-**	**7**	**(65)**	**6**	**6,678**
Interest expense	**8,456**	**-**	**236**	**-**	**(350)**	**8,342**
Interest income	**588**	**25**	**173**	**5**	**(254)**	**537**
Income tax expense (benefit)	**(5,360)**	**11**	**39**	**6**	**2**	**(5,302)**

**excluding deferred tax assets and liabilities*

***revenues from the use of loaned equipment are presented as part of leasing while revenues from customer loyalty program and provisions of technical support are presented as part of others.*

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
December 31, 2019						
Revenue:						
External sales	P511,921	P -	P1,099	P961	P381	P514,362
Inter-segment sales	228,613	102	406	-	(229,121)	-
Operating income	15,579	78	271	132	139	16,199
Net income	5,017	70	140	137	(3,061)	2,303
Assets and liabilities:						
Segment assets*	444,239	4,355	9,901	673	(64,595)	394,573
Segment liabilities*	319,412	2,981	5,046	136	(31,518)	296,057
Other segment information:						
Property, plant and equipment - net	167,260	-	-	123	558	167,941
Depreciation and amortization	13,326	-	9	(92)	2	13,245
Interest expense	13,647	-	322	2	(481)	13,490
Interest income	1,388	44	240	15	(347)	1,340
Income tax expense	1,346	26	49	15	(2)	1,434

**excluding deferred tax assets and liabilities*

***revenues from the use of loaned equipment are presented as part of leasing while revenues from customer loyalty program and provisions of technical support are presented as part of other.*

	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.*

Inter-segment sales transactions amounted to P64,595, P229,121 and P158,526 for the periods ended September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended September 30, 2020, December 31, 2019 and September 30, 2019:

	Retail	**Lube**	**Gasul**	**Industrial**	**Others**	**Total**
September 30, 2020						
Revenue	**P109,525**	**P2,525**	**P15,062**	**P47,177**	**P40,629**	**P214,918**
Property, plant and equipment	**8,423**	**39**	**268**	**14**	**158,184**	**166,928**
Capital expenditures	**1,966**	**1**	**11**	**-**	**19,840**	**21,818**
December 31, 2019						
Revenue	P249,210	P4,474	P25,745	P125,314	P108,658	P513,401
Property, plant and equipment	9,949	40	303	100	156,868	167,260
Capital expenditures	1,892	2	5	-	14,951	16,850
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

Geographical Segments

The following table presents segment assets of the Group as of September 30, 2020, December 31, 2019 and September 30, 2019:

	September 30, 2020	December 31, 2019	September 30, 2019
Local	**P286,700**	P323,518	P315,367
International	**61,213**	71,055	79,643
	P347,913	P394,573	P395,010

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, 2020, December 31, 2019 and September 30, 2019:

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
September 30, 2020						
Local	**P125,293**	**P23**	**P1,173**	**P474**	**(P483)**	**P126,480**
Export/international	**153,830**	**55**	**-**	**-**	**(63,935)**	**89,950**
December 31, 2019						
Local	P301,148	P60	P1,506	P961	(P2,230)	P301,445
Export/international	440,865	42	-	-	(227,990)	212,917
September 30, 2019						
Local	P223,813	P42	P1,317	P710	(P768)	P225,114
Export/international	314,021	(7)	-	-	(157,472)	156,542

***revenues from the use of loaned equipment are presented as part of leasing while revenues from consumer loyalty program and provisions of technical support are presented as part of others.*

5. Property, Plant and Equipment

The movements and balances as of and for the periods ended September 30, 2020 and December 31, 2019 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, 2019 (Audited)	P20,132	P188,237	P17,808	P5,239	P4,818	P12,328	P248,562
Adjustment due to adoption of PFRS 16	(918)	(1,816)	(176)	-	(262)	-	(3,172)
Janaury 1, 2019 (as adjusted)	19,214	186,421	17,632	5,239	4,556	12,328	245,390
Additions	1,630	6,000	1,769	216	20	10,173	19,808
Disposals/reclassifications	3,099	183	121	243	1,237	(5,471)	(588)
Reclassification to investment property	(844)	-	-	-	(1,275)	-	(2,119)
Currency translation adjustment	(382)	(153)	(242)	(46)	(376)	(158)	(1,357)
December 31, 2019 (Audited)	22,717	192,451	19,280	5,652	4,162	16,872	261,134
Additions	**130**	**309**	**599**	**279**	**-**	**4,747**	**6,064**
Disposals/reclassifications	**868**	**530**	**58**	**(78)**	**48**	**(2,425)**	**(999)**
Currency translation adjustment	**(247)**	**(672)**	**(503)**	**(104)**	**(105)**	**(501)**	**(2,132)**
September 30, 2020 (Unaudited)	**23,468**	**192,618**	**19,434**	**5,749**	**4,105**	**18,693**	**264,067**
Accumulated Depreciation and Amortization:							
January 1, 2019 (Audited)	12,827	54,077	12,379	4,204	1,091	-	84,578
Adjustment due to adoption of PFRS 16	(450)	(193)	(63)	-	-	-	(706)
Janaury 1, 2019 (as adjusted)	12,377	53,884	12,316	4,204	1,091	-	83,872
Additions	888	7,755	1,081	520	91	-	10,335
Disposals/reclassifications	(61)	(35)	(442)	(17)	(4)	-	(559)
Reclassification to investment property	126	-	-	-	(18)	-	108
Currency translation adjustment	(125)	(214)	(123)	(35)	(66)	-	(563)
December 31, 2019 (Audited)	13,205	61,390	12,832	4,672	1,094	-	93,193
Additions*	**641**	**2,721**	**760**	**327**	**68**	**-**	**4,517**
Disposals/reclassifications	**(46)**	**(2)**	**(28)**	**(46)**	**3**	**-**	**(119)**
Currency translation adjustment	**(145)**	**(498)**	**(274)**	**(81)**	**-**	**-**	**(998)**
September 30, 2020 (Unaudited)	**13,655**	**63,611**	**13,290**	**4,872**	**1,165**	**-**	**96,593**
Carrying Amount:							
December 31, 2019 (Audited)	P9,512	P131,061	P6,448	P980	P3,068	P16,872	P167,941
September 30, 2020 (Unaudited)	**P9,813**	**P129,007**	**P6,144**	**P877**	**P2,940**	**P18,693**	**P167,474**

** Depreciation expense for Refinery and Plant Equipment for the period under the Straight-line method amounts to P6,140 million.*

In 2019, certain property, plant and equipment were reclassified to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party.

The Group capitalized interest amounting to P493 in 2020. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 1.34% to 8.20% in 2020.

Capital Commitments

As of September 30, 2020 and December 31, 2019, the Group has outstanding commitments to acquire property, plant and equipment amounting to P12,019 and P20,798, respectively.

6. 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, 2020 and December 31, 2019 follow:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	*a*	**2020**	**P74**	**P -**	**P1,543**	**P46**	On demand;	Unsecured;
		2019	113	-	1,971	-	long-term; interest bearing	no impairment
Intermediate Parent	*b,e,g,h*	**2020**	**6**	**123**	**7**	**212**	On demand;	Unsecured;
		2019	13	228	8	95	non-interest bearing	no impairment
Under Common Control	*b,c,d, g,h,i*	**2020**	**3,687**	**3,358**	**1,846**	**1,811**	On demand;	Unsecured;
		2019	6,246	4,904	1,296	2,015	non-interest bearing	no impairment
Joint Ventures	*c,f,g,h*	**2020**	**-**	**-**	**3**	-	On demand;	Unsecured
		2019	-	52	1	-	non-interest bearing	no impairment
		2020	**P3,767**	**P3,481**	**P3,399**	**P2,069**		
		2019	P6,372	P5,184	P3,276	P2,110		

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 the Intermediate Parent, 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 6,852 square meters with a monthly rental of P6. The lease, which commenced on June 1, 2018, is for a period of one year and 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. Amounts owed by related parties consist of trade and non-trade receivables, advances and prepaid expenses.

h. Amounts owed to related parties consist of trade and non-trade payables.

i. 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.

7. Loans and Borrowings

Short-term Loans

The movements of short-term loans for nine months ended September 30, 2020 follow:

Balance as of January 1, 2020	**P71,090**
Loan availments	**104,410**
Loan repayments	**(91,634)**
Currency translation adjustment	**(212)**
Balance as of September 30, 2020	**P83,654**

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 1 to 91 days and annual interest ranging from 0.92% to 6.75% and 2.30% to 8.50% as of and for the periods ended September 30, 2020 and December 31, 2019, 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, provisions relating to the maintenance of certain financial ratio(s); 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; and a one-time automatic waiver of compliance with financial ratios upon written notice to the lenders and without need of further action from the latter.

As of September 30, 2020 and December 31, 2019, the Group has complied with the provisions of its debt agreements.

8. 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 forward currency and option contracts to hedge its currency exposure on crude oil importations and long-term dollar loan respectively.

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 (CRMD), which sets new and updates existing hedging policies by the BOD, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.

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.

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, 2020		December 31, 2019	
	US dollar (in millions)	**Philippine peso Equivalent**	US dollar (in millions)	Philippine peso Equivalent
Assets				
Cash and cash equivalents	**494**	**23,945**	491	24,841
Trade and other receivables	**94**	**4,544**	264	13,364
Other assets	**32**	**1,570**	13	649
	620	**30,059**	768	38,854
Liabilities				
Short-term loans	**139**	**6,746**	32	1,605
Liabilities for crude oil and petroleum products	**366**	**17,764**	743	37,645
Long-term debt (including current maturities)	**1,263**	**61,218**	1,454	73,638
Other liabilities	**171**	**8,259**	469	23,754
	1,939	**93,987**	2,698	136,642
Net foreign currency -denominated monetary liabilities	**(1,319)**	**(63,928)**	(1,930)	(97,788)

The Group incurred net foreign currency exchange gains amounting to P2,099 and P839 for the periods ended September 30, 2020 and 2019, respectively, which were mainly countered by marked-to-market and hedging gains or losses (Note 9). 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, 2020	**48.495**
December 31, 2019	50.635
September 30, 2019	51.830

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, 2020 and December 31, 2019:

	P1 Decrease in the US dollar Exchange Rate		**P1 Increase in the US dollar Exchange Rate**	
September 30, 2020	**Effect on Income Before Income Tax**	**Effect on Equity**	**Effect on Income Before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P393)**	**(P376)**	**P393**	**P376**
Trade and other receivables	**(33)**	**(86)**	**33**	**86**
Other assets	**(13)**	**(28)**	**13**	**28**
	(439)	**(490)**	**439**	**490**
Short-term loans	**50**	**124**	**(50)**	**(124)**
Liabilities for crude oil and petroleum products	**247**	**539**	**(247)**	**(539)**
Long-term debts (including current maturities)	**1,263**	**884**	**(1,263)**	**(884)**
Other liabilities	**48**	**157**	**(48)**	**(157)**
	1,608	**1,704**	**(1,608)**	**(1,704)**
	P1,169	**P1,214**	**(P1,169)**	**(P1,214)**

December 31, 2019	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
Cash and cash equivalents	(P365)	(P381)	P365	P381
Trade and other receivables	(110)	(248)	110	248
Other assets	(8)	(10)	8	10
	(483)	(639)	483	639
Short-term loans	-	32	-	(32)
Liabilities for crude oil and petroleum products	434	1,048	(434)	(1,048)
Long-term debts (including current maturities)	1,454	1,018	(1,454)	(1,018)
Other liabilities	374	357	(374)	(357)
	2,262	2,455	(2,262)	(2,455)
	P1,779	P1,816	(P1,779)	(P1,816)

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 consolidated interim statements of income.

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 consolidated interim statements of income, 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 P612 and P736 for the period ended September 30, 2020 and for the year ended December 31, 2019, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

As of September 30, 2020 and December 31, 2019, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

September 30, 2020	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso - denominated	P5,955	P19,893	P4,268	P23,593	P938	P6,800	P61,447
Interest rate	4.6% - 5.8%	4.0% - 5.8%	4.6% - 5.8%	4.5% - 7.8%	4.6%	8.1%	
Floating Rate							
Foreign currency - denominated (expressed in PhP)	-	26,853	20,327	13,053	984	-	61,217
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	-	
	P5,955	P46,746	P24,595	P36,646	P1,922	P6,800	P122,664

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

December 31, 2019	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso - denominated	P5,643	P18,643	P5,643	P9,143	P14,807	P6,800	P60,679
Interest rate	5.5% - 5.8%	4.0% - 5.8%	5.5% - 5.8%	4.5% - 5.5%	5.5% - 7.8%	8.1%	
Floating Rate							
Foreign currency - denominated (expressed in PhP)	11,429	26,041	18,807	11,574	5,787	-	73,638
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	-	
	P17,072	P44,684	P24,450	P20,717	P20,594	P6,800	P134,317

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

<u>Credit Risk</u>

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, 2020	December 31, 2019
Cash in banks and cash equivalents	**P33,749**	P32,049
Derivative assets	**1,470**	746
Investments in debt instruments	**419**	420
Trade and other receivables - net	**26,182**	44,657
Noncurrent deposits	**118**	104
	P61,938	P77,976

Cash and Cash Equivalents, Derivative Assets and Noncurrent Deposits

Cash 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 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 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
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
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 4.

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 P4,942 and P7,921 as of September 30, 2020 and December 31, 2019, respectively. These securities may only be called on or applied upon default of customers.

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, 2020					
	Financial Assets at Amortized Cost					
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Financial Assets at Fair Value Through Profit or Loss (FVPL)**	**Financial Assets at FVOCI**	**Total**
Cash in banks and cash equivalents	**P33,749**	**P -**	**P -**	**P -**	**P -**	**P33,749**
Trade and other receivables	**-**	**26,182**	**1,002**	**-**	**-**	**27,184**
Derivative assets not designated as cash flow hedge	**-**	**-**	**-**	**1,465**	**-**	**1,465**
Derivative assets designated as cash flow hedge	**-**	**-**	**-**	**-**	**5**	**5**
Proprietary membership shares	**-**	**-**	**-**	**274**	**-**	**274**
Investments in debt instruments	**255**	**-**	**-**	**-**	**164**	**419**
Long-term receivables	**-**	**-**	**301**	**-**	**-**	**301**
Noncurrent deposits	**118**	**-**	**-**	**-**	**-**	**118**
	P34,122	**P26,182**	**P1,303**	**P1,739**	**P169**	**P63,515**

	December 31, 2019					
	Financial Assets at Amortized Cost					
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash in banks and cash equivalents	P32,049	P -	P -	P -	P -	P32,049
Trade and other receivables	-	44,657	942	-	-	45,599
Derivative assets not designated as cash flow hedge	-	-	-	546	-	546
Derivative assets designated as cash flow hedge	-	-	-	-	200	200
Proprietary membership shares	-	-	-	284	-	284
Investments in debt instruments	257	-	-	-	163	420
Long-term receivables	-	-	318	-	-	318
Noncurrent deposits	104	-	-	-	-	104
	P32,410	P44,657	P1,260	P830	P363	P79,520

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, 2020 and December 31, 2019.

September 30, 2020	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	**P34,748**	**P34,748**	**P34,748**	**P -**	**P -**	**P -**
Trade and other receivables - net	**26,182**	**26,182**	**26,182**	**-**	**-**	**-**
Derivative assets (including noncurrent portion)	**1,470**	**1,470**	**1,451**	**19**	**-**	**-**
Proprietary membership shares	**274**	**274**	**274**	**-**	**-**	**-**
Investments in debt instruments	**419**	**439**	**233**	**83**	**123**	**-**
Noncurrent deposits	**118**	**118**	**-**	**-**	**3**	**115**
Financial Liabilities						
Short-term loans	**83,654**	**83,900**	**83, 900**	**-**	**-**	**-**
Liabilities for crude oil and petroleum products	**20,724**	**20,724**	**20,724**	**-**	**-**	**-**
Trade and other payables*	**7,707**	**7,707**	**7,707**	**-**	**-**	**-**
Derivative liabilities (including noncurrent portion)	**1,459**	**1,459**	**1,113**	**252**	**94**	**-**
Long-term debts (including current maturities)	**121,369**	**135,604**	**10,642**	**50,070**	**67,955**	**6,937**
Lease liability (including current portion)	**15,193**	**27,189**	**2,125**	**1,849**	**5,178**	**18,037**
Cash bonds	**946**	**946**	**-**	**930**	**15**	**1**
Cylinder deposits	**528**	**528**	**-**	**-**	**-**	**528**
Other noncurrent liabilities**	**54**	**54**	**-**	**15**	**21**	**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, 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	P34,218	P34,218	P34,218	P -	P -	P -
Trade and other receivables - net	44,657	44,657	44,657	-	-	-
Derivative assets (including noncurrent portion)	746	746	580	73	93	-
Proprietary membership shares	284	284	284	-	-	-
Investments in debt instruments	420	448	123	152	173	-
Noncurrent deposits	104	104	-	-	3	101
Financial Liabilities						
Short-term loans	71,090	71,466	71,466	-	-	-
Liabilities for crude oil and petroleum products	39,362	39,362	39,362	-	-	-
Trade and other payables*	24,679	24,679	24,679	-	-	-
Derivative liabilities (including noncurrent portion)	1,075	1,075	738	248	89	-
Long-term debts (including current maturities)	133,077	152,552	23,951	49,232	72,129	7,240
Lease liability (including current portion)	15,749	22,736	1,938	1,747	4,547	14,504
Cash bonds	750	750	-	732	2	16
Cylinder deposits	608	608	-	-	-	608
Other noncurrent liabilities**	53	53	-	24	10	19

**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 consumer (buy) hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost. While 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.

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 CRMD 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, 2020	December 31, 2019
Total assets	**P350,093**	P394,835
Total liabilities	**265,000**	302,405
Total equity	**85,093**	92,430
Debt to equity ratio	**3.1:1**	3.3:1
Assets to equity ratio	**4.1:1**	4.3:1

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.

9. Financial Assets and Financial Liabilities

Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

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

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;

- prepayment and extension features; and

- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

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.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in consolidated interim statements of income 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 at amortized cost, noncurrent receivables and deposits and restricted cash are included under this category.

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

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.

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 consolidated interim statements of income. 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 consolidated interim statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in consolidated interim statements of income 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 consolidated interim statements of income.

The Group's investments in equity and debt instruments at FVOCI are classified under this category.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes 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, the Group may be irrevocably designate a financial asset 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 consolidated interim statements of income as incurred. Changes in fair value and realized gains or losses are recognized in consolidated interim statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in OCI. Any interest earned from investment in debt instrument accounted as at FVPL is recognized in consolidated interim statements of income. Any dividend income from investment in equity instrument classified as at FVPL is recognized in consolidated interim statements of income 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 determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. 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 consolidated interim statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in OCI and presented in the consolidated interim statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in consolidated interim statements of income.

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 effective interest rate amortization is included in "Interest expense and other financing charges" account in consolidated interim statements of income. Gains and losses are recognized in consolidated interim statements of income when the liabilities are derecognized as well as through the amortization process.

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 consolidated interim statements of income.

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities 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 consolidated interim statements of income.

Impairment of Financial Assets

The Group recognizes allowance for expected credit loss (ECL) on 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 restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;

(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

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in consolidated interim statements of income. The ECLs on investments in debt instruments at FVOCI are recognized as accumulated impairment losses in OCI, with the resulting impairment losses (or reversals) recognized in consolidated interim statements of income.

<u>Classification of Financial Instruments between Liability and Equity</u>

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.

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.

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	**P34,748**	**P34,748**	P34,218	P34,218
Trade and other receivables – net	**26,182**	**26,182**	44,657	44,657
Investments in debt instruments	**255**	**255**	257	257
Noncurrent deposits	**118**	**118**	104	104
FA at amortized cost	**61,303**	**61,303**	79,236	79,236
Investments in debt instruments	**165**	**165**	163	163
Derivative assets designated as cash flow hedge	**5**	**5**	200	200
FA at FVOCI	**170**	**170**	363	363
Proprietary membership shares	**274**	**274**	284	284
Derivative assets not designated as cash flow hedge	**1,465**	**1,465**	546	546
FA at FVPL	**1,739**	**1,739**	830	830
Total financial assets	**P63,212**	**P63,212**	P80,429	P80,429

	September 30, 2020		December 31, 2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial liabilities (FL):				
Short-term loans	**P83,654**	**P83,654**	P71,090	P71,090
Liabilities for crude oil and petroleum products	**20,724**	**20,724**	39,362	39,362
Trade and other payables*	**7,707**	**7,707**	24,679	24,679
Long-term debts including current portion	**121,369**	**121,369**	133,077	133,077
Derivative liabilities designated as cash flow hedge	**569**	**569**	724	724
Cash bonds	**946**	**946**	750	750
Cylinder deposits	**528**	**528**	608	608
Other noncurrent liabilities**	**53**	**53**	53	53
Other FL	**235,550**	**235,550**	270,343	270,343
Derivative liabilities not designated as cash flow hedge	**890**	**890**	351	351
Total financial liabilities	**P236,440**	**P236,440**	P270,694	P270,694

**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 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 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 valuation model based on applicable market rates of similar instruments.

Financial Assets at FVPL. The fair values of publicly traded instruments and similar investments are based on published market prices.

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. Effective rates used as of September 30, 2020 and December 31, 2019 are 7.54% and 7.57% respectively.

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 uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate 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. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. 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" account in the consolidated interim statements of changes in equity. 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 recognozed 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 consolidated interim statements of income 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 consolidated interim statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect consolidated interim statements of income.

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: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to consolidated interim statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect consolidated interim statements of income, for other cash flow hedges.. 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:

	Maturity			
September 30, 2020	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign currency risk				
Call spread swaps				
Notional amount (in million)		**US$100**		**US$100**
Average strike rate		**P52.41 to P54.94**		
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount (in million)		**US$40**	**US$40**	**US$80**
Average strike rate		**P47.00 to P57.00**	**P47.00 to P56.50**	
Fixed interest rate		**4.19% to 5.75%**	**4.19% to 5.75%**	
Interest Rate Risk				
Interest Rate Collar				
Notional amount (in million)		**US$30**	**US$60**	**US$90**
Interest rate		**0.44% to 1.99%**	**0.44% to 1.99%**	

	Maturity			
December 31, 2019	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign currency risk				
Call spread swaps				
Notional amount (in million)	US$129	US$146	US$73	US$348
Average strike rate	P52.71 to P55.55	P52.59 to P55.61	P52.59 to P55.75	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount (in million)	US$20	US$40	US$60	US$120
Average strike rate	P47.00 to P57.50	P47.00 to P57.00	P47.00 to P56.67	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.75%	
Interest rate risk				
Interest rate collar				
Notional amount (in million)		US$30	US$75	US$105
Interest rate		0.44% to 1.99%	0.44% to 1.99%	

The table below summarizes the amounts pertaining to the designated hedged item.

September 30, 2020	**Change in Fair Value Used for Measuring Hedge Ineffectiveness**	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign currency risk			
US dollar-denominated loan	**P86**	**P-**	**(P45)**
Foreign currency and interest rate risks			
US dollar-denominated loan	**P431**	**(P212)**	**P117**
Interest rate risks			
US dollar-denominated loan	**P34**	**(P23)**	**P-**

December 31, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated loan	P200	P-	(P139)
Foreign currency and interest rate risks			
US dollar-denominated loan	P331	(P206)	P118
Interest rate risks			
US dollar-denominated loan	(P7)	P5	P-

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

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

September 30, 2020	**Notional amount (in million)**	**Carrying Amount**		**Line tem 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$100	P18	P104	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P86)	P1	P21	P134	Other income (expenses) - net
Foreign currency and interest rate risks:									
Cross currency swap	US$80	P-	P431	Derivative liabilities, Other noncurrent liabilities	(P431)	(P146)	P92	P145	Interest Expense and other financing charges, and Other income (expenses) - net
Interest Rate Risk									
Interest Rate Collar	US$90	P-	P34	Derivative liabilities, Other noncurrent liabilities	(P34)	(P5)	P-	P5	Interest expense and other financing charges

December 31, 2019	Notional amount (in million)	Carrying Amount		Line tem 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	P156	P356	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(P200)	(P344)	P-	P254	Other income (expenses) - net
Foreign currency and interest rate risks:									
Cross currency swap	US$120	P37	P368	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P331)	P104	P205	P65	Interest Expense and other financing charges, and Other income (expenses) - net
Interest rate risk									
Interest rate collar	US$105	P7	P-	Other noncurrent assets, Derivative liabilities	P7	P-	P-	P-	

No ineffectiveness was recognized in the 2020 and 2019 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, 2020		December 31, 2019	
	Hedging Reserve	**Cost of Hedging Reserve**	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of period	**(P201)**	**(P21)**	P -	(P77)
Changes in fair value:				
Foreign currency risk	**(21)**	**1**	-	(344)
Foreign currency risk and interest rate risk	**(100)**	**(146)**	(499)	104
Interest Rate Risk	**(41)**	**(5)**	7	-
Amount reclassified to profit or loss				
Foreign currency risk	**21**	**134**	-	254
Foreign currency risk and interest rate risk	**92**	**145**	205	65
Interest Rate Risk	**-**	**5**	-	-
Income tax effect	**15**	**(41)**	86	(23)
Balance at end of period	**(P235)**	**P72**	(P201)	(P21)

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

Freestanding derivatives consist of interest rate, foreign currency and commodity derivative contracts entered into by the Group.

Currency Forwards. As of September 30, 2020 and December 31, 2019, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$345 million and US$680 million, respectively, and with various maturities. As of September 30, 2020 and December 31, 2019, the fair value of these currency forwards amounted to P6 and (P160), respectively.

Call Spread Swaps. As of September 30, 2020, the Group has outstanding call spread swaps US$105 million maturing on December 2020 and June 2021. The net negative fair value of these call spread swaps amounted to P45.16 million.

Cross Currency Swaps. As of September 30, 2020, the Group has outstanding cross currency swaps with a notional amount US$30 million maturing on December 2020, May 2021 and June 2021. The net negative fair value of these cross currency swaps amounted to P138.25 million.

Interest Rate Collar. As of September 30, 2020, the Group has outstanding interest rate collar with a notional amount US$15 million maturing on May 2021. The net negative fair value of this interest rate collar amounted to 1.43 million.

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 35.3 million barrels and 12.5 million barrels as of September 30, 2020 and December 31, 2019, respectively. The estimated net receipt for these transactions amounted to P164 and P355 as of September 30, 2020 and December 31, 2019, respectively.

Commodity Options. As of September 30, 2020 the Group has outstanding 3-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 5.3 million barrels. The call and put options can be exercised at various calculation dates with specified quantities on each calculation date. The estimated net receipts for this call and put options amounted to P576 as of September 30, 2020. As of December 31, 2019, the Company has no outstanding 3-way options entered as hedge of forecasted purchases of crude oil.

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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, the net positive fair value of these embedded currency forwards is minimal.

For the periods ended September 30, 2020 and 2019, the Group recognized marked-to-market loss from freestanding and embedded derivatives amounting to P1,378 and P953, respectively.

<u>Fair Value Measurements</u>
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: (a) in the principal market for the asset or liability; or (b) 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, 2020 and December 31, 2019.

	Level 2	
	September 30, 2020	December 31, 2019
Financial Assets:		
Proprietary membership shares	**P274**	P284
Derivative assets	**1,470**	746
Investments in debt instruments	**165**	163
Financial Liabilities:		
Derivative liabilities	**(1,459)**	(1,075)

The Group has no financial instruments valued based on Level 1 and Level 3 as of September 30, 2020 and December 31, 2019. During the period, there were no transfers between, into and out of Level 1 and Level 2 fair value measurements.

10. Significant Transactions During the Period

a. On April 22, 2020, the Parent Company drew JP¥15 billion from a JP¥15 billion term loan facility signed and executed on March 27, 2020. The proceeds were used to partially prepay its US$1 billion term loan facility. The JP¥ 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 March 27, 2022. It is subject to a floating interest rate based on JP¥ LIBOR plus a spread, repriced every 1, 3 or 6 months.

b. On April 27, 2020, the Parent Company drew P5 billion from a P5 billion term loan facility which was signed and executed on April 23, 2020. The facility is subject to a fixed interest rate of 4.59% per annum and amortized over 5 years with a 12-month grace period, after which the total principal will be amortized in 16 equal quarterly payments beginning July 27, 2021. The proceeds were used for general corporate purposes.

c. On June 22, 2020, the Parent Company issued US$130 million Redeemable Perpetual Securities (RPS) used for general corporate purposes. Holders of the RPS are conferred a right to receive distributions on a quarterly basis every March 22, June 22, September 22 and December 22.

d. On August 10, 2020, the Parent Company issued additional US$100 million RPS used for general corporate purposes. Holders of the RPS are conferred a right to receive distributions on a quarterly basis every February 10, May 10, August 10 and November 10.

e. On August 26, 2020, Petron availed a US$150 million three-year long-term debt, subject to floating interest rate, that will mature on August 7, 2023. The proceeds were used to prepay part of the existing US$1.0 billion term loan facility and US$800 million loan.

f. On August 28, 2020, the Parent Company signed the Share Purchase Agreement with San Miguel Integrated Logistics Services, Inc. (SMILSI) for the sale by the Parent Company of its 201,000 shares in Petrofuel Logistics, Inc. (PLI) equal to 100% of PLI's outstanding shares for total consideration of P230. The closing of the transaction occurred on September 1, 2020.

11. Basic and Diluted Earnings (Loss) per Share

Basic and diluted earnings (loss) per share amounts for the nine months ended September 30, 2020 and 2019 are computed as follows:

	2020	2019
Net income (loss) attributable to equity holders of the Parent Company	**(P12,436)**	P3,112
Dividends on preferred shares for the period	**(1,192)**	(833)
Distributions to the holders of capital securities for the period	**(1,714)**	(1,260)
Net income (loss) attributable to common shareholders of the Parent Company (a)	**(15,342)**	P1,019
Weighted average number of common shares outstanding (in millions) (b)	**9,375**	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	**(P1.64)**	P0.11

As of September 30, 2020 and 2019, the Parent Company has no potential dilutive debt or equity instruments.

12. 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
2020				
Common	P0.10000	March 10, 2020	March 24, 2020	April 8, 2020
Series 2B	17.14575	March 10, 2020	April 7, 2020	May 4, 2020
Series 3A	17.17825	March 10, 2020	June 1, 2020	June 25, 2020
Series 3B	17.84575	March 10, 2020	June 1, 2020	June 25, 2020
Series 2B	17.14575	May 26, 2020	July 9, 2020	August 3, 2020
Series 3A	17.17825	May 26, 2020	September 2, 2020	September 25, 2020
Series 3B	17.84575	May 26, 2020	September 2, 2020	September 25, 2020
Series 2B	17.14575	August 4, 2020	October 9, 2020	November 3, 2020
Series 3A	17.17825	August 4, 2020	December 2, 2020	December 28, 2020
Series 3B	17.84575	August 4, 2020	December 2, 2020	December 28, 2020
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
Series 3A	17.17825	November 5, 2019	December 2, 2019	December 26, 2019
Series 3B	17.84575	November 5, 2019	December 2, 2019	December 26, 2019
Series 2B	17.14575	November 5, 2019	January 14, 2020	February 3, 2020
Series 3A	17.17825	November 5, 2019	March 2, 2020	March 25, 2020
Series 3B	17.84575	November 5, 2019	March 2, 2020	March 25, 2020

Distributions

Payments of distributions pertaining to SPCS and RPS were made on respective dates: January 17, 2020 (P834), February 27, 2020 (P3), May 27, 2020 (P3), July 17, 2020 (P814), August 27, 2020 (P3) and September 22. 2020 (P57).

13. 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 83% of crude and condensate volume processed are from EMEPMI with balance of around 17% 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, 2020 and December 31, 2019.

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 15) 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, 2020, 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 P14,831 and P21,041 as of September 30, 2020 and December 31, 2019, 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 with the Regional Trial Court of Guimaras 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, 2020. In the course of plaintiffs' presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City, which, on January 9, 2020 issued a Resolution ordering the Company to file its comment on plaintiffs' petition within 10 days. Petron filed a motion for reconsideration of said Resolution, which remains pending. In the meantime, proceedings before the trial court continues.

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.

14. Events After the Reporting Period

a. On November 3, 2020, the BOD of the Parent Company approved the declaration of 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 8, 2021	February 3, 2021
Series 3A	17.17825	March 2, 2021	March 25, 2021
Series 3B	17.84575	March 2, 2021	March 25, 2021

15. 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. In a resolution dated November 13, 2019, the trial court granted the Parent Company's motion for summary judgment and ordered (i) the rescission of the Deeds of Conveyance dated 1993 relating to the Parent Company's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to the Parent Company of all such properties, and (iii) the payment by the Parent Company to PNOC of the amount of P143 million, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. The Parent Company also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to the Parent Company all lease payments the latter had paid to PNOC since 1993.

Following the trial court's denial of their separate motions for reconsideration, both PNOC and the Company filed their notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. The Company filed its appellant's brief in October 2020. PNOC filed a motion for extension of time to file its appellant's brief by November 5, 2020.

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, 2020.

d. Effects of Corona Virus Disease 2019 (COVID-19)

The Group, being engaged in the fuel business, has been affected by the implementation of Enhanced Community Quarantine (ECQ) in the National Capital Region and other key cities in the Philippines and Movement Control Order (MCO) in Malaysia. The reduced economic activities and travel restrictions due to lockdowns in many countries significantly affected volumes of both the Philippine and Malaysian operations.

Global oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand destruction caused by the COVID-19 pandemic. Dubai crude plunged from US$64/bbl in January to US$20/bbl in April, posting record low levels in 26 years, which resulted in successive rollbacks in pump prices. With OPEC and Russia agreeing to output cuts, recovery in oil prices was also seen in May and June as Dubai crude rose by about $10/bbl per month, stabilized at around $42/bbl by the end of the first semester and settled at US$43/bbl in the third quarter.

The Group saw optimism after the easing of some restrictions. With the Philippine and Malaysian governments' efforts to re-open their economies, fuel consumption began to pick up as shown by the gradual improvement in sales volume in the 3Q compared to 2Q.

The modest gains in 3Q, however, were not enough to make up for what was lost during the early months of pandemic. Given the oil price volatility, restricted mobility and curtailed economic activities, the Group's consolidated sales in the first three quarters of 2020 were substantially lower than with same period last year and resulted to net loss during the period.

The extent to which the COVID-19 pandemic impacts the Group will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19 both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted.

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

Gross Domestic Product (GDP)

GDP growth contracted by 9.0% in 1H 2020, the first time it recorded a decline since 4Q 1998.

Economic growth (*in percentage*)	**1Q 2020**	**2Q 2020**	**1H 2020**	**1H 2019**
GDP	(0.2)	(16.5)	(9.0)	5.6
By Industry				
Agriculture	(0.4)	1.6	(0.6)	0.6
Industry	(3.0)	(22.9)	(13.5)	3.7
Services	1.4	(15.8)	(8.2)	7.3
By Expenditure				
Household Consumption	0.2	(15.5)	(7.8)	5.9
Government Consumption	7.1	22.1	15.6	6.7
Capital Formation	(18.3)	(53.5)	(36.6)	3.9
Exports	(3.0)	(37.0)	(21.4)	3.6
Imports	(9.0)	(40.0)	(24.7)	4.2

The PH economy plunged by 16.5% in 2Q 2020 with implementation of enhanced community quarantine (ECQ) in Luzon from March 16 to May 31 wherein public transport was prohibited, business operations limited to essential sectors/industries and movement of people restricted. With Luzon accounting for about 70% of GDP, the impact of the quarantine on the economy was significant. While quarantines were relaxed in June, public transport remained limited and people continued to curb movement. Unemployment rose to 17.7% in April as establishments remained closed or reduced operations.

On the demand side, Household Consumption was negatively affected by unemployment, restrictions on mobility and halting of non-essential business operations due to the ECQ, and 4.2% contraction in remittances with the global economy hit by the COVID-19 pandemic. Capital Formation declined largely due to work stoppages in construction and lower investments in durable equipment. Trade was heavily affected by weakness in the global market. However, these were partly cushioned by Government Spending on support programs for vulnerable groups such as low income households, farmers, OFWs and SMEs.

On the supply side, Industry and Services were both adversely affected by the implementation of ECQ. Agriculture was resilient albeit at low growth of less than 1%.

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

91-day T-Bill rates averaged 2.3% in the first nine months of 2020, lower compared to 4.7% of the same period last year .

Bangko Sentral ng Pilipinas (BSP) has reduced its policy interest rates to date by 175bps to support economic activity amid the pandemic. This brought policy rates to 2.25% as of September 2020. 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 P49.9/$ as of Ytd-September, a 4.2% appreciation from P52.1/$ in the same period last year. Moderate inflation, balance-of-payments surplus, and rising international reserves led to the Peso's appreciation vs. the US dollar

Inflation

The rate of increase in prices of commodities and services decelerated to 2.5% as of Ytd-September 2020, from 2.8% in the same period last year. Easing domestic demand for transportation, cheaper electricity, and decline in oil prices, amid COVID-19, underpinned the slowdown.

Industry Oil Demand

Oil demand in the country declined 23% in the first six months of the year to 10.8 billion liters due to reduced economic activity amid mobility restrictions under the quarantine.

Oil Market

Year-on-year prices of Dubai declined by 35% to $41.4/bbl as of Ytd-September 2020 vs. $64.0/bbl in the same period last year, on the back of slump in global demand amid COVID-19. Ytd-September 2020 Gasoline and Diesel cracks weakened by about 40% to $4.5/bbl and $8.1/bbl respectively while Kero-Jet crack declined by about 80% to $2.6/bbl. Air travel restrictions implemented globally due to COVID-19 virus, resulted in a more than 90% drop in demand for air travel in April 2020. Despite the easing of restrictions, recovery of air travel has been slow.

Existing or Probable Government Regulations

Executive Order No. 113 (2020): Temporarily Modifying the Rates of Import Duty on Crude Petroleum Oil and Refined Petroleum Products Under Section 1611 of Republic Act No. 10863, otherwise known as "The Customs Modernization and Tariff Act." Executive Order No. 113, which was signed by President Rodrigo R. Duterte on May 2, 2020, modified the import duty of petroleum from zero to 10%. Under this executive order, crude oil and finished petroleum products were subjected to an import duty of 10%, It provided that this modified rate would revert back to zero once the Bayanihan to Heal as One Act ceased to be in effect or as soon as the trigger price for international oil was reached. Subsequently, the Bureau of Customs issued Customs Memorandum Circular No. 125-2020 which served as the implementing guidelines of this order. This executive order ceased to be in effect on June 25, 2020, with the expiration of the Bayanihan to Heal as One Act.

Tax Reform for Acceleration and Inclusion (the "TRAIN Law"). Republic Act No. 10963 or the TRAIN Law, which took effect on January 1, 2018, imposed 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 for diesel, gasoline and kerosene to help curb illicit trading of fuel products. While the cost for the fuel marker would be shouldered by the government in the initial year of implementation, this cost would eventually be passed on to oil companies which could result in higher fuel prices.

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

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

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 Act. 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, 2020
(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	**P16,790**
Accounts Receivable – Non-Trade	**9,392**
Total Accounts Receivable - Net	**P26,182**

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1 – 30 days	P15,615
	31 – 60 days	543
	61 – 90 days	85
	Over 90 days	1,368
Total		**17,611**
Allowance for doubtful accounts		(821)
Accounts Receivable – Trade		**P16,790**

Interim Financial Report as of September 30, 2020

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

Financial Performance

YTD September 2020 vs YTD September 2019

Petron Corporation ended the first nine months of 2020 with a consolidated net loss of **₱12.61 billion.** Despite the modest recovery in the third quarter, the YTD September 2020 financial results is still far short from net income of ₱3.62 billion for the same period last year (LY) as the impact of COVID-19 pandemic continued to weigh down on the Company's financial performance. The Company posted a moderate improvement from the second quarter as quarantine restrictions eased up and economic activities gradually resumed for both Philippine and Malaysian markets. Demand started to pick up bringing in higher margins particularly from the retail sector. Meanwhile, refining segment continued to sustain losses as the Bataan refinery was still on total plant shutdown. While oil prices have recovered in the third quarter from record low levels in the second quarter, the market continued to be bearish and refining margins at poor levels.

			Variance - Fav (Unfav)	
(In Million Pesos)	2020	2019	Amt	%
Sales	216,430	381,656	(165,226)	(43)
Cost of Goods Sold	217,238	356,672	139,434	39
Gross Profit (Loss)	(808)	24,984	(25,792)	(high)
Selling and Administrative Expenses (net of Other Operating Income)	9,556	11,113	1,557	14
Non-operating Charges	7,544	9,153	1,609	18
Net Income (Loss)	(12,606)	3,623	(16,229)	(high)
EBITDA	(3,107)	23,868	(26,975)	(high)
Sales Volume (MB)	59,498	78,676	(19,178)	(24)
Earnings (Loss) per Share (₱)	(1.64)	0.11	(1.75)	(high)
Return on Sales (%)	(5.8)	0.9	(6.7)	(high)

Losses before interest, taxes, depreciation and amortization amounted to **₱** 3.11 billion while **loss per share** was at **₱ 1.64** from earnings of ₱ 0.11 in previous year.

Highlights for the first three quarters performance were the following:

- **Consolidated Sales volume** registered improvement in the third quarter following the gradual reopening of the economy. Domestic sales volume in Malaysia nearly matched the pre-pandemic level while Philippines' retail volume grew by 33% versus the second quarter. Meanwhile, on a year-to-date basis, sales volume contracted by 24% to **59.50 million barrels (MMB)** from last year's 78.68 MMB due to reduced economic activities and travel restrictions amidst worldwide lockdowns particularly during the first four months of the pandemic.

- **Net Sales** decreased by 43% from ₱ 381.66 billion to **₱ 216.43 billion** with the drop in volume, coupled by the impact of lower average selling price. Drop in selling price was due to lower reference MOPS prices in the region, partly offset by the increase in excise tax per liter following the implementation of the last tranche of the TRAIN law.

- **Cost of Goods Sold (CGS)** declined by 39% to **₱ 217.24 billion** from LY's ₱ 356.67 billion also due to lower sales volume compounded by the decrease in average cost per liter as price of benchmark crude Dubai dropped by 35% from US$64/bbl to US$41/bbl. From a gross profit of ₱

24.98 billion in 2019, the Company reported a **gross loss** of **₱ 808 million** largely due to the significant inventory losses, reduced product cracks and lower volume, slightly offset by better marketing margins.

- **Selling and Administrative Expenses (OPEX)** were reduced by 14% from ₱ 11.11 billion to **₱ 9.56** billion as cost reduction measures were implemented across all divisions. Savings were mostly on outsourced services, employee costs, LPG cylinder purchases, promotion and advertising expenses, as well as, service station and depot maintenance and repairs.

- **Net Financing Costs and Other Charges** decreased by 18% to **₱ 7.54 billion** from ₱ 9.15 billion LY largely due to lower interest on loans brought about by the decrease in borrowing rates, lower bank charges and the marked-to-market gain on commodity hedges versus loss LY.

- **Income tax benefit** amounted to **₱ 5.3 billion** owing to the loss before tax position, a swing from the ₱ 1.10 billion expense in previous year.

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.

			Variance - Fav (Unfav)	
(In Million Pesos)	**2019**	**2018**	**Amt**	**%**
Sales	**381,656**	**419,861**	**(38,205)**	**(9)**
Cost of Goods Sold	**356,672**	**385,938**	**29,266**	**8**
Gross Profit	**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 P0.45 versus the US dollar. There 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 profit** 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.

<u>Financial Position</u>

<u>September 30, 2020 vs December 31, 2019</u>

As of September 30, 2020, the **consolidated assets** of Petron Corporation and its Subsidiaries totaled **₱ 350.09 billion**, 11% or ₱ 44.74 billion lower than end 2019 balance of ₱ 394.84 billion primarily due to reduced volume and lower price of crude and finished products.

Financial assets at fair value went up to **₱ 1.73 billion** from ₱ 864 million due to higher marked-to-market gains from outstanding commodity hedges.

Trade and other receivables - net dropped 41% to **₱ 26.18 billion** attributed to the decrease in sales volume and price of fuel products, partly offset by the increase in government receivables.

Inventories fell by ₱ 29.86 billion to **₱ 42.35 billion** due to lower prices of crude and finished products as against the end 2019 level.

Other current assets went up by 9% to **₱ 29.90 billion** mainly from higher prepaid expenses and unused creditable withholding taxes.

With its depreciation, **Right of Use** asset declined by 5% or ₱ 258 million to **₱ 5.25 billion.**

Deferred tax assets - net rose significantly to **₱ 2.18 billion** from ₱ 262 million resulting from the change in net tax position of the Parent Company due to the recognition of Net Operating Loss Carry-Over (NOLCO). This also led to the substantial reduction in **Deferred tax liability – net** from ₱ 6.35 billion to **₱ 2.87 billion**.

Goodwill – net dipped by 5% to **₱ 7.87 billion** traced to currency translation losses with the depreciation of the Ringgit versus the US dollar coupled by the appreciation of the peso versus the US dollar.

Other noncurrent assets – net declined to **₱ 2.46 billion** from ₱ 3.07 billion on account of the amortization of deferred input tax and catalysts as well as lower currency hedges under hedge accounting.

Short-term loans increased from ₱ 71.09 billion to **₱ 83.65 billion** traced to net loan availment during the period, to augment working capital requirements.

Liabilities for crude oil and petroleum products at **₱ 20.72 billion** stood lower by 47% compared to end-2019 level of ₱ 39.36 billion owing primarily to the effect of lower prices and reduced number of outstanding importations as of quarter end.

Trade and other payables balance of **₱ 13.40 billion** was cut by more than half on account of lower outstanding liabilities to contractors and vendors.

Derivative liabilities went up by 51% to **₱ 1.11 billion** with the increase in expected payout on outstanding commodity hedges as well as options under hedge accounting.

Income tax payable fell by 31% to ₱ 186 million as tax liabilities of foreign subsidiaries decreased.

Long-term debt (including current portion) decreased to **₱ 121.37 billion** from end-2019's balance of ₱ 133.08 billion as a result of the Parent Company's prepayment and amortization of existing dollar and peso loans, partly offset by the availment of USD 150 million, JPY 15 billion and ₱ 5 billion loans.

Retirement benefits liability decreased by 18% to **₱ 2.94 billion** owing to the contributions made to the retirement fund during the period.

Other noncurrent liabilities stood at **₱ 1.87 billion**, 7% higher than end-2019 level due to additional cash bonds received from customers partly offset by lower LPG cylinder deposits.

Capital securities grew by ₱ 11.35 billion to **₱ 36.53 billion** with the issuance of USD 230 million Redeemable Perpetual Securities in the 2nd and 3rd quarters of 2020.

Retained earnings settled at **₱ 29.23 billion**, down by 36% versus end-2019 level essentially due to the ₱ 12.44 billion net loss incurred by the equity holders of the Parent Company and cash dividends and distributions declared during the period.

The **negative balance of Equity reserves** increased from ₱ 16.90 billion to **₱ 18.70 billion** due to translation loss on its investments in foreign subsidiaries with the strengthening of the peso against the US dollar.

Accordingly, **Non-controlling interests** slid from the ₱ 6.77 billion to **₱ 6.17 billion** proportionate to its share in net loss during period and the cash dividends declared to minority shareholders coupled by currency translation adjustment.

<u>September 30, 2019 vs December 31, 2018</u>

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 **₱ 25.99 billion** from ₱ 37.12 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 **₱ 1.8 billion** owing to the contributions made to the retirement fund during the period.

Deferred tax liability – 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 increase 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.

Cash Flows

3Q 2020 vs 3Q 2019

During the first three quarters of 2020, funds from the net availment of loans and issuance of capital securities totaling ₱ 14.87 billion plus the cash generated from internal operations of ₱ 6.60 billion were used to finance various capital expenditure at the refinery, service stations and terminals (₱ 6.51 billion), pay dividends and distribution to stakeholders (₱ 3.92 billion) and interests to creditors (₱ 8.57 billion).

As of end-September 2020, cash and cash equivalents stood at **₱ 34.75 billion**.

In Million Pesos	**30-Sep-20**	**30-Sep-19**	**Change**
Operating (outflows) inflows	(1,678)	21,257	(22,935)
Investing outflows	(6,471)	(15,329)	8,858
Financing inflows (outflows)	10,007	29,314	(19,307)

3Q 2019 vs 3Q 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).

Discussion of the company's key performance indicators:

Ratio	**30-Sep-20**	**31-Dec-19**
Current Ratio	1.1	1.1
Debt to Equity Ratio	3.1	3.3
Return on Equity (%)	(15.7)	2.6
Interest Rate Coverage Ratio	(1.2)	1.3
Assets to Equity Ratio	4.1	4.3

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

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

Debt to Equity Ratio - Total liabilities divided by total stockholders' equity (including non-controlling interest).

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 16, 2020

Principal Financial/Accounting Officer/Controller

Signature and Title: ______________________
MYRNA C. GERONIMO
Vice President - Controllers

Date: November 16, 2020

PETRON CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	September 30, 2020	December 31, 2019
Liquidity			
a) Current Ratio	Current Assets / Current Liabilities	**1.07**	1.13
b) Quick Ratio	Current Assets less Inventories and Other Current Assets / Current Liabilities	**0.50**	0.50
Solvency			
c) Debt to Equity Ratio	Total Interest-bearing Liabilities [b] / Total Equity	**2.41**	2.21
d) Asset to Equity Ratio	Total Assets / Total Equity	**4.11**	4.27
Profitability			
e) Return on Average Equity	Net Income [a] / Average Total Equity	**-15.69%**	2.58%
f) Return on Average Assets	Net Income [a] / Average Total Assets	**-3.74%**	0.61%
g) Interest Rate Coverage Ratio	Earnings Before Interests and Taxes / Interest Expense and Other Financing Charges	**-1.15**	1.28
Operating Efficiency			
h) Volume Growth	(Current Period Volume / Prior Period Volume) -1	**-24.38%**	-1.42%
i) Sales Growth	(Current Period Sales / Prior Period Sales) -1	**-43.29%**	-7.72%
j) Operating Margin	Income from Operating Activities / Sales	**-4.79%**	3.15%

[a] *trailing 12 months net income*
[b] *excludes lease liabilities*